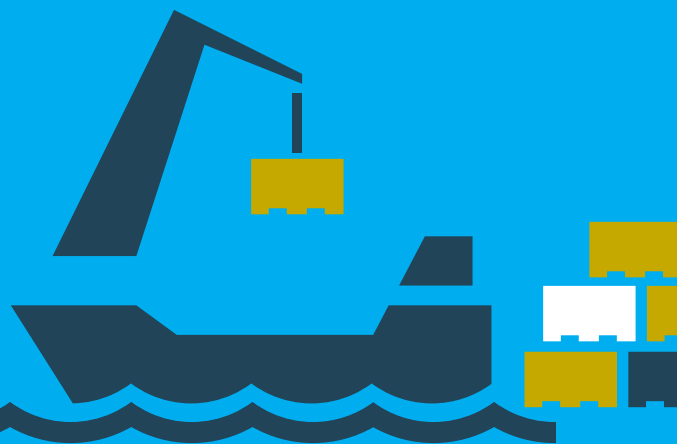
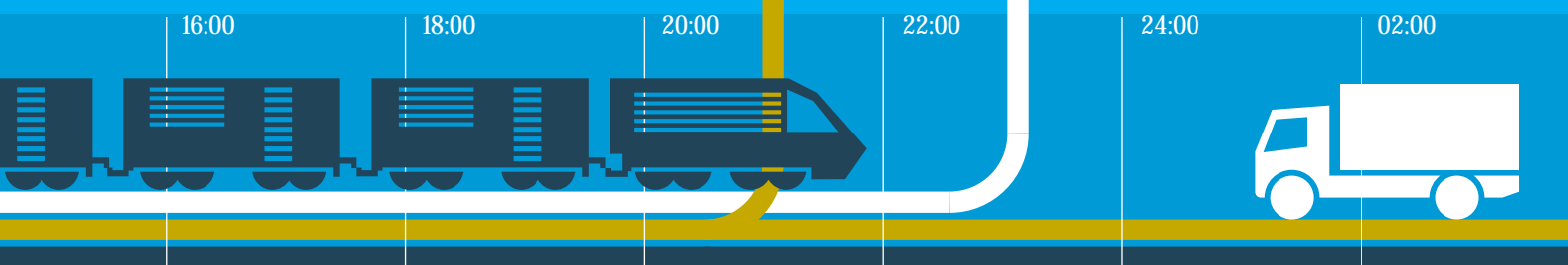
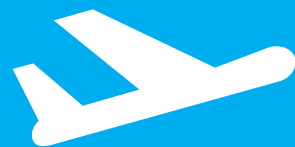




Connecting Kazakhstan. Connecting the World



Joint-Stock Company 'National Company 'Kazakhstan Temir Zholy' – the largest vertically-integrated holding company in the Republic of Kazakhstan with assets of more than 13.5 billion U.S. dollars.

We meet the requirements of the economy and the population for transportation services, are implementing major infrastructure projects, manufacture railway engineering products and are creating the transport and logistics system in Kazakhstan.

Our business units form the 'core' of an integrated transport process, connecting shippers from Kazakhstan, as well as Europe and Asia, with all regions of the country and the rest of the world.



Innovation

We are putting a lot of effort into innovation, having our own Research and Development Centre, Transport Academy, Design Bureau and enterprising innovators.

See page 29



Vision

We see ourselves as Kazakhstan's highly effective national transport corporation, which complies with best international business practices and meets the requirements of the Sole Shareholder.

See pages 8-9



Connecting

Thanks to efficient logistics, the container train times from China to Europe via Kazakhstan have been reduced to 13 days.

See pages 7-8

Strategy

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Connecting on the railway...

We operate a mainline railway network stretching over 14,800 km. We also manage a seaport, 11 airports in Kazakhstan, a Special Economic Zone: 'Khorgos Eastern Gates' and the 'Khorgos' International Centre for Boundary Cooperation. We plan to create a network of regional logistic centres, connecting Kazakhstan with the world's leading transport 'hubs'.

231.2
bn tonnes-km
freight

+2.3%
increase in the average service
speed of freight traffic
(up to 42.83 km/h)



Fourteen regular transit container shuttle trains currently operate between Europe and Asia.



Containers are transported on high-speed container trains, according to a strict schedule, using the electronic processing of shipping documents, with an average speed of 997 km per day, and in some sections – up to 1,100 km a day.

Strategy

Sustainable development

Corporate governance

Financial statements

Connecting through ports...

The development of backbone infrastructure, interstate division points and the Aktau Seaport on strategic international routes can increase Kazakhstan's export and transit potential.



The completion of three terminals in 2014 will increase the volume of transshipment in the port of Aktau from 16.5 to 19 million tonnes.



A dry-cargo marine company has been created and two dry cargo vessels with a deadweight of 5,000 tonnes have been purchased – 'Turkestan' and 'Becket-Ata'. The Kazakhstani dry cargo carriers allow the implementation of the 'own cargo – own port – own fleet' model.



10
m tonnes
of traffic through
the port of Aktau

+3.1%
above plan

Connecting through airports...

We have developed a strategy for the development of 11 airports, together with a detailed study of the financial performance and complex interaction of airports and the multimodal company. The results of this identified a need for regional airports in terms of transport and logistics solutions.



The implementation of the strategy has provided for an increase in the number of subsidised regular flights in the airports of Kokshetau and Petropavlovsk from six to 25 per week, which increased revenues by 150 million tenge per year.



The business model for managing the network of airports is aimed at generating net income, increasing revenues from non-aviation services by 30% against the same indicator in 2013.



+15%

expected growth of passenger and cargo traffic in managed airports in 2014

ABOUT THE COMPANY

A robust and growing business

JSC 'National Company 'Kazakhstan Temir Zholy' (KTZ) is a vertically integrated transport holding company, comprised of business units that together deliver an integrated transport process.

Mission

As the mainstay of our country's transport infrastructure, we ensure that an adequate transport foundation is provided for sustainable economic growth. We create value for shareholders, customers and society as a whole, by providing quality and competitive transport and logistics services for the transportation of people and goods as well as providing mainline railway network services.

Vision

We see ourselves as Kazakhstan's highly effective national transport corporation, which complies with international best business practice and meets the requirements of the Sole Shareholder.

873.5 bn tenge

revenue from main activities – 8.6% increase

115.6 bn tenge

net income

Trucking



KTZ is authorised by the President and the Government of the country to create a transport and logistics operator of the international level. Last year, such an operator – JSC 'KTZ Express' – began its work.

Today, the Aktau seaport, four airports and seven more airports pending, SEZ 'Eastern Gates – Khorogos' and ICBC 'Khorogos' are under the management of KTZ and 'KTZ Express'.

Kazakhstan temir zholy offers Kazakhstan logistics products using the capabilities and potential of all these links in the transportation chain. This results in the development of the rail network, as well as sea and air corridors at the same time.

231.2 bn t-km

tariff freight turnover

The Company carries about **43%** of the country's total goods

Container transportation



Much attention is paid to the organisation of container transportation. As a result of active work on promotion of services, 14 regular container shuttle trains are currently in transit between Europe and Asia.

The container train 'Chongqing – Duisburg' operates one day a week. The advantage of this project is completion of an integrated waybill CIM/SMGS which reduces the clearance of containers at the border with the EU. 7830 TEU in the composition of 89 trains has passed through the Chongqing – Duisburg route.

The volume of China Post – Europe containerised cargo in 2013 grew by

84%

compared to 2012 (from 3,572 to 6,568 TEU)

Innovation



Since 2009 KTZ has made a significant contribution to the development of Kazakhstan's strategic industries: heavy machinery, units and parts for railway rolling stock.

In general, the Company oversees and implements the 14 projects of the State Program of Forced Industrial-Innovative Development (SPFIIMED).

467 m tenge

capital investment

Key facts from the Company's history

1896

Construction of Trans-Siberian Railway passing through the territory of Kazakhstan.

1930

Continuation of the construction of the 1,444 km Turkestan – Siberian Railway (Turksib).

1958

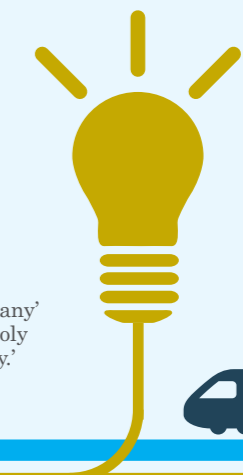
Creation of the largest railway in the USSR Kazakh Railways.

1997

Creation of the Republican State Enterprise 'Kazakhstan Temir Joly' by merging Almaty, Tselinnyi and West Kazakhstan railways.

2004

Creation of JSC 'National Company' Kazakhstan Temir Joly 'Ultyk Kompaniyasy.'



Chairman's statement



Chairman of the Board of Directors
JSC 'National Company 'Kazakhstan Temir Zholy'
N. Baidauletov

'KTZ continues to successfully manage the industrial and financial operations of the railway, accomplishing several innovative engineering projects'

Dear colleagues, partners and clients

An ambitious national project: Kazakhstan – New Silk Road – was launched in 2013, aimed at both reviving Kazakhstan's historic role and transforming the country into the biggest transit hub in the Central Asian region. JSC 'National Company 'Kazakhstan Temir Zholy' (KTZ) is playing a key role in helping to achieve this strategic goal.

In 2013, under the provisions of its new business model, the Company launched transport system development projects in aviation, on land and on sea, as well as within the free economic zones. These are designed to ensure the establishment and the effective operation of the most technological, customer-oriented transport and logistics system on the continent. The results for 2013 already demonstrate the feasibility of achieving this goal.

KTZ's international customers have already experienced the geopolitical benefits of transit through Kazakhstan. Our country is not only interested in the development of the transport and logistics infrastructure, but also in creating opportunities for efficient international trade. The transit potential is regarded both as the country's 'point of economic growth' and the driver for improving its competitiveness.

However, railway transportation – very much our Company's traditional pursuit – has not been forgotten. KTZ continues to successfully manage the industrial and financial operations of the railway, accomplishing several innovative engineering projects. The Company's social function, as the largest employer and taxpayer in the country, has also been successfully fulfilled.

Clear examples of this are presented in the facts and figures of this Annual Report. The results for KTZ's operations over the past year are confirmation that the new goals and objectives for 2014 and subsequent years will be adequately met.

Chairman of the Board of Directors
JSC 'National Company 'Kazakhstan Temir Zholy'
N. Baidauletov

Strategy

By the resolution of KTZ's Board of Directors, on 7 May 2010, the KTZ Development Strategy was approved up to 2020.

KTZ's main objective is to maximise the total shareholder capital: this being the indicator for satisfying the Sole Shareholder's requirements and evaluating the performance efficiency of KTZ's management.

This goal will be achieved through profitability (net profit) growth.

All strategic and medium-term operations of KTZ will focus on maximising the total shareholder capital through increasing profitability (net profit).

1. Improving the efficiency of KTZ's production and economic activity.

In order to increase total shareholder capital, the Company will transition from a cost-orientated corporate culture to a culture aimed at maximising the efficiency of the resources and processes involved.

In addition, to ensure current operating stability as well as to improve the competitiveness of provided services, measures will be taken within KTZ to reduce production and administrative costs.

2. Maintaining leading positions in the freight transportation market

In order to ensure the expected revenue growth in the freight transportation market, KTZ must implement a customer-centric approach in the provision of transport services.

3. Development of an effective portfolio and production assets structure

The Government's intent to liberalise the railway industry and the institutional changes related to this will have an impact on the structure of KTZ, because of its manufacturing role within the economy. With this in mind, KTZ has planned the restructure of its asset portfolio, which will provide for the creation of an optimal structure, based on corporate and industry interests. It will focus resources on core activities and promoting the development of an industrial engineering and repair base.

Along with the transformation of the financial assets structure, the optimisation changes will also affect production assets. There will be a major renewal and modernisation of KTZ's fixed assets, which will form part of an industry-wide investment programme.

4. Improvement of governance

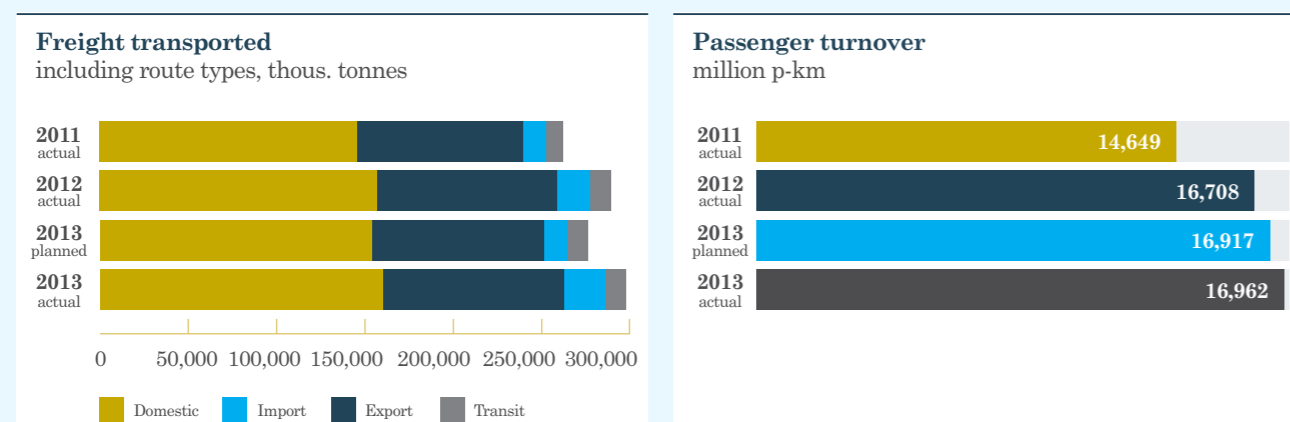
Measures taken to improve the governance of KTZ will affect the administrative aspects of operations. To ensure greater transparency in governance, increase levels of responsibility, qualifications, accountability and efficiency within KTZ, a process approach to management will be implemented.

Successful implementation of this strategy will allow KTZ to be transformed into a highly-efficient commercial organisation that provides high quality transportation services at low cost.

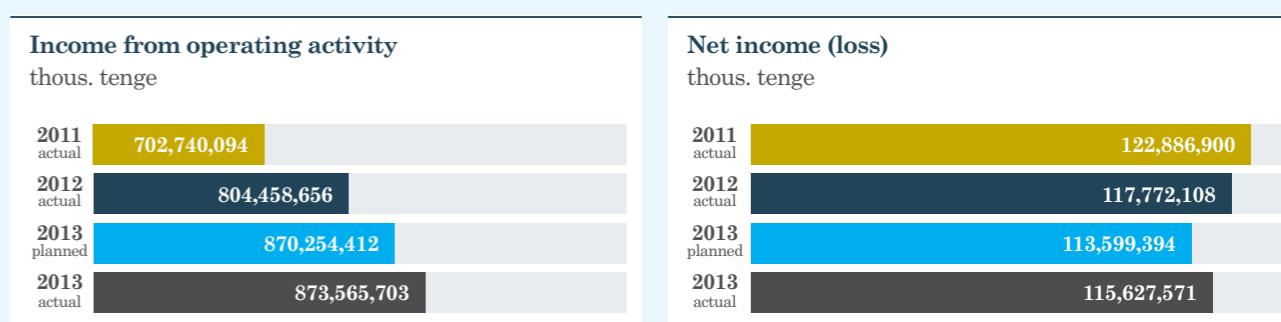
ABOUT THE COMPANY

2013 RESULTS

Key production and financial indicators of
JSC 'NC 'KTZ' Group of Companies



Item	Unit of measurement	2011 actual	2012 actual	2013 planned	2013 actual
Freight handling	thous. tonnes	248,847	257,846	253,079	255,232
Tariff freight turnover	million t-km	223,583	235,845	230,912	231,248
including route types:					
Domestic	million t-km	88,405	91,685	91,065	87,778
Export	million t-km	90,029	95,277	90,379	93,200
Import	million t-km	19,708	21,668	20,015	22,817
Transit	million t-km	25,441	27,216	29,453	27,454
Average hauling distance of one tonne of freight	km	800	800	803	788
Including route types:					
Domestic	km	595	578	590	562
Export	km	920	944	915	918
Import	km	1,099	1,154	1,135	1,159
Transit	km	1,686	1,674	1,735	1,716
Passengers transported	thous. pass.	16,556	19,498	18,996	20,450
Average occupancy	pass./car	32	33	31	31
Corporate income tax expenses	thous. tenge	32,554,051	31,022,566	31,967,576	39,048,623
Cost of sales	thous. tenge	470,280,262	549,358,013	594,826,640	576,862,081



Item	Unit of measurement	2011 actual	2012 actual	2013 planned	2013 actual
Gross income	thous. tenge	232,459,832	255,100,643	275,427,772	296,703,622
Financing income	thous. tenge	4,637,732	4,353,838	4,528,604	5,703,644
Other income	thous. tenge	4,293,372	5,661,151	3,004,958	3,815,236
General and administrative expenses	thous. tenge	62,107,961	79,619,964	91,490,305	94,155,179
Distribution costs	thous. tenge	159,971	193,391	220,028	154,403
Impairment of fixed assets	thous. tenge	903,059	101,945		1,523,433
Financial expenses (interest on loans)	thous. tenge	19,022,743	30,024,236	42,294,899	37,811,417
Other expenses	thous. tenge			323,489	
Foreign exchange loss	thous. tenge	1,541,535	4,109,145	2,028,134	8,012,635
Share of profit/(loss) of organisations accounted for using the equity method	thous. tenge	69,331	-72,209	35,779	-4,269,149
Profit/(loss) before tax	thous. tenge	157,724,998	150,994,742	146,640,258	160,296,286
Profit from continuing operations	thous. tenge	125,170,947	119,972,176	146,640,258	121,247,663
Profit/loss from discontinued operations	thous. tenge	-1,942,128	-1,109,451		-2,812,097
Minority interest	thous. tenge	341,919	1,090,617	1,073,288	2,807,995

ABOUT THE COMPANY

2013 RESULTS

Tariff freight turnover for 2013 was 231,248 million t-km, down by 1.9% on 2012. This was due to a decrease in traffic of all types of goods, with the exception of construction materials, iron ore and non-ferrous and ferrous metals.

Freight handling for 2013 was 255,232 thousand tonnes, down by 1% on 2012. This was due to a reduced volume of loading of all types of goods, with the exception of oil cargo, construction and other goods.

Passenger turnover for carriers belonging to the consolidation of JSC 'Passenger Transportation' was 16,962 million pass-km in 2013, 1.5% higher than 2012, due to an increase in the number of routes serviced by JSC 'Passenger Transportation'.

Passengers transported by carriers belonging to the consolidation of JSC 'Passenger Transportation' reached 20,450 thousand people in 2013, 4.9% higher than in 2012.

Average freight service speed in 2013 was 42.83 km/h, a 2.3% increase on 2012.

Average technical speed for traffic in 2013 was 49.35 km/h, which was 0.7% higher than in 2012, indicating an increase in hauling speed.

Average car daily capacity was 8,246 tonnes-km net, up on the 2012 indicator by 9.3% due to an increase in the average daily freight car mileage of 9.8%.

Average locomotive daily capacity for 2013 was 1,782 thous. tonnes-km gross, up from 2012 by 2.7% and linked to an increase in the average daily locomotive mileage of 4.5%.

ROACE was 9.7% in 2013. This was down by 1.1% on the actual ROACE in 2012 due to reduction of net income by 1.8%.

EBITDA margin in 2013 was 33.2%, up 6.7% on 2012, due to a growth in operating profit of 14.7%.

Operating profitability for 2013 was 1.8%, which is down on the actual figure of 2012 by 9.3%. This was due to a decrease in net income of 1.8% and an increase in ongoing operations expenses of 8.3%.

Operating income in 2013 grew by 8.6%, of which **revenues from freight transportation** grew by 8.3% due to:

- growth in tariff rates from 1 April 2012 by an average of 14.9% and from January 2013 by 8.4%;
- an increase in additional fee rates by an average of 14.2%.

Revenues from passenger traffic in the year increased by 15.9% due to a rise in passenger turnover of 1.5% as well as a 12% rise in tariffs from January 2013.

Operating expenses in comparison to 2012 grew by 6.7% due to rising prices for purchased goods, works and services, as well as changes in the macroeconomic indicators and exchange rates.

Subsidies in 2013 increased by 7.8% for JSC 'Passenger Transportation'.

Net income relative to 2012, decreased by 2,144 million (1.8%) in 2013 due to the spending growth rate outstripping the pace of revenue growth.

KTZ has **ratings** from three major ratings agencies:

- **Standard & Poor's** – BBB-/Stable;
- **Fitch Ratings** – BBB/Stable;
- **Moody's Investors Service** – Baa3/Positive.

Financial ratios of KTZ Group based on results of 2013

Indicators	2012	2013
Current ratio	0.95	1.09
Coverage ratio	6.00	5.24
Total debt/equity	0.57	0.52
Total debt/EBITDA	2.34	2.42

As of 31 December 2013, all financial ratios of KTZ have been fulfilled:

Debt/EBITDA ratio was 2.42, an increase on 2012; attributed to the increasing level of debt outstripping the growth of income before taxes.

Debt/equity ratio was 0.52, an improvement on 2012; this was due to growth outstripping the value in equity.

Current ratio was 1.09, an improvement on 2012; this was due to the rate of reduction in current liabilities outstripping the decrease in current assets.

Interest coverage ratio was 5.24, which was lower than that for 2012; a slight decrease due to an overall increase in interest expenses due to increased debt levels.

Loans

Taking into account more favourable borrowing conditions, the bulk of KTZ Group's loan portfolio is primarily secured on the external market, from international financial institutions and institutional investors, over long periods, as well as from the domestic market in the form of concessional loans from the Sole Shareholder.

In order to implement investment projects, the following major loans were secured and developed by the KTZ Group in 2013:

- 118,346 million tenge, at an annual interest rate of 0.1% for the period until November 2062, from the National Fund of RK through JSC 'Samruk-Kazyna' – for the construction of the Arkalyk – Shubarkol and Zhezkazgan-Beineu railway lines;
- 24,673 million tenge, at an annual interest rate of 0.75% for the period until February 2038, from the National Fund of RK through JSC 'Samruk-Kazyna' – for the renewal of JSC 'Passenger Transportation' passenger coach fleet;
- 51,928 million tenge, at an annual interest rate of 0.1% for the period until November 2062, from the National Fund of RK through JSC 'Samruk-Kazyna' – for the construction of the Zhezkazgan – Beineu railway line;

- 8,166 million tenge, at an annual interest rate of 0.1% for the period until November 2062, from the National Fund of RK through JSC 'Samruk-Kazyna' – for the construction of Zhezkazgan – Beineu railway line;

- loan for the purchase of electric locomotives from HSBC France, under the guarantee of the export credit agency Coface, France, for 97,104,194.7 euro (19,623 million tenge) at the rate of (CIRR euro+0.75/0.9%) for a term of ten years. In April 2013, this deal for the loan from HSBC France, together with HSBC Bank plc. and HSBC Kazakhstan, was awarded 'Deal of the Year' by the Global Trade Review (London) magazine.

- loan for the purchase of 196 units of Evolution Series locomotives from the Export-Import Bank of the United States for US\$424,856,806 at the rate of CIRR USS for a term of ten years. This was the first time that this type of loan had been approved by the US Export-Import Bank in the Republic of Kazakhstan, indicating the strength of confidence in the Company;

- loan from JSC Development Bank of Kazakhstan for 11,137 million tenge, at 7.6% per annum until 2018, to refinance the debt to the European Bank for Reconstruction and Development for the construction project of the primary infrastructure transport communication network of JSC Transtelecom.

Taking into account the new loans secured in 2013 and the repayment of principal debt on existing loans, debts as of 31 December 2013 amounted to 670,168 million tenge (according to Consolidated Financial statements).

2013 EVENTS

15 January

KTZ passed the certification audit for compliance with the international standard ISO/IEC 27001:2005.

**17 January**

Passenger traffic began on Uzen – State Border with Turkmenistan line.

15 March

KTZ was the winner of the Senim-2012 award for Best HR project for the System 4-i – Information Incubator of Innovative Ideas and www.zhastemir.kz corporate social network.



The deal on securing a loan from HSBC France in combination with HSBC Bank plc. and HSBC Kazakhstan, for the purchase of electric locomotives, was awarded Deal of the Year by Global Trade Review (London) magazine.

15 April

Agreement signed between KTZ and DP World for co-operation on the management of the Aktau seaport and the special economic zone: Khorgos – Eastern Gates.

27 April

Container train consisting of 41 x 40 foot containers was sent on the Chengdu (PRC) – Lodz (Poland) route through Kazakhstan.

**11 May**

Presidents Nursultan Nazarbayev and Gurbanguly Berdimuhamedov opened a direct rail link between the countries from Bolashak Station (Kazakhstan) to Serkhetyaka (Turkmenistan).

22 May

KTZ and Estonian company AS Vopak E.O.S. Ltd. signed a contract for the purchase of 15 T'933A locomotives, manufactured in Kazakhstan.

23 May

KTZ hosted the 15th meeting of the Asia – Pacific Regional Assembly of the International Union of Railways.

8 June

Launch of the new Saraishyk high-speed train on the Almaty – Atyrau route.

4 July

Commemorative plaque opening ceremony at the construction site of the plant for the manufacture of GEVO locomotive diesel engines in Astana.

4 August

In Astana, President Nursultan Nazarbayev presented railway workers with keys to new apartments.

**22 August**

Launch of the high-speed Astana – Atyrau – Astana passenger train, comprised of carriages manufactured at the Tulpar-Talgo plant.

25 August

High-speed passenger train № 63/64 Astana – Semipalatinsk, comprised of carriages manufactured by Tulpar-Talgo, started running.

7 September

During the state visit of PRC's President Xi Jinping to Kazakhstan, the President of JZT Askar Mamin and Secretary of the Party Committee of Lianyungang City Li Qiang signed an agreement confirming KTZ's co-operation and collaboration with the national government of Lianyungang City (PRC).

**14 October**

KTZ participated in the China International Logistics and Transportation Fair in Shenchzhen and signed a number of agreements with partners from China, Europe and Russia.

7 November

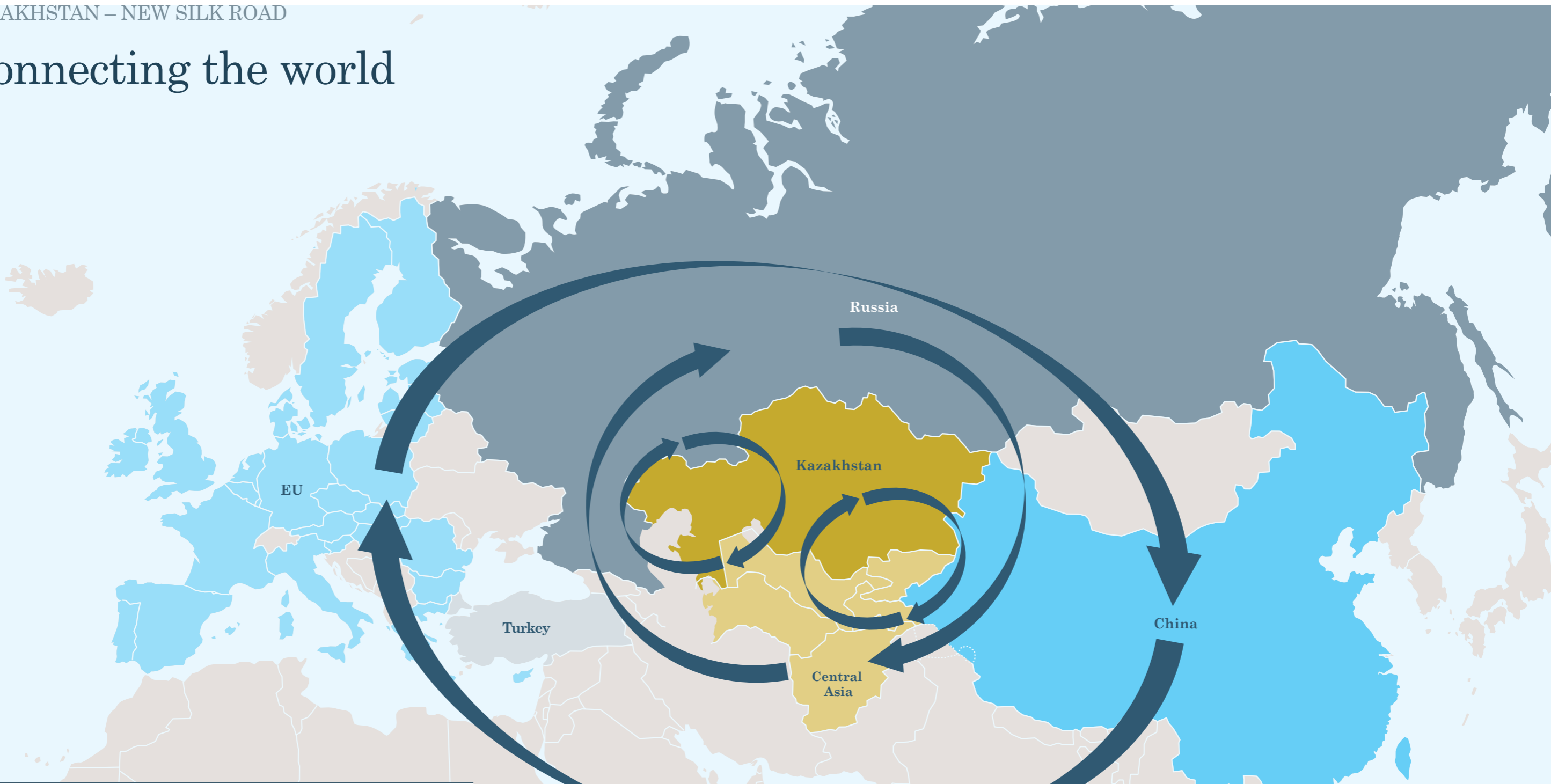
II International Transport and Logistics Business forum, New Silk Road – from China to Europe via Kazakhstan, was sponsored by KTZ.

**20 December**

During a nationwide tele-bridge, the moment that the tracks joined during construction of the Zhezkazgan-Beyneu and Arkalyk-Shubarkol railway lines was presented to the President. He also officially named the first two Kazakhstani dry cargo ships Turkestan and Becket-ata, purchased by KTZ for its operations, which will fly the flag of Kazakhstan on the Caspian Sea.

KAZAKHSTAN – NEW SILK ROAD

Connecting the world



Growth of volume of trade

2013 \$738 bn **by 1.6 times** **2020** \$1,200 bn

	2013 Bn US dollars	2020 Bn US dollars
China to EU	559.2	800
Russia to China	89.2	200
Turkey to China	25	100
Russia to Central Asia	35.6	60
Kazakhstan to China	28.5	40

Increase in traffic volumes between China and EU from 117 m tonnes to 170 m tonnes by 2020

Message from the President of KTZ



President of KTZ
A. Mamin

'The investment programme in 2013, in addition to the construction of new lines, was focused on the renewal of rolling stock, modernisation and development of mainline railway network facilities, automation of control systems for industrial processes and implementation of transport engineering projects.'

Dear stakeholders

The development of the transport and logistics sector is a strategic direction for the national economic growth model and forms the basis for Kazakhstan entering the top 30 developed countries by 2050.

Progressive development of the transport and logistics infrastructure will give a powerful impetus to the development of the national economy by creating the optimal internal transport space, bearing in mind the regional development and the realisation of the country's transit and export potential.

The new geo-economic reality of the 21st century creates realistic prerequisites for global redistribution of freight flows and the revival of the demand and importance of the Eurasian transport system.

In this respect, President N. A. Nazarbayev has initiated a large-scale project: 'Kazakhstan – New Silk Road', which is operated by KTZ.

Using KTZ as its base, transport and logistics assets and competencies are being integrated into a single complex. At the same time, the Company is rapidly creating conditions for the expansion of a range of competitive transport and logistics services with high added value, thus satisfying customer demands to the fullest extent.

Over the last year, the Company has acquired the status of a marine shipper, at the same time the Aktau Seaport expansion project is underway. The country's airport infrastructure is also being modernised.

To accelerate the development of relevant competences, strategic alliances with world leaders in the development and operation of logistics infrastructure are being formed.

Together with strategic partners Zurich Airport International and Swissport International a management company by the name of Airport Management Group has been established. Dubai Port World, a global operator of port and terminal infrastructure, has been attracted to develop the SEZ Khorgos – East Gate and to manage the Aktau Seaport.

In order to promote domestic transport and logistics services within the country and abroad, a network of logistic centres and terminals is being formed in the centres of origin, consolidation and distribution of cargo flows.

KTZ is actively promoting its services in foreign markets through the organisation of high-speed transit container trains running to firm scheduled time slots.

In 2013, container trains on the Chengdu (PRC) – Dostyk – Lodz (Poland), Zhengzhou (PRC) – Dostyk – Hamburg (Germany) and Xian (PRC) – Kyzyl-Orda – Zhem – Aktobe lines equalled the speed record previously set on the Chongqing-Duisburg route – around 1,000 km/day. Due to efficient logistics, train travel times from China to Europe through Kazakhstan have now been reduced to 13 days.

On the whole, 14 regular container trains run on the territory of Kazakhstan. In 2013, the container train traffic amounted to 1,653 trains, which is 24% more than in 2012, thus reaching an intensity of five trains a day. At the same time, the volume of transport on the China – Europe transport link grew by 61% compared with 2012 (from 3,490 to 5,630 TEU).

Security, urgency and safety of cargo delivery requires adequate development of transportation assets.

The investment programme in 2013, in addition to the construction of new lines, was focused on the renewal of rolling stock, modernisation and development of mainline

railway network facilities, automation of control systems for industrial processes and implementation of transport engineering projects.

And, of course, a large contribution to the effectiveness of the Company is being made by all 160,000 of its employees, who I would like to thank for their hard work and commitment to the values of KTZ.

For its part, the Company is creating the conditions for the professional development of employees and is providing for their social security. Spending on social programmes for the group of KTZ companies in 2013 amounted to over 11 billion tenge.

The company continues to implement its housing programmes: 1,163 apartments were granted to employees in 2013.

More than 2,000 young workers were trained as part of the Company's Youth Policy in 2013.

In the field of healthcare, insurance programs have been improved and limits have been increased for services, a Program for the protection employee healthcare has been developed and approved up to the year of 2020. Medical trains Densauyk, Zhardem and Salamatty Kazakstan continue to provide medical services.

We organise and actively participate in major social and charity projects.

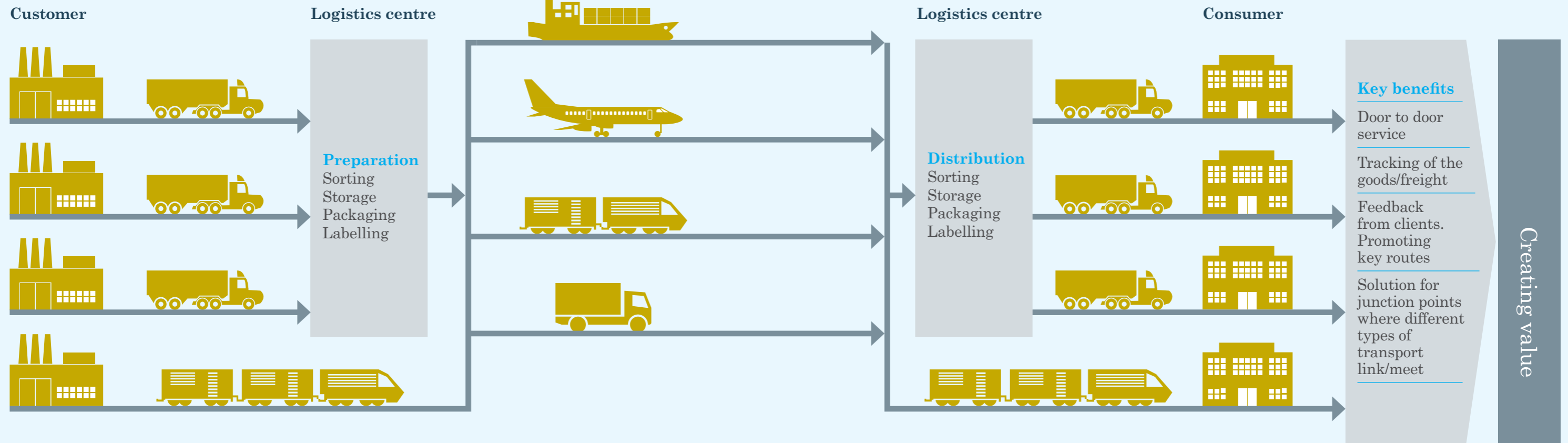
I would also like to thank our partners and clients for successfully implemented joint projects. I hope that the data presented in the annual report will open up new horizons of cooperation.

A. Mamin
President of KTZ

BUSINESS MODEL

An innovative multi-modal logistics operation

Logistics



Passenger transport



The complex of measures being taken for the development of Republic of Kazakhstan's transport and logistics system, the base of which are the operations of KTZ as a multi-modal logistics operator, will double transit by 2020, from 18 to 36 million tonnes.

At the same time, 28,000 new working places will be created.

The transport and logistics complex is one of the growth drivers for the economy. The average annual GDP growth through the activity and development of Kazakhstan's transport and logistics industry will be one percentage point (as estimated by the Institute for Economic Research).

For several years, the Company has successfully implemented the programme-speed passenger traffic. In 2013 237 units of passenger rolling stock were purchased, high-speed trains on two routes 'Almaty – Atyrau' and 'Astana – Atyrau' were created, eight additional trains were scheduled and frequency of trains plying on three routes were increased, the work on improvement of the comfort of trains is still taking place.

Carrying out the transfer of production and management technologies from global industry leaders, we become innovative leaders in the transportation industry in Kazakhstan.

COMPANY OVERVIEW

Growth of transit benefits of Kazakhstan

KTZ is the largest holding company in the Republic of Kazakhstan with assets of more than US\$13.5 billion.

The Company operates the country's mainline railway network, stretching over 14.8 thousand kilometres with 4.2 thousand kilometres of electrified sections. Of these, around 2,000 kilometres were built by the Company between 2010 and 2013, significantly improving Kazakhstan's transit strengths.

In 2013, the second railway crossing to China opened on the Altynkol-Khorgos line (293 km); tracks met on the Kazakhstani-Turkmeni Bolashak-Serhetyaka transit section of (146 km), with its final destination – the Persian Gulf region; track laying was completed on the shortest rail route between the port of Aktau and Dostyk Station, courtesy of the new Zheskazgan-Beyneu line (988 km); the shortest route was created for the export of industrial goods from the Central region of Kazakhstan to the north of the country and in the direction of Russia – the Arkalyk-Shubarkol railway line (214 km).

Thanks to a well-thought-out strategy for infrastructural development, KTZ allows container trains from China to Europe to pass through its territory at a speed of around 1,000 km per day, now connecting the most distant points of the continent in just 13 days.

Since 2009, KTZ has made a significant contribution to the development of Kazakhstan's strategic industries: heavy machinery, production of parts and components for railway rolling stock.

In Astana, the Company set up JSC Locomotive Kurastyru Zauyty, which is now manufacturing diesel locomotives for the domestic and export markets. JSC Electric Kurastyru Zauyty has released and successfully conducted performance tests on its first 12 electric locomotives. Five passenger trains, operating on various inter-regional lines, have already been formed using cars manufactured at the Tulpar-Talgo plant.

Through the efforts of KTZ, freight wagons are now being manufactured in Petropavlovsk and Ekibastuz, and large-scale car casting manufacturing has been established in Ust-Kamenogorsk. The GEVO diesel engine manufacturing plant in Astana and the rail beam

manufacturing plant in Aktobe are currently under construction. In 2013, the output value of these and other companies, created with the direct participation of KTZ was 206 billion tenge: this is 20-fold increase since 2008.

In all, the Company is overseeing and implementing 14 projects under the State Programme of Forced Industrial-Innovative Development.

In 2012-2013 KTZ was authorised by the President and the Government of the country to establish a transport and logistics operator of international standing. Last year, such an operator – JSC KTZ Express – started operations.

To date, the Aktau Seaport, four functioning and seven pipeline airports, SEZ Khorgos – Eastern Gates and ICBC Khorgos have all been placed under the management of KTZ and JSC KTZ Express. KTZ is able to offer Kazakhstani logistics products using the capabilities and potential of all these transport chain links.

Development is focused not only the railway network, but also the sea and air corridors. The Aktau Port is undergoing a project aimed at expanding its capacity. Two Kazakhstani dry cargo ships have been purchased and are now transporting cargo in the waters of the Caspian Sea. The Kokshetau Airport has received international status, with flights to Moscow.

In executing the tasks set by the government, KTZ has not forgotten its social mission. It remains the guarantor of stability for 160,000 workers in all regions of the country, investing more than 11 billion tenge in the development of human resources in 2013.

Railway infrastructure

The efficient and prompt resolution of matters relating to the fulfilment of planned works have allowed year-on-year improvement in operational performance.

Modernisation and ongoing track maintenance accounted for the main share of capital repairs. In order to ensure train traffic safety and to enhance the speed of movement, 2,635.8 km of track were realigned, 7,040 km of rails were abraded and 51 km of ballast cleaned in 2013 by means of mechanised complexes.

Scheduled preventive maintenance was carried out over 7,336 km of track.

160

thousand employees

12

first electric trains

14.8

thousand kms –
lengths of the main
railways

The capital repair work as well as the work carried out by mechanised complexes allowed for an increase in train speed, by 1,492.5 km for passenger traffic and by 608.6 km for freight traffic.

Average weighted speed for passenger traffic increased to 88.5 km/hour; for freight traffic to 69.6 km/hour.

For the movement of trains, formed from Talgo high-speed (up to 140 km/h) cars, the infrastructure of the Almaty-Petropavlovsk, Almaty-Atyrau and Astana-Aktobe routes has been modernised and overhauled. Work on strengthening the overhead system as well as that on the preparation of signalling and communication devices for clearing of trains with this established speed has been completed. After preparation work was carried out for passenger trains, made up of Talgo cars, the speed increased to 378.7 km.

Freight traffic

The Company is responsible for around 43% of the country's total freight turnover. Extractive industries' products account for the bulk of the Company's freight traffic within Kazakhstan's economy.

Tariff freight turnover for 2013 amounted to 231,248 million tonnes-kilometre, a decrease of 1.9% from 2012, due to a decrease in transportation of all types of goods, with the exception of construction materials, iron ore and non-ferrous metals ore as well as ferrous metals. Freight handling for 2013 amounted to 255,232



thousand tonnes. 293,602 thousand tonnes of freight were transported in 2013. At the same time, there was an increase in the average speeds for freight movement in comparison to the previous year.

Containerisation

The organisation of container transportation, including by the use of container block trains, has been a particular focus during the year.

Within the framework of the Kazakhstan – New Silk Road project, in April 2012, a joint venture between participating railway administrations and the Government of Chongqing has been established (JSC Kaztransservice (RK), Chongqing Transportation Holding Co. Ltd (China), China railway international multimodal transport Co. Ltd (China), JSC Russian Railways Logistics (Russia) and DB Schenker China (Germany) – hereinafter – JV) in order to organise a regular container service route between Chongqing-Duisburg.

Currently, the Chongqing-Duisburg container train runs once per week. The main advantage of this project is the use of the single form consignment note, CIM/ Agreement on International Goods Transport by Rail, which will reduce container clearance time at the border with the EU.

In 2013, through the direct involvement of the JV on the Chongqing-Duisburg route, container traffic totalled

COMPANY OVERVIEW

7,830 twenty-foot equivalent units (TEU), comprising 89 trains.

At the end of April 2013 container trains were launched on the route Chengdu (China) – Dostyk – Lodz (Poland) route: total route length – 9,559 km. In 2013 container traffic totalled 2,212 TEU, comprised of 27 container trains.

In July 2013 container trains were launched on the Zhengzhou (China) – Dostyk – Hamburg (Germany) route: route length 10.5 thousand km and a 16-day journey. In 2013 container traffic totalled 938 TEU, consisting of 11 trains.

Additionally, at the end of 2013, a demonstration container train (82 TEU comprising of one train) was launched on the Xi'an (China) – Kyzylorda – Zhem – Aktobe route.

The volume of containerised freight traffic for 2013 through the China – Europe link grew by 84% compared to 2012 (from 3,572 to 6,568 TEU).

At the same time, as part of developing integrated process and also taking into account the mutual interests of the CES (Common Economic Space), based on the Memorandum concluded on 31 May 2013 on the development of the CES transport and logistics system, an agreement on the establishment of an Integrated Transport and Logistics Company (hereinafter – ITLC) was signed on 20 June 2013 between KTZ, JSC Russian Railways and State Association Belarusian Railway.

ITLC's work, as an instrument for realising the transit potential of the participating CES countries, will focus on the organisation of container transportation, including terminal handling of container cargo in ports and junctions of the partnership alliance, providing the customer with an integrated service based on the principles of 'one-stop shop', uniform technologies, standards of quality and pricing policies. Currently, the ITLC is one of few tangible business projects within the CES and is the only one aimed at consolidating the infrastructure industries.

2.5 m

number of electronic ticket booking transactions

Passenger traffic

Passenger traffic volume was 16,962 million passenger-km, which is 0.3% (or 45 million passenger-km) higher than planned and 1.5% (or 254 million passengers-km) higher than in 2012.

20,450 thousand passengers were transported, which is 7.7% (or 952.7 thousand passengers) higher than planned and 4.9% (or 1,454 thousand passengers) higher than in 2012.

Within the framework of implementing the renewal of passenger rolling-stock programme, 237 units of passenger rolling stock (of which 160 Tulpar-Talgo cars, 67 cars from the CIS and 10 electric locomotive) were purchased in 2013. Overhaul reconditioning (KVR) was performed on 50 passenger cars.

Measures taken for renewing the car fleet allowed the continued implementation of the High-speed Passenger Traffic programme. In 2013 high speed trains were launched on two routes, Almaty – Atyrau and Astana – Atyrau. (In order to ensure effective use of the Tulpar-Talgo cars, an additional route Astana – Semey was launched.)

In order to meet transport demand to the fullest possible extent, eight additional trains were launched and running frequency of trains increased on three routes (№ 151/152 Almaty – Petropavlovsk, № 21/22 Kyzylorda – Semipalatinsk, № 85/86 Astana – Saryagash).

Train comfort and service improvement work continued in 2013. Deluxe trains were organised using new cars on two routes – Astana – Mangishlak and Almaty-Shymkent. Passengers on these trains were able to enjoy additional services, such as: tea-making facilities, sets for children, library and video broadcasting.

Comfort levels increased for the following two trains: Astana – Saryagash and Astana – Kiev.

Additional improvements were made to allow disabled train travel on five routes, № 19/20 Astana – Atyrau, № 63/64 Astana – Semey, № 77/78 Almaty – Atyrau, № 37/38 Astana – Mangishlak, № 11/12 Almaty – Shymkent.

Restaurant and bar cars were installed on four routes: № 19/20 Astana – Atyrau, № 63/64 Astana – Semey, № 77/78 Almaty – Atyrau, № 351/352 Almaty – Zashyta.

Further progress has been made in the development of a fully integrated electronic ticketing system:

- in 2013 the number of electronic ticket booking transactions increased to over 2.5 million tickets, double that of 2012;
- an Electronic Sales Centre was created at Astana Railway Station which allows passengers to purchase tickets through automated self-checkout machines using cash or card payments, as well as obtain information and consultancy services;
- work began on the implementation of a large-scale project aimed at introducing technologies for electronic ticket booking as well as boarding of trains with the use of electronic tickets. The project envisages the completion of the ACS Express, modernisation of electronic ticket sales platform, equipping all ticket sales offices with fiscal software-hardware terminals and equipping all trains with mobile electronic tickets readers.

Information on the status of train traffic safety

In 2013, ongoing measures helped reduce the total number of violations of traffic safety.

During 2013, instances of defective work for KTZ were reduced by three, using the same parameters as in 2012, from 77 to 74, or by 4%.

There was one train derailment.

Indicators	Unit of measurement	2012	2013
		Actual	Actual
Train traffic safety:			
– number of derailments	cases	none	1
– number of train accidents	cases	none	none
– cases of defective work	cases	77	74

Note: there were no emergency situations or accidents that interrupted operations or caused environmental damage.



Investment activity

The investment activity of KTZ is aimed at implementing a range of measures to ensure the sustainable operation of railway transport and to improve the quality and safety of transportation services.

The capital investment plan for KTZ Group for 2013 was approved by a resolution of the Managing Board in the amount of 467,858 thousand tenge. This plan was fulfilled in the amount of 469,849 thousand tenge or 100.4%.

The following major projects were implemented in the reporting period:

- Construction work continued on the new Arkalyk – Shubarkol and Zhezkasgan – Beineu railway lines; main tracks have been laid along the entire length of both lines. The assimilated investment amount for the reporting year was 180,329 million tenge.
- Significant funds were used for renewing rolling stock, which included:
 - the purchase of 97 locomotive units as well as a complete overhaul of 38 locomotives, totalling 72,984 million tenge;
 - the purchase of 1,704 units and complete overhaul of 1,450 units of freight cars, totalling 27,942 million tenge;

COMPANY OVERVIEW

- the purchase of 237 units and complete overhaul of 51 units of passenger cars, totalling 37,785 million tenge;
- the purchase of 89 containers for 114 million tenge.
- 631 km of major repairs were carried out on track superstructure, totalling 39,866 million tenge.
- Implementation of the construction of electric locomotives manufacturing plant in Astana continued. In October 2013 the plant was put into operation (state acceptance commission act signed).

In the reporting period, the plant manufactured 12 electric freight locomotives of the KZ8A series. In 2014 the plant plans to manufacture 14 electric locomotives as well as deliver, install and commission technological equipment.

In addition the following innovative projects were being implemented in the reporting period:

- 'Energy Consumption of Traction' Automated Management System (ASU Energodispatcherskaya Tyagi)

The project is aimed at the comprehensive automation of and provision of data support to the business processes associated with tracking, controlling and analysing consumption of energy (consumed for traction and electrical heating of passenger cars) and diesel fuel consumption (consumed during locomotive servicing and locomotive operations of all type). This will be achieved by equipping diesel and electric locomotives with high-precision diesel fuel and electricity consumption monitoring equipment as well as creating a system to collect and analyse this data.

In 2013 locomotives were equipped with monitoring and measuring equipment and, to date, 268 sets of hardware and software complexes have been supplied for diesel locomotives and 166 sets of equipment for electric locomotives.

- The train interval traffic control microprocessor system (SIRDP) was installed on the Nikeltau-Aiteke Bi, Aiteke Bi-Tobol, Kandyagash-Nikeltay stretches.

There were upgrades to the train interval traffic control and the electric interlocking systems on the Kyzylorda-Shieli stretch of railway. This project aims to comprehensively change existing train traffic handling technologies by employing a train interval traffic control system in order to reduce train separation intervals, thus allowing: an increase in the throughput and



traffic-carrying capacities of stations and sections from nine to 11, 12 and 16 pairs of trains per day; an increase in speed limits from 70 to 140 km/h, ensuring the unimpeded arrival and departure of trains on single-track sections.

- Magistral Automated Control System R&D (NIOKR ASU Magistral).

This project is aimed at ensuring continuous maintenance and repair of the Company's infrastructure, reducing maintenance and repair expenses as well as improving the transparency and operating efficiency of track facilities.

- Construction of the Rail Beam Manufacturing Plant in Aktobe.

This project is setting up domestic production of rails for mainline railway lines (import substitution). As a result this will create an annual manufacturing capacity of 430 thousand tonnes of rolled metal, of which 200 thousand tonnes will be for the manufacture of rails, from 2018 onwards.

In the reporting period, the construction of the plant's main building was 33% complete, in particular the laying of foundations for the building as well as works on erecting the steel structures, roof and mounting bases have all been completed.

The following internal infrastructure facilities have been constructed: scale warehouse, scrap yard, 35/10 kV substation, power plant foundations, fire station, approach line and Zavodskaya Station. External infrastructure has been completed, water supply and sewage networks are being prepared for commissioning.

The plant should be commissioned in 2014.

14

electric trains are planned to be brought in in 2014

43%

of the goods turnover in country

268

sets of hardware and software complexes for electric locomotives

Innovation activity

On 18 April 2011, at an extended meeting with Cabinet members, the President of the Republic of Kazakhstan Nursultan Nazarbayev declared innovation as a national priority.

The principles of KTZ's innovation activities are laid out in the adoption of the following policies – Corporate ideology and philosophy of business, Development Strategy of KTZ until 2020, defining the vision, strategic goals and directions of development.

In order to assist with the creation and development of a corporate innovation system, KTZ has adapted the Industrial Innovation Policy of JSC Samruk-Kazyna, approved by the Board of Directors of JSC Samruk-Kazyna on 11 December 2012 (minutes of meeting №86). This defines innovation activity, roles and relationships, functions of the Fund and companies in the process of innovation and technological development, the organisation of innovation activity, the tools and processes of innovation and technological development. It also outlines the criteria for the assessment system to be used to evaluate the results of innovation activities performed by the companies up to 2020.

On 25 December 2013, the Company Board of Directors approved the KTZ Group's innovation and technological development strategy for 2013-2018. The implementation of this strategy will provide for the transition of the rail transport system to a better, improved operational level.

The Company maintains a focused policy for increasing the throughput and capacity abilities of stations, not only through the modernisation of existing and construction of new facilities, but also through the efforts of other businesses and individuals. To achieve this, various purpose station tracks, railway switches, electric interlocking signals and points, etc along with the necessary technical infrastructure have been constructed by different third parties (with various forms of ownership) at freight traffic depots.

Following the recommendations of international consultants, Oliver Wyman Incorporated, work continues on introducing a new method for track facilities management. A number of KTZ branches have been formed by combining the track maintenance divisions: Saryshagan, Ekibastuz, Arys, Kokshetau, Astana, Atbasar, Pavlodar, Karaganda, Agadyr, Aktogai, Almaty, Shu, Zhambyl, Kyzylorda, Kazalinsk, Kandyagash, Atyrau and Yesil.

As a result of implementing this method, it is planned to optimise the workforce to 1,714 by 2015, to increase productivity by 2% and to reduce the number of workers per 1 km of equated length by 3.6%

The Company has carried out the following in order to reduce operational costs:

- brought in continuous welded rail on concrete sleepers construction method – 11,188.7 km
- increased the average continuous welded rail length to equal that of block section length through welding. To date, the length of continuous welded rail up to block length is 3,047.2 km (27.2%)
- introduced the use of spring rail fasteners on 337.4 km
- introduced restoration processes for metal parts of points and switches – 607 sets restored. Saving 183.4 million tenge as a result.

The use of continuous welded rail saves a significant amount of metal, reduces rail replacement due to defects and reduces maintenance costs per 1 km of track by 263 thousand tenge.

LLP Temirzhol Electrification, which was established in collaboration with Siemens AG, has completed the modernisation of 110 kV – Outdoor Switch Gear equipment on seven traction substations – Astana, Sorokovaya, Karaganda-Sortirovochnaya, Karabas, Shokai, Bosaga, Shu. This should increase the reliability of power supply for traction rolling stock, allow a change over to low-maintenance equipment and enable the optimisation of maintenance personnel.

In 2013, the Electrification of Kostanai–Zhelezorudnaya railway section project was completed: section length – 46 km; total length of track overhead system – 97.2 km.

The main line of the Zheleznorudnaya Station Down Yard, three lines of the Temir-Bulak Station, four lines of the Kostanai – Yuzhnyi Station, seven lines of the Kostanai – Glavnyi Station and 12 lines of the Kostanai–Severnyi Station have all been electrified.

The Zhelezorudnaya traction substation has been expanded; construction has been completed of the Kostanai–Severnyi sorting yard traction substation and also at the Zhelezorudnaya car preparation station, including the service and utility buildings for employees working on rolling stock and track facilities, and the duty

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centre for maintenance of overhead network. The Electric Interlocking points and signalling have been commissioned at the Temir-Bulak station.

To date, microprocessor systems have been introduced on 41 stations (5.2%), on 4,810.4 km (44%) of centralised traffic control, and on 441.3 km (4%) of automated block systems, including stations on stretches of new railway lines Uzen-State Border with Turkmenistan, Korgas-Zhetygen. TETRA standard digital radio communications have also been introduced at these sites.

The implementation of a number of innovative projects is aimed at creating a new industry in Kazakhstan – railway engineering. In doing so, world technology and innovation leaders such as General Electric, Alstom and others are sharing their high-tech manufacturing technologies in the field of locomotive production.

In October 2013, the second launch complex at the electric locomotive plant of JSC Electric Kurastyru Zauyty was commissioned. This plant will manufacture freight and passenger electric locomotives using technology provided by Alstom, with a planned manufacturing capacity of 50 units per year. The planned launch date for the manufacture of electric freight locomotives is 2014 with electric passenger locomotives to follow in 2015.

The operation of this new type electric locomotive will reduce maintenance and repair costs by 15% and energy consumption by 20%.

In order to reduce the shortfall in passenger cars as well as improve comfort and quality levels, the manufacture of passenger cars using the Patentes Talgo SL technologies has been launched; production capacity – 150 units per year. The cars will have a lifetime of 40 years and their design speed is 200 km/h. The Talgo cars have a single-axle truck with independently spinning wheels, as well as a pneumatic carriage support system that allows them to pass curved sections of track at high speed.

In 2013, 160 passenger cars were purchased from LLP Tulpar-Talgo (out of a total 227 cars purchased during the year). Five routes have been reconfigured for high-speed trains made up of Tulpar-Talgo cars, with average speed on the routes of 76 – 106 km/h.

Diesel locomotives are being modernised to update the locomotive fleet. These modernised diesel locomotives have proven operational reliability, make significant savings on maintenance and repairs and also reduce diesel fuel and oil costs.

The use of new TE33A series diesel locomotives, in comparison to current model, has reduced: emissions by 2.2 times; complex maintenance by 15 times; fuel consumption by 17%, – and significantly improved the working conditions for the locomotive crew. In 2014, there are plans to manufacture two trial units of modernised TEP33A series locomotives, which will have improved technical characteristics, with another 110 units to follow by 2020.

In order to protect the interests of domestic producers within the Customs Union as well as to reduce the dependency on research institutes in other countries and to develop research activities in the field of railway transport, LLP Rauan – Burabai railway transportation testing facility has been established. This centre falls under the control of LLP Research Institute for Transport. The principal activity of the newly-created enterprise is to repair of railway rolling stock (mainline and shunting locomotives). It has chemical-technical analysis and calibration laboratories, accredited to perform testing and analysis of materials and calibration of measuring instruments.

The Company's innovation and technological development is assessed on an annual basis by the Samruk-Kazyna Fund. In 2013, KTZ was acknowledged as the leader among the Fund's subsidiaries – the Company's rating level was 77.14%.

150

units per annum –
capacity of plants
on production of wagons

40

years – useful life
of Talgo passenger wagons

200

km/h – design speed of
Talgo passenger wagons



Development of Kazakhstan's transport and logistics system

World-class consultants have been brought together to assist in the development of the transport and logistics system of Kazakhstan.

In 2013, an agreement was signed between KTZ and Dubai Port World (DP World) for co-operation in managing of the Aktau Seaport and SEZ Khorgos–Eastern Gates.

For the development of airports, global providers of airports and airport/aviation services such as Swissport International, Zurich Airport and ZAIA (Switzerland) have been brought in. A corresponding memorandum has been signed for the development of infrastructure and the improvement of airport services quality, using best international practices.

Within the structure of KTZ, a new company, LLP Airport Management Group, has been established in partnership with Zurich Airport International AG to manage a network of public airports. The ability to draw on international competence will ensure the transfer of modern technologies, standards and know-how from the best airports in Europe, which will in turn transform the new holding company into a business entity in an industry new to the country: aviation asset management.

During the visit of President Nursultan Nazarbayev to the Principality of Monaco on 27-28 September 2013, a memorandum to establish a joint venture was signed.

Prospects for the Company in 2014

In 2014 the following production and financial performance indicators are forecasted by the Company:

- Tariff freight turnover – 233,795 million tonnes – km;
- Passenger turnover – 17,285 million passengers – km.

Total revenues for the KTZ Group are projected to be 969.6 billion tenge.

State subsidies are projected to total 24.2 billion tenge.

Total current activities expenses are projected at 933.6 billion tenge.

Net income is projected at 17.5 billion tenge.

KTZ Group's capital investment plan for 2014 is 406,108 million tenge.

Key investment areas:

- Construction of the Zhezkazgan-Beyneu railway line – 67,609 million tenge;
- Construction of the Arkalyk-Shubarkol railway line – 29,096 million tenge;
- Construction of the Zhetygen-Korgas railway line – 252 million tenge;
- The development of the Astana Railway Station Junction, including the construction of the Railway Station Complex (1st launch complex, stage 1) – 11,721 million tenge;
- Construction of a multifunctional ice rink – 8,929 million tenge;
- Energy Consumption of Traction Automated Management System (ASU Energodispatcherskaya Tyagi) – 8,393 million tenge;
- Renewal of freight car fleet – 25,459 million (1,782 units);
- Renewal of the locomotive fleet – 33,818 million tenge (29 units);
- Renewal of passenger car fleet – 46,801 million tenge (301 units, including 208 units of Talgo cars);
- Renewal of container park – 206 million tenge (161 units);
- Track structure overhaul – 43,367 million tenge (622 km);
- Overhaul of freight cars – 2,185 million tenge (672 units);
- Overhaul of locomotives – 972 million tenge (13 units);
- Overhaul of passenger cars – 598 million tenge (53 units).

Socially-oriented company



Personnel social policy

The care of our people and their welfare, solving social support issues, and as a result, improving the life quality of the employees are among KTZ's priorities. The Company voluntarily provides social support for its employees and pensioners, which includes:

- compliance with social and labour relation standards;
- provision of financial support and social services for company employees, pensioners, the disabled and victims of accidents at work and occupational diseases;
- provision of a range of social guarantees for young people and employees' families, including summer holidays and health improvement programmes for employees' children.
- regulation of health and safety issues;
- promoting all-round professional development and training of staff;
- solving housing and many other issues, that while not covered by legislation, are very important for employees.

Social programme expenditure for the KTZ Group in 2013 amounted to over 11 billion tenge.

Benefits package

In order to make best use of the social spending budget and enhance employee motivation, a supplementary agreement to the Collective Agreement for 2012-2014 has been signed, extending the employee benefits package to now also include:

- by 1 September, financial assistance for employees with three or more children of 3 MCIs for each child;
- lump sum payment of 10 MCIs on the Day of Persons with Disabilities for employees with disabled children under;
- financial assistance to employees for marriage registration of 20 MCIs;
- increased financial support on Victory Day for veterans of war and members of the People's Commissariat for Line of Communications of up to 30 MCIs, as well as other support.

The 2011-2015 Housing Programme is ongoing with, a total budget of 19 billion tenge. It provides up to 35% towards housing costs for those KTZ employees in need of housing.

Between 2008 and 2013 the Company provided approximately 3,000 apartments for its employees.

Since the Programme started, 188 apartments have been purchased in the Akmola, Pavlodar, Kostanai, Zhambyl, Kyzylorda, Semey, Aktobe regions.

A residential complex is currently under construction in Astana. In 2013, 809 apartments were built and allocated to Company employees in need of housing in the capital. In 2014 the construction of a further 147 apartments should be completed.

As part of the Zhetygen-Korgas and Uzen – State Border with Turkmenistan railway lines construction, 812 apartments have been built at 18 stations. 115 apartments at the Makat Station, 136 apartments at the Dostyk Station and 169 apartments at the Bolashak and Uzen Stations have been built for the Group's employees.

19 bn tenge

total budget of the Housing Programme

Staff healthcare

There have been a number of improvements in healthcare provision for our employees: enhanced insurance programmes, the Health Protection Programme for workers has been approved up to 2020, which provides for new health centres, the introduction of medical staff within the workplace, tracking the recovery of dispensary patients, automation of pre-shift examinations as well as the organisation of engineering-medical teams.

In the reporting year, more than 10,000 employees and pensioners recuperated at sanatoriums located in the Republic and the Russian Federation.

9,000 railway workers' children were sent on summer holidays, including 200 children who visited Thailand and Sri Lanka.

In Astana, the first meeting of the Railway Worker Veterans Council was held which involved representatives from the Company's subsidiaries. The Central Board for this Council was approved at event.

More than 200 sporting events took place all over the country with around 20,000 railway workers taking part.

The Company hosted the meeting for the Presidium of the International Union of Railwaymen Athletes, which was attended by representatives of railway administrations from 16 countries, including Russia, Germany, Belgium, Austria, France, Netherlands and Italy.



Occupational safety

Providing a safe working environment for employees is a top priority for the Company's management. In 2013, there were 47 occupational accidents within the Group, of which 11 were fatal (2012: 48 occupational accidents; six of which were fatal).

Compensation for damages payments were down by 5.5% – 496,400 thousand tenge (2012: 525,570 thousand tenge), including:

- lump-sum benefits paid to employees, who have been fully or partially disabled as a result of an accident at work, or for the loss of the family breadwinner totalled 135.295 million tenge (2012: 122.854 million tenge);
- injured workers that presented 'incapacity to work' certificates were paid 14.015 million tenge (2012: 18.403 million tenge);
- compensation in the form of monthly payments for damage to health in connection with occupational disability, disability, loss of family breadwinner totalled 347,091 thousand tenge (2012: 384,314 thousand tenge).

In total 2,750,137 thousand tenge was spent by the Company on implementing comprehensive measures to create safer working conditions for its workers. Cost per employee amounted to 18.35 thousand tenge (2012: 13.98 thousand tenge).

SUSTAINABLE DEVELOPMENT

Socially-oriented company

Personnel policy

The creation of a high-performance and cohesive team capable of ensuring the sustainable development of the Company, the implementation of innovative and high-tech projects and the achievement of the Company's strategic objectives are all fundamental to KTZ's personnel policy.

As of 31 December 2013, the number of KTZ Group employees was 158,876. More than 67.5% of the staff employed KTZ and its subsidiaries are blue-collar workers. Staff turnover in 2013 was 9.6%.

One of the key priorities in the Personnel policy is the focused development of human resources.

The corporate training system covers the entire spectrum of training, retraining, advanced training and academic staff training provided by external training providers as well as educational institutions. KTZ also has in place mechanisms for specific training and professional development for each staff category.

Graduate specialists have the opportunity to:

- obtain supplementary education in Masters and Doctorate/PhD programmes;
- benefit from professional development, which includes KTZ's programme with international educational institutions;
- receive training through specialised certification programmes.

Specialists with technical and vocational qualifications, as well as employees with no previous higher education, have the opportunity to:

- obtain higher education through 'Magistral' and 'The President of KTZ Scholarship' programmes;
- benefit from further training at KTZ's training centres; in 2013, 9,390 people attended training courses and further training.

In order to improve managerial skills within KTZ's management team and to exchange experience with leading transport and logistics organisations, the Company is implementing a training programme with

international educational institutions. In 2013, 135 people were trained in educational institutions based in the USA, Spain, Germany, Sweden, Italy, Austria and France.

The Company places great importance on training for young professionals. A targeted selection process is in place to select the best-trained young professionals in key railway professions to work for KTZ's organisations. In 2013, the Company continued to implement its dual training system for 263 students of technical and vocational training. The principle of strengthening the practical elements of training, to meet the requirements of modern production, has been successfully implemented KTS's Centre for Technology in Transport, an education complex in Astana, fitted out with the latest training equipment. Progress had been made on equipping other training centres and the Kazakh Academy of Transport and Communications named after M. Tynyshpaev (Almaty) - with modern equipment and simulators provided by partner companies such as General Electric, Alstom, Talgo and Siemens.

Following the acquisition of shares in JSC Kazakh Academy of Transport and Communication named after M. Tynyshpaev, KTZ has been able to become more involved with the training of highly-qualified specialists for the rail industry through:

- the participation of KTZ's organisations in the development and review of curricula and programmes;
- heads of companies giving open lectures and seminars on topical issues within the industry;
- the participation of heads of KTZ companies in the work performed by state certification and examination boards of the Academy.

A mentoring institute has also been set up for young professionals and workers. This has had a positive effect on staff retention and improved employee engagement. At the same time, a system of monitoring measurements has been implemented, focused on mentoring and aiding young workers to adapt in many different branches of the business. In 2013, 425 events were held by KTZ to help induct 1,293 newly-hired workers. There are 1,743 mentors throughout the KTZ Group, and 2,104 workers were trained.

Under the Company's youth policy, more than 2,000 young workers were trained. According to the results of the IV National Youth Forum, three projects proposed in the Project Management competition have been chosen to be implemented by the Company. Of those that took part in the Forum: six participants have been promoted to higher positions; nine young workers will receive further training in Kazakhstan and abroad and 14 have been nominated for the talent pool reserve.

In addition to the work being carried out with young professionals, an active talent pool is in place to provide KTZ with a pipeline of strong internal candidates for positions. As of 31 December 2013, the number of workers in the talent pool reserve numbered 561 people. In 2013, 64% of vacant positions were filled from the reserve; the reserve personnel turnover rate was 9.6%.

The Company's personnel motivation programme includes not only tangible incentives but also intangible ones that actively encourage employees through corporate, departmental and the Republic of Kazakhstan State awards.

Environmental protection

In performing its business activities, KTZ is responsible for ecological safety and the well being of the environment.

Environmental protection activities are carried out in accordance with the Environmental Code of the Republic of Kazakhstan, other normative regulations, international treaties and agreements ratified by the Republic of Kazakhstan, as well as KTZ's Regulations on the Protection of the Environment.

In 2013, the Company and its subsidiaries carried out 717 environmental protection actions.

9,390

people attended training courses and further training

Corporate social responsibility

As part of its corporate social responsibility remit, the Company supports a number of charity projects and events.

The following charity events are held on regular basis: 'Do Good!', 'The Director's Grant', 'Relief Road' as well as the 'Kids off to School' patronage programme for regional schools that were previously on the responsibility of RSE KTZ. The Company also collaborates with Ayala, Umit-Nadezhda and Miras-A charities as well as veterans' organisations.

Every year, in honour of Victory Day celebrations, free travel is organised for veterans and invalids of the Great Patriotic War.

For several years now, KTZ together with the Ministries of Health and Emergencies has sent special trains to deliver quality medical care to remote regions of the country. In 2013, the Densaulyk and Zhardem (both equipped with telemedicine equipment) and Salamatty Kazakhstan visited 295 stations, with a population of over 64,000 people. The train doctors held eight teleconferences in order to help their regional colleagues.

More than 150 million tenge was paid as charitable assistance to the families of workers who were injured in the accidents that took place on 27 February 2013 in the Aktobe region and on 18 November 2013 in the Mangistau Region; these were over and above the insurance and annuity payments. In support of railway workers with disabled children, 718 children were given charitable assistance totalling more than 100 million tenge.

In addition, more than 10 million tenge was allocated to employees who requested help from KTZ in order get treatment for themselves, their close relatives and sick children. More than 700 thousand tenge was collected through charity boxes.

295

stations were visited in 2013 by trains 'Densaulyk', 'Zhardem' and 'Salamatty Kazakhstan'

CORPORATE GOVERNANCE

The main purpose of KTZ's corporate governance is the realisation of the interests of the Company's Sole Shareholder and to ensure JZT's sustainable capital growth.

The corporate governance of KTZ is assessed annually for compliance with best practices using the methods of corporate governance diagnostics used by JSC Samruk-Kazyna.

The corporate governance score is the indicator used for assessment.

Between June – December 2013, PricewaterhouseCoopers carried out diagnostics and developed measures to improve the corporate governance of KTZ. This was undertaken as part of to improve corporate governance in the subsidiaries of JSC Samruk-Kazyna,

During the project, the consultants analysed current corporate governance practices and recommendations were given for its further improvement.

The corporate governance score for KTZ in 2013 was 71.2%, against the planned target of 68%.

The results of the project formed the basis of an action plan to improve the corporate governance of KTZ during 2014.



Board of Directors

The Board of Directors determines the strategic objectives, development priorities and sets long-term guidelines for the Company's activities. It also ensures the availability of the necessary financial and human resources to achieve the set goals. The Board of Directors oversees the executive body of KTZ.



**The Board of Directors in 2013:
Bidauletov Nurzhan Talipovich
Chairman of the Board of Directors**

Born in 1960. Graduated from the Moscow Railway Transport Institute in 1986 with a degree in Railway Transportations Management.

He began his career in 1986 as a Yardmaster and Ekibastuz station Duty Officer on the Tselina railway. He worked as a Technical Engineer at the Ekibastuz station as well as Chief Engineer at the Pavlodar-Severnyi station.

From 1989 to 1998 he was Deputy Head of Transportation Department of the Pavlodar division of the Tselina railway, Head of Pavlodar Station, First Deputy Head of Pavlodar division of Tselina railway, Deputy Head of Akmola railway, Head of Pavlodar railway division, Head of Akmola railway at the Republican State Enterprise 'Kazakhstan Temir Zholy'.

In 1998 he was appointed as Director of Railway Transport Department at the Ministry of Transport and Communications of the Republic of Kazakhstan.

In the years of 2003-2004 he held the post of Vice-Minister of Transport and Communications of the Republic of Kazakhstan.

From 2004 to 2006 – Chairman of the Communication Lines Committee, Ministry of Transport and Communications of the Republic of Kazakhstan.

2006 – present day – Director for Transport and Industry Assets of JSC Holding Samruk, Managing Director of JSC Holding Samruk, Managing Director of JSC Samruk-Kazyna and Chairman of the Board of Directors of KTZ.

Republic of Kazakhstan citizen. Has no ownership of shares in KTZ, its suppliers and competitors. He was first elected to the Board of Directors on 20 June 2006 and re-elected on 21 June 2012.



**Mamin Askar Uzakpayevich
Member of the Board of Directors, Chairman
of the Management Board – President of KTZ**

Born in 1965. Graduated from the Tselinograd Civil Engineering Institute and the Russian Economic Academy named after G.B. Plekhanov as a civil engineer and economist respectively.

He began his career working as a Rigger at the Tselintyazhstroy Trust. Held the position of Deputy General Director at the Innovative Enterprises Union of Kazakhstan.

From 1996 to 2008 he worked as – First Deputy Akim 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, Akim of Astana.

From April 2008 to present day, Chairman of the Management Board – President of KTZ, Member of the Board of Directors of KTZ.

Citizen of the Republic of Kazakhstan. Does not own shares of KTZ, its suppliers and competitors. First elected to the Board of Directors on 4 April 2008 and re-elected on 21 June 2012.



**Urazbekov Marat Zhanabergenovich
Member of the Board of Directors**

Born in 1960. Graduated from the Almaty Institute of Railway Engineers in 1986 as an electrical engineer. In 2000 he graduated from the Academy of Public Administration under the President of the Republic of Kazakhstan specialising in 'state and municipal management'.

Started his working career as Senior Supervisor and then Chief Supervisor of the locomotive depot.

In 1988 he was appointed to the position of Chief Engineer of the Arys locomotive depot, Almaty railway.

From 1993 to 2003 he worked as Deputy Head then Head of the Factory and Repair Base Development Department Facilities Development of the Railway Transport Department of the Ministry of Transport of the Republic of Kazakhstan, Deputy Director of Railway Transport Department and then Director of the said Department.

From August 2003 to October 2008 he worked as Deputy Chairman of Railway Transport Committee of the Ministry of Transport and Communications of the Republic of Kazakhstan, and then Chairman of Communication Lines Committee of the same Ministry.

From October 2008 to present day, Director of Transport Assets Department of JSC 'Samruk-Kazyna'.

With effect from January 2012 – Member of the Board of Directors of KTZ.

Republic of Kazakhstan citizen. Does not own shares of KTZ, its suppliers and competitors. He was first elected to the Board of Directors on 24 January 2012 and re-elected on 21 June 2012.

Board of Directors



Kasymbek Zhenis Makhmudovich
Member of the Board of Directors

Born in 1975. Graduated from the Kazakh State Architectural and Construction Academy as an 'architect-designer' and the Eurasian University specialising in 'state and local government'.

Started his career as Chief Banker of OJSC Temirbank. Over the years he has worked as Head of Rail and Port Department of the Agency for Regulation of Natural Monopolies and Protection of Competition, Head of Tariff Policy of the Tariff Policy Coordination Department, Director of Marine Transport Department of the Ministry of Transport and Communications of Kazakhstan, Director of RSE Aktau International Sea Port.

From November 2005 – Vice-Minister of Transport and Communications of the Republic of Kazakhstan.

From 12 March 2009 to 7 March 2014 – worked as Executive Secretary of the Ministry of Transport and Communications of the Republic of Kazakhstan.

With effect from 2011 – Member of the Board of Directors of KTZ.

Citizen of the Republic of Kazakhstan. Does not own shares of KTZ, its suppliers and competitors. First elected to the Board of Directors on 20 June 2006 and re-elected on 21 June 2012.



Syzdykov Tito Uakhapovich
Independent Director

Born in 1948. Graduated from the Semipalatinsk Zoo technical and Veterinarian Institute and Pavlodar University. Master of Science in Economics and Management in the field of social sphere. PhD in Economics.

Tito Syzdykov worked in the farming sector of the Pavlodar regions for approximately ten years.

He was head of a state farm, and then over a number of years held important political and governmental positions.

From 1997 to 1999 he served as Akim of Aksu city of the Pavlodar oblast.

In 1999 he was elected to the post of Deputy in the Mazhilis of the Parliament of the Republic of Kazakhstan.

From 2012 – Independent Director, Member of the Board of Directors of KTZ.

Citizen of the Republic of Kazakhstan. Does not own shares of KTZ, its suppliers and competitors. He was first elected to the Board of Directors on 10 October 2012.



Isingarín Nigmatzhan Kabatayevich
Independent Director

Born in 1941. In 1964 graduated from the Ural Electromechanical Institute of Railway Engineers. In 1984 he graduated from the Academy of National Economy under the USSR Council of Ministers. Holds a PhD in Economics.

From 1964 to 1986 he worked as Engineer, Chief Engineer, Head of Section of Tselinograd Division of Signalling and Communication, Head of Department of Signalling and Communication of Tselinograd road division, Head of Technical Department – Deputy Chief Engineer of the Kazakh Railway, Chief Engineer, and Head of Tselinnaya Railway.

From 1986 to 1991 he served as Deputy Minister of the Ministry of Communication Lines of the USSR, Head of Alma-Ata Railway.

From 1991 to 2002 he was appointed to the positions of 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 Tadjikistan), and Deputy Secretary General of Eurasian Economic Community.

From 2002 to present day – General Director of Economtransconsulting LLP, Chairman of Association of National Forwarders of the Republic of Kazakhstan, Kazakhstan Association of Carriers and Wagon Operators.

With effect from 2006 – Independent Director, Member of the Board of Directors of KTZ.

He is a citizen of the Republic of Kazakhstan. Does not own shares of KTZ, its suppliers and competitors. He was first elected to the Board of Directors on 20 June 2006 and re-elected on 17 June 2013.



Walton Chris
Independent Director

Born in 1957. Graduated from the University of Western Australia. Holds a BA in Political Science and a Master of Business Administration (MBA) in Finance.

From 1983 to 2005 he was Research Assistant for Senator D. Evans, Corporate Planner in BP Australia, Manager of Group's financial planning, Acting Finance Director, Finance Manager of Australian Airlines Group, General Manager of Finance Department of Australia Post, Finance Manager, Acting Director of International Sales and Marketing Department of New Zealand Air, General Manager for Effective Partnership, General Manager for Financial Planning and Analysis of Qantas Airways, and Financial Director of JSC Easy Jet.

He presently works as Independent Chairman of the Board of Directors of Goldenport Holdings Inc., Independent Director, and Chairman of Audit Committee of OJSC Rockhopper Exploration.

From 2008 – Independent Director and Member of the Board of Directors of KTZ.

Citizen of Great Britain. Does not own shares of KTZ, its suppliers and competitors. He was first elected to the Board of Directors on 13 June 2008 and re-elected on 21 June 2012.

Information on the KTZ Board of Directors

The Board of Directors is responsible to the Sole Shareholder for the effective management and control of the Company.

The Board of Directors of KTZ consists of the seven members: three of whom are independent; two are representatives of the Sole Shareholder – JSC Samruk-Kazyna; one representative of the Ministry of Transport and Communications RK; one – Chairman of the Managing Board of KTZ.

The following committees currently operate under the Board of Directors of KTZ – they held 28 meetings in 2013:

Name of Committee	Name, status, position in Committee	Participation in meetings	Reasons for absence
Audit Committee: eight meetings held, of which two in person, six in absentia, at which 14 issues were considered	Walton C. – Independent Director, Chairman of the Committee	8	
	Isingarin N. K. – Independent Director, Member of the Committee	8	
	Syzdykov T. U. – Independent Director, Member of the Committee	8	
	Kasymbek Z. M. – Minister of Transport and Communications of the Republic of Kazakhstan, Member of the Committee	6	1 – in connection with business trip 1 – in connection with participation in meeting of Government of the RK

Name of Committee	Name, status, position in Committee	Participation in meetings	Reasons for absence
Human Resources and Remuneration Committee: 14 meetings held, of which 13 in person, in absentia, at which 34 issues were considered.	Syzdykov T. U. – Independent Director, Chairman of the Committee	14	
	Urazbekov M. Z. – Director for Transport Assets of Samruk-Kazyna, Member of the Committee.	12	1 – in connection with participation in the meeting of 'Samruk-Kazyna' 1 – in connection with business trip
	Isingarin N. K. – Independent Director, Member of the Committee	12	1 – Committee members do not take part in the meetings dealing with issues related to their own appointment and/or remuneration (paragraph 6, Article 1 of Regulations on personnel and remuneration issues of KTZ) 1 – in connection with business trip
	Walton C. – Independent Director, Member of Committee	10	3 – in connection with business trips 1 – due to being on annual leave
	Ordabayeva A. T. – General Manager, Department of Personnel Management, JSC Samruk-Kazyna, Committee expert		
Lepesbayev A. M. – Vice President for Economics and Finance, KTZ Committee expert			

Information on the KTZ Board of Directors

Name of Committee	Name, status, position in Committee	Participation in meetings	Reasons for absence
Strategic Planning and Innovations Committee: meetings held, four in person, one mixed, one in absentia, at which ten issues were considered.	Isingar N. K. – Independent Director, Chairman of Committee	6	
	Kasymbek Z. M. – Minister of Transport and Communications of the Republic of Kazakhstan, Member of Committee	1	3 – in connection with having to attend Government Meeting of RK 1 – due to being on a business trip 1 – due to participating in Ministry of Transport and Communications of RK meeting
	Urazbekov M. Z. – Director for Transport Assets of Samruk-Kazyna, Member of Committee	5	1 – due to being on annual leave
	Syzdykov T. U. – Independent Director, Member of Committee	6	
	Walton C. – Independent Director, Member of Committee	4	2 – due to being on annual leave

13

meetings held by
the KTZ Board of Directors in 2013

Participation of Board of Directors Members in meetings:

Name	Participation	Reasons for Absence
Baidauletov N. T.	13	
Mamin A.U.	12	1 – due to being on business trip
Kasymbek Z. M.	12	1 – in connection with participation in the meeting of the Presidential Administration of the Republic of Kazakhstan
Urazbekov M. Z.	12	1 – due to being on business trip
Isingar N. K.	12	1 – due to being on business trip
Syzdykov T. U.	12	1 – due to being on annual leave
Walton C.	12	1 – due to being on annual leave

The Board of Directors determines the strategic development of the Company, considers and makes decisions on issues of production and financial nature. In 2013, in the course of the meetings, 111 issues were considered, including those relating to:

- The Sole Shareholder of KTZ – 4;
- The Board of Directors of KTZ – 12;
- The Managing Board of KTZ – 6;
- The internal audit service of KTZ – 9;
- personnel issues – 3;

- social issues – 1;
- regulation of KTZ's activities – 17;
- issues of a production and economic nature – 34;
- reports on the activities of KTZ – 23;
- creation of a new enterprises – 2.

As a result of consideration of 111 issues by the Board of Directors of KTZ, 196 orders were issued.

Information on the KTZ Board of Directors

In 2013 the Board of Directors considered 11 issues in relation to deals in which the Company has an interest:

1. On the conclusions of a transaction in which KTZ has an interest by entering into an agreement with JSC Transmashholding for the sale-purchase of ordinary shares of JSC Locomotive Kurastyru Zauyty;
2. On the conclusions of a transaction in which KTZ has an interest by entering into supplementary agreements to leasing agreements for the provision of transshipment points № 1,2,3,4a (open), 4b (gated) and №5 located at the Dostyk Station to JSC Kedentransservice;
3. On the conclusions of a transaction in which KTZ has an interest by JSC 'NC' KTZ' providing guarantees for LLP Aktobe Rail Manufacturing Plant;
4. On the conclusions of a transaction in which KTZ has an interest through entering into a Supplementary Agreement to Loan Agreement № CL111027A dated 27 October 2011, concluded between JSC SB RBS Kazakhstan, LLP Tulpar-Talgo and KTZ .
5. On the conclusions of a transaction in which KTZ has an interest by signing with OJSC TransContainer an agreement, amending the terms of the Agreement № 80 on joint venture based cooperation dated 17 March 2011;
6. On the conclusions of a transaction in which KTZ has an interest by signing an indemnity contract between KTZ and LLP 'Transport Technologies' in provision of the indemnity contract between KTZ and JSC Development Bank of Kazakhstan to secure the obligations of LLP Aktobe Rail Manufacturing Plant;
7. On the conclusions of a transaction in which KTZ has an interest by signing with OJSC TransContainer an Agreement, amending the terms of the Agreement № 80-AO on joint venture based cooperation dated 17 March 2011;

8. On the conclusions of a transactions in which KTZ has an interest by entering into Leasing Agreements with JSC Kedentransservice, for the provision of a transshipment terminal for containers, handling space for general cargo, handling space for bulk cargo, an industrial building at the transshipment location for general cargo and an office building located at the bulk cargo handling site at the Altynkol Station;
9. On the conclusions of a transaction in which KTZ has an interest by entering into an agreement for the gratuitous transfer of property with LLP Aktobe Rail Manufacturing Plant;
10. On the conclusions of a transaction in which KTZ has an interest by entering into an agreement with Alstom Transport SA for the gratuitous conveyance of the Electric Locomotive Operator Simulator KZ8A;
11. On the approval of the transaction in which KTZ has an interest by entering into a Cooperation Agreement with LLP Aktobe Rail Manufacturing Plant.

The Audit Committee develops recommendations on:

- the establishment of an effective control system over the financial and economic activity of the Company (which includes the completeness and reliability of financial reporting);
- monitoring the reliability and efficiency of the internal control and risk management;
- monitoring the independency of external and internal auditors.

The Human Resources and Remuneration Committee develops recommendations on:

- appropriate remuneration of the Directors, Members of the Managing Board and Corporate Secretary Office in accordance with the goals, objectives and current status of the Company;

- implementing a structured and transparent system of remuneration for the Directors, Members of the Managing Board and Corporate Secretary.

The Strategic Planning and Innovations Committee develops recommendations on:

- matters related to increasing the competitiveness and stimulating the innovation activity of the Company, based on analysis of the scientific, technological and innovative spheres of the Company;
- effective co-operation and co-ordination of the Company's activity in respect of innovation policy;
- reforming the Company's activity to improve the innovation activity.

Board of Directors remuneration

The remuneration terms for Independent Directors are reflected in the contracts concluded with them. The remuneration consists of fixed and variable parts. Members of the KTZ Board of Directors, with the exception of Independent Directors, perform their work at no charge.

In 2013, remuneration was paid to Independent Directors as follows:

№	Full name	Annual remuneration
1	Isingarín Nigmatzhan Kabatayevich	7,290,000 tenge
2	Chris Walton	50,000 US\$
3	Syzdykov Tito Uahapovich	6,817,500 tenge

KTZ Board of Directors' performance assessment

The KTZ's Code of Corporate Governance provides for an annual performance assessment of the Company's Board of Directors, with at least one assessment in every three years performed by independent consultants.

In 2012, in accordance with best international corporate governance practices, the performance assessment of KTZ's Board of Directors was carried out by an independent consultant. In 2013, the performance of KTZ's Board of Directors was self-assessed through the use of questionnaires.

This assessment the Board's performance was based on the methodology of assessing the performance of the activities of the Board of Directors and its Committees, the Chairman, Members of the Board and the Corporate Secretary. This method was approved by resolution of the Board of Directors of KTZ.

The said method is based on the assessment techniques used to appraise the activities of the Board of Directors and its Committees, the Chairman, the Members of the Board and the Corporate Secretary of JSC Samruk-Kazyna subsidiary companies, which in turn is based on the requirements of the Republic of Kazakhstan legislation as well as the requirements of best international corporate governance practices.

In accordance with this method of performance assessment, all members of the Board of Directors of KTZ were required to fill out questionnaires.

Managing Board

The Managing Board is a collegial executive body which has the power to make decisions on all aspects of the Company's operations that have not been designated by law, any other legislative acts of the Republic of Kazakhstan or the Company Charter to the competence of other Company bodies or officers.

By resolution of KTZ's Board of Directors, the number of Managing Board members has been set at ten and its members have been elected.

Members of the KTZ Managing Board:

Mamin Askar Uzakpayevich

Chairman of Managing Board – President of KTZ

Mamin Askar Uzakpayevich was born on 13 October 1965 in Tselinograd. He graduated from the Tselinograd Civil Engineering Institute and Plekhanov Russian Academy of Economics with qualifications in civil engineering and economy. He started his working career in 1987 as a Rigger at the Tselintyazhstroy construction organisation. Has held the position of Deputy General Director at the Kazakhstan Innovation Enterprises Union. From 1996 to 2008 he worked as First Deputy Akim of Astana, Vice-Minister of Transport and Communications, First Vice-Minister of Industry and Trade, Minister of Transport and Communications of the Republic of Kazakhstan, and Akim of Astana. Since April 2008, he has held the position of President of KTZ.

Kizatov Yermek Anuarbekovich

Vice President KTZ

He was born on 6 August 1961 in the Akmola Region. He graduated from the Almaty Railway Engineering Institute specialising in construction of railways, track and track facilities. Doctor of Technical Sciences. He began his career as a Supervisor of the New-Ishim Division of Tselinnaya Rail Road. He occupied executive positions in Tselinnaya Railway, RSE Kazakhstan Temir Zholy, and KTZ. In April 2008 he was appointed to the position of Vice-President of KTZ.

Alpysbauev Kanat Kaliyevich

Vice President for Logistics JSC 'NC 'KTZ'

Born on 31 March 1972 in Atbasar town of Akmola Region. He graduated from the Almaty Railway Engineering Institute, Kentucky University (USA), and Moscow International High Business School. He holds a Master's degree. From 1994 to 2002 he worked for enterprises of the Tselinnaya Railway, RSE Kazakhstan Temir Zholy and in various joint stock companies. In 2002 – 2003 he was Finance and Managing Director, Vice-President for Finance and Informational Technologies of CJSC Air Astana. From November 2005 to June 2008 he worked as Director of Business Development in a branch of General Electric Corporation. From 2008 to 2013 he worked as Vice-President for Economy and Finance of KTZ. Since January 2013 – Vice President for Logistics KTZ.

Akchurin Askhat Harisovich

Vice-President for Human Resources Management and Social Issues of KTZ

Born 2 June 1961 in West-Kazakhstan Region. He graduated from the Kazakh Agricultural Institute. From 1983 to 1996 he worked as Construction Engineer, Chief Engineer, and Chief General Constructor of GSKB PET. In 1996–2008, he worked in the Akimats of Akmola and Almaty, as well as in the Sary-Arka district Akimats of Astana, in the Administration of the President of the Republic of Kazakhstan; he also worked as Deputy Akim of West-Kazakhstan region. From 2008 to 2009 he served as Secretary General of KTZ. Since January 2009 – Vice-President for Human Resources Management and Social Issues of KTZ.

Yermuhanov Adelsha Magrupovich

Vice President for Procurement KTZ

Born 10 July 1959 in Orenburg, Russia. He graduated from the Orenburg Polytechnic Institute majoring in industrial and civil construction. PhD in Economics. After graduation he worked as a Foreman for Construction Department №19 (Russia). From 1986 – 1988, Chief Engineer of Mobile Mechanical Division for 8th Trust of Aktyubinskelevatorstroy. From 1993 to 1997 he worked in the Aktobe Territorial Committee on State Property Management. In 1997 – 2006 he worked in the Ministry of Labour and Social Protection of the Republic of Kazakhstan, also worked as Akim of Hromtau district in the Aktobe Region, as Deputy Chairman of the Committee for Roads and Infrastructure Construction Complex of the Ministry of Transport and Communications of the Republic of Kazakhstan. From 2006 to 2008, President of JSC Zheldorstroy. From 2008 he worked in senior positions in KTZ. Since March 2013 – Vice-President for Procurement KTZ.

Lepesbayev Almas Muratovich

Vice-President for Economy and Finance of KTZ

Born 16 July 1978 in Akmola region. He graduated from the University of Kokshetau named after S.Ualihanov with a degree in economics and management, the Kazakh Humanitarian Law University with a degree in Law. He began his career in 2000 as Leading Specialist in the Department for Creation of Employment of the Main Directorate of Technical Policy RSE Kazakhstan Temir Zholy. From 2000 – 2002, Chief Specialist, Deputy Head of Department, Head of Department for RSE Kazakhstan Temir Zholy. From 2003 to 2004, Head of Economics, Finance and Accounting for Rolling Stock Department of KTZ. Between 2004 – 2006, Deputy Head of Department, Head of Department, Deputy Director and then Director of Economics and Finance Department for JSC Kazzheldortrans. From 2006 to 2009, Director of the Department of Economics; from 2009 to 2013 Managing Director for Economics; since September 2013, Vice President – Economics and Finance, KTZ.

Kilybay Nurdaulet Igilikuly

Managing Director – Chief of Staff KTZ

Born 10 April 1978 in Mangistau Region. Graduated from the Kazakh Academy of Transport and Communications named after M. Tynyshpaev, Eurasian National University named after L.N. Gumileva. Transportation process Control Engineer, financial expert. His professional biography is wholly related to the railway transportation industry of the Republic of Kazakhstan. He began his career in 1999 in the role of Station duty officer at the Mangishlak Station of the Atyrau Transport Branch of RSE Kazakhstan Temir Zholy. Subsequently worked as an acceptance/delivery agent apprentice, acceptance/delivery agent, senior acceptance/delivery, chief specialist for RSE Kazakhstan Temir Zholy. From 2002 to 2008, held various positions at CJSC NC KTZ and KTZ In 2008 – 2011 – Deputy Chairman of the Communication Lines Committee, Ministry of Transport and Communications of Kazakhstan, President of JSC Vokzal – service, Managing Director for Passenger Transportation KTZ. From 2011 he has held senior positions in KTZ and the Ministry of Transport and Communications of the Republic of Kazakhstan. Since August 2013, Managing Director – Chief of Staff KTZ.

Managing Board

Members of the KTZ Managing Board:

Khasenov Rustem Koibagarovich

Managing Director for Legal Issues of KTZ

Born 4 August 1962 in Kokshetau. Graduated from the Karaganda State University with a degree in Law. From 1997 to 2004 he worked as Head of Legal Department; Senior Specialist of Legal Expertise of the Legal Department of the Ministry of Transport and Communication of the Republic of Kazakhstan, Head of Legal Department of the Ministry of Transport and Communication of the Republic of Kazakhstan. From 2004 to 2008 he served as Deputy Director of the legal department of the Ministry of Transport and Communications of the Republic of Kazakhstan, Director of the State and Legal Department of the Akim administration of Astana city. Since 2008 he has held the position of Managing Director for Legal Issues of KTZ.

Zhusanbayev Yerkin Semetayevich

Manager of Corporate Development, KTZ

Born 26 January 1970 in Tselinograd. He graduated from Moscow State University named after M.V. Lomonosov with a degree in mechanics and applied mathematics. He began his career in 1992 as an engineer at the Institute of Mechanics and Engineering Sciences of the Kazakh SSR. From 1993 to 1998 he worked as specialist, leading specialist, chief specialist of the National Aerospace Agency of the Republic of Kazakhstan. Then worked as a commercial officer at the Representative Office of Japanese company Marubeni Corporation. From 1998 to 2002 he worked in senior positions in the structures of RSE Kazakhstan Temir Zholy, State-owned subsidiary Kazgiprozheldortrans. In 2003-2004 – Project Director for the BAS program of the European Bank for Reconstruction and Development. In 2004 – Director of the Department for the Regulation and Control of Natural Monopolies in the fields of railway transport, airports and ports of the Agency for Regulation of Natural Monopolies of the Republic of Kazakhstan. From 2005 to 2007 – Managing Director of LLP Synergy Co. From 2007 to 2008 – Advisor to the President on the tariff policy of KTZ. Since April 2008, Managing Director of Corporate Development of KTZ.

Urynbasarov Bauyrzhan Pazylbekovich

Acting Chairman (President) of JSC Kaztemirtrans Managing Board

Born 2 October 1970 in Kyzylorda Region. He graduated from the Almaty Institute of Railway Engineers specialising in management of transport process. He began his career as Train Controller in the Almaty Branch of the Almaty Railway. He then worked as Senior Engineer, Head of Industrial Engineering Department of the Railway Administration of RSE Kazakhstan Temir Zholy in Almaty. In 2007–2008 he was head of KTZ's Karaganda Railway Division. From 2009 to 2010 he was Director of several branches of KTZ – Transportation Process Division and Almaty Division of Road. From 2010 to 2011 he was Managing Director – Chief Engineer of KTZ. Between April 2012 and February 2014 – Managing Director of Field Operation in KTZ.

Information on the Managing Board of KTZ

The Managing Board is responsible for the implementation of the Company's strategy and its daily operations.

In 2013 the Managing Board KTZ held 39 meetings, of which 31 were in person and eight in absentia. The structural units and subsidiaries of KTZ submitted for 428 issues for the consideration of the Managing Board, which included:

- issues for consideration by the Board of Directors KTZ – 51;
- staffing plan authorisation – 46;
- adoption of the rules, regulations, guidelines – 42;
- transaction of deals – 37;
- appointments of personnel – 33;
- procurement – 18;
- change in type, sale and purchase of shares – 16;
- write-off of receivable / payable accounts – 13;
- amendments to charters of subsidiaries – 12;
- other current activities issues – 160.

Remuneration of the Managing Board

Remuneration of managerial staff of KTZ, following the end-of-year results, is paid in accordance with the Rules for Remuneration of Managerial Employees of KTZ, approved by the resolution of KTZ Board of Directors dated 12 December 2011 (Minutes No 7) and as amendments on 13 December 2012 (Minutes No 9).

In accordance with Article 5 of the above Rules, the main condition for payment of remuneration is the presence of consolidated net profit for the reporting year, and is calculated considering the projected amount of remuneration.

When calculating the remuneration amount, factors such as the fulfilment of the planned corporate and individual key performance indicators for each position, and the proportion of actual work hours to the current standards within the reporting year are taken into account.

Information on the work performed by the KTZ Internal Audit Service in 2013

The Internal Audit Service of KTZ oversees the financial and economic activity of the Company, evaluates internal control and risk management, document execution for corporate governance and provides consulting for the overall improvement of the Company's activity.

The 2013 Audit Plan of the Internal Audit Service of KTZ was approved by resolution of the Board of Directors of KTZ on 13 December 2012 (Minutes No 9).

All 26 audit tasks provided for by the annual audit plan were executed in full.

Audits covered such key business processes as procurement, investment projects, repairs of track and freight cars, integrity of fixed assets and, as recommended by the Sole Shareholder, assessment of the effectiveness of corporate risk management and internal control systems.

330 recommendations were made following inspections performed by the Internal Audit Service.

Corporate risk management

KTZ recognises the importance of risk management as a key element in the corporate governance of the Company and its subsidiaries, aimed at the timely identification and adoption of measures to reduce risks that might negatively impact the Company's value and reputation.

The implementation of a corporate risk management system in KTZ is performed within the framework of JSC Samruk-Kazyna's recommendations, which state that the implementation of the corporate risk management system must be in accordance with the COSO model: Corporate Risk Management – Integrated Model (2004).

The efficiency level of the risk management system, as evaluated by the Internal Audit Service of KTZ (which is in accordance with the methodology used for assessing the effectiveness of the corporate risk management systems in the subsidiaries and affiliated companies of JSC Samruk-Kazyna) in 2013 was 69.63% (65.3% in 2012).

The efficiency level of the internal control system, as evaluated by the Internal Audit Service of KTZ (which is in accordance with the methodology used for assessing the effectiveness of the internal control systems in the subsidiaries and affiliated companies of JSC Samruk-Kazyna) in 2013 was 82%

In 2013, the work carried out by the Company's Risk Committee, the Board of Directors and Managing Board aimed to further improve the corporate risk management system and bring it in line with international best practice.

In 2013, the Risk Committee held five meetings (in 2012 – three meetings). The Risk Committee made decisions on the following issues:

- 1) consideration of the Work Plan of the Risk Committee of KTZ for 2013;
- 2) approval of the risk appetite level of KTZ, consideration of the risk register project for KTZ;
- 3) assessment of corporate risk management systems of KTZ subsidiaries;
- 4) approval of the report on risk management containing descriptions and analysis of key Company risks (including legal risks), information on compliance with exposure limits, as well as information on the implementation of plans aimed at minimising Company risks;
- 5) approval of a risk register for KTZ, risk maps of KTZ, key risk indicators and risk tolerance levels of KTZ;
- 6) approval of the new edition of KTZ insurance programme project;
- 7) approval of KTZ's currency risk hedging strategy, associated with the payment of coupon interest and principal debt on KTZ's Eurobonds, redeemable in May 2016 in the amount of US\$324,000,000.

In order to improve the effectiveness of the corporate risk management system in 2013, the following key activities were conducted:

1. By resolution of the KTZ Managing Board on 1 March 2013 (Minutes № 02/8), the maximum allowable limits for direct (balance sheet) obligations to counterparty banks were approved. These limits are set in accordance with the policy for setting limits on balance sheet and off-balance sheet liabilities to counterparty banks for the Companies of JSC Samruk-Kazyna, approved by the decision of the Board of JSC Samruk-Kazyna on 28 November 2012 (Minutes № 51/12).
2. By resolution of the Board of Directors of KTZ on 14 May 2013 (Minutes № 5) the risk register and risk map, key risk indicators and risk tolerance levels for KTZ were approved.

3. By resolutions of KTZ's Board of Directors made on 14 May 2013 (Minutes № 5), 23 July 2013 (Minutes № 8) and 22 October 2013 (Minutes № 10) the reports on risk management containing descriptions and analysis of the key Company risks (including legal risks), information on compliance with exposure limits, as well as information on the implementation of plans to minimise the risks of the Company have all been taken into account.
4. By resolution of the Managing Board of KTZ made on 19 June 2013 (Minutes № 02/19) the maximum permissible limits for direct (balance sheet) obligations to counterparty banks were reappraised.
5. By resolution of the Managing Board of KTZ made on 17 October 2013 (Minutes № 02/31), the composition of the Risk Committee of KTZ members was amended due to changes in personnel.
6. By resolution of the Board of Directors of KTZ on 22 October 2013 (Minutes № 10), the risk register and risk map of KTZ was reappraised.
7. By resolution of the Board of Directors of KTZ made on 10 December 2013 (Minutes № 12), the limits for balance sheet and off-balance sheet liabilities to counterparty banks (Joint Stock Companies Tsesnabank and Halyk Bank) were adjusted.
8. By resolution of the KTZ Managing Board made on 31 December 2012 (Minutes № 02/39), the insurance programme for KTZ and its subsidiaries was approved.

Report on KTZ's adherence to its Code of Business Conduct

In order to implement the provisions of the Corporate Governance Code, the Board of Directors of KTZ on 19 March 2013 (Minutes № 2) resolved to approve the KTZ Code of Business Conduct.

The aim of the Code of Business Conduct is to develop and improve corporate culture, promote the effective interaction of KTZ officials/employees with interested parties through the use of business conduct practices.

The fundamental corporate values, which form the basis of KTZ's activity, are: honesty, integrity, respect for others and mutual trust.

Other key values of KTZ's corporate culture include: safety, protection of the environment, responsibility, sustainable development and mutual prosperity, teamwork, openness to development, professionalism and pride in what we do.

This Code applies to all officers and employees of KTZ.

KTZ officials and employees are responsible for the proper fulfilment of their duties in the interest of the Company and the Sole Shareholder.

Officials and employees shall provide each other with accurate information in a timely manner, without violating the rules of confidentiality and internal documents of the Company.

In order to ensure compliance with the Code of Business Conduct, regular monitoring and knowledge assessment of the rules and regulations of the Code have been introduced.

For clarification of the requirements of the Code, in the event of ethical issues arising or to report cases of breaches of the Code, officials and employees of KTZ and interested parties may contact:

- Their immediate supervisors or senior management;
- Corporate Secretary of KTZ;
- Head of the Internal Audit Service of KTZ;
- Chairman of Managing Board of KTZ;
- Board of Directors of KTZ.

CORPORATE GOVERNANCE

Corporate risk management

(Continued)

The Company discloses the 'Financial Instruments, objectives and financial risk management policies' note in the form of the audited annual consolidated and separate financial statements of KTZ.

The Company may be exposed to the following key risks, which could have an adverse effect on the Group's operations and the achievement of its strategic objectives:

Type of risk	Caused by	Accepted response
Reduction in freight traffic (market risk) due to renewed global economic crisis phenomena and fall of commodity prices	Worsening economic conditions may reduce the volume of goods being transported by rail, decrease productivity, increase the cost of marketed goods and rendered services as well as have a negative impact on the fulfilment of planned indicators.	The Company is taking steps to improve its efficiency and increase transit transportation, as well as on the implementation of anti-crisis measures (additional cost reduction).
Operational risks (risks related to traffic safety, occupational safety and protection of the environment)	The Group owns and operates the Republic of Kazakhstan's railway infrastructure and is the largest owner and operator of passenger and freight rolling stock and locomotives in the country. In this regard, the Group is exposed to the risks of traffic safety, including collisions, derailling of rolling stock of freight and/or passenger trains on main line, station and approach tracks and/or during shunting of rolling stock at stations, as well as due to natural disasters.	To manage this risk KTZ implements measures to strengthen prevention efforts and ensure the safe movement of trains. Within the framework of occupational injury risk management, KTZ is implementing measures to ensure occupational health and safety, occupational accident prevention and the improvement of working conditions. It also ensures compulsory insurance of workers against accidents whilst they perform their (official) duties.

Type of risk	Caused by	Accepted response
Currency risk	The Company is mainly exposed to risks associated with changes to the US dollar exchange rate due to the Company mainly attracting borrowings in US dollars, the devaluation of the tenge against the US dollar means an increase in foreign exchange losses.	<p>As part of managing this risk, the Company monitors on a daily basis the fluctuations in USD/KZT exchange rates, as well as other indicators, which affect the exchange rate: the exchange rates of USD/RUR and USD/EUR, oil and commodities prices. At the same time, in order to control foreign exchange risks associated with the management of temporarily available cash, the Company controls the level of temporarily free cash denominated in US dollars.</p> <p>By resolution of the Company's Board of Directors, dated 23 December 2010 (Minute No 9), a Hedging Policy of Currency and Interest Rate Risks has been adopted in the Company. The Policy was developed to minimise (decrease) the interest rate and currency risks, which may arise due to unfavourable changes in the exchange rate of the tenge against foreign currencies and adverse interest rate changes on loans with floating interest rates.</p>
Information and technology risks	The Group uses telecommunication networks and computer systems to co-ordinate schedules and other aspects of its rail operations, for accounting purposes, ticket sales, freight tracking and many other functions. The hardware and software used by the Group may potentially be damaged by human error, natural disasters, power outages, sabotage, computer viruses and other circumstances.	To reduce the risks of information technology failure as well as breaches in information security, and in order to comply with local regulations and corporate policy in the field of informational security and protection of professional, commercial and other secrets, protected by the legislation of the Republic of Kazakhstan, audits are held in the Group's business structures units on an annual basis. The Company has been certified under the international standard ISO/IEC 27001:2005 for Information Security.

Ownership structure

The portfolio composition of KTZ is represented by a vertically integrated company structure, functionally organised, with subsidiaries and jointly controlled entities engaged in core and non-core activities, having a geographical presence throughout the territory of Kazakhstan.

KTZ owns:

No	KTZ share	Organisation name
1	100% ordinary shares of JSC Almaty Car Repair Plant	The core activities of JSC Almaty Car Repair Centre are: providing all types of repair services for passenger cars including Roundhouse Servicing (DR), First Degree Overhaul (KR-1 Overhaul), Second Degree Overhaul (KR-2 Overhaul), Overhaul with Service Life Extension (KRV).
2	100% ordinary shares of JSC Militarised Railway Security	The principal activities of JSC Militarised Railway Security are: protecting the property of legal entities and individuals, including during transportation, consulting and giving recommendations on different forms of security and lawful protection against unlawful encroachments, as well as protection of life and health of individuals.
3	100% ordinary shares of JSC Vokzal-service	The core activities of JSC Vokzal-service are: organising and ensuring the proper operation of railway stations, servicing passengers at railway stations as well as rental of office, engineering and utility and commercial premises.
4	100% ordinary shares of JSC Kaztransservice	The core activities of JSC Kaztransservice are: provision of container transportation services (from executing consignors' orders to delivery of freight to consignees, managing the accounting work for and operation of freight cars and containers), and provision of all accompanying services to legal entities and individuals (for any route types).
5	100% ordinary shares of JSC Kaztemirtrans	The core activities of JSC Kaztemirtrans are: transportation of freight including oversized, special, military and hazardous freight by railway transport, car fleet management, accounting for the railway cars belonging to the company located within the territory of the Republic of Kazakhstan and beyond.
6	100% ordinary shares of KTZ Express	The principal activities of JSC KTZ Express are: provision of freight forwarding services, logistics, transportation of goods by road, rail, sea, river and air, coordination of freight wagons, container fleet and rolling stock, processing and storage of goods.

No	KTZ share	Organisation name
7	100% ordinary shares of JSC Locomotive	The principal activities of JSC Locomotive are: satisfying the requirements of carriers for traction rolling equipment in mainline and shunting services as well as meeting the needs of the mainline rail network operator for traction rolling equipment in shunting operations.
8	100% ordinary shares of JSC Locomotive Service Centre	The principal activities of JSC Locomotive Service Centre are: provision of services to ensure the technically sound and stable state of locomotives in operation, organisation of recreational services for locomotive crews, servicing the locomotives with oil, water and sand as well as the service and maintenance of the railway rolling stock.
9	100% ordinary shares of JSC Passenger Transportation	The core activities of JSC 'Passenger Transportation' are: organisation and provision of passenger, luggage, freight and post transportation by rail on international, inter-regional, inter-district and internal routes; maintenance, repair and operation of the passenger car fleet, quality and service culture assurance for passengers, ensuring the safety of passenger train traffic, passengers' life and health, as well as safety of luggage, freight and mail.
10	100% ordinary shares of JSC Remlocomotive	The main activities of JSC Remlocomotive are: organisation and execution of work on the manufacture, modernisation, major repair and maintenance of rolling stock; restoration, repair and manufacture of spare parts, tools, components, parts and assemblies.

CORPORATE GOVERNANCE

Ownership structure

(Continued)

No	KTZ share	Organisation name
11	100% ordinary shares of JSC Temirzholsu	The main activities of JSC Temirzholsu are: ensuring the timely and quality provision of potable and technical water as required by railway transport organisations and the public, collection, treatment and disposal of wastewater, maintenance of water supply and sanitation facilities.
12	100% ordinary shares of JSC Transtelecom	The main activities of JSC Transtelecom are: provision of local, long-distance and international communication services, audio and/or video conferencing, internet access services, leasing of communication channels, linking of networks and traffic transit, mobile radio telephone communications, cellular communications, creation and operation (subject to the main line operator's consent) of fibre-optic and copper cable communication networks, satellite and radio-relay telecommunication systems both in railway transport right-of-way and in any permitted locations.
13	100% ordinary shares in Transport Service Centre	The principal activities of JSC Transport Service Centre include the provision of railway approach line services to legal entities and individuals. The company is not currently operating and is undergoing liquidation.
14	65% ordinary shares of JSC Kazakh Academy of Transport and Communications	The main activities of JSC Kazakh Academy of Transport and Communications are: training personnel for the railway industry, urban electric transport, metro and road transport, as well as information technology and telecommunications specialists.
15	50% ordinary shares of JSC Locomotive Kurastyru Zauyty	The principal activities of JSC Locomotive Kurastyru Zauyty are: manufacture of locomotives and locomotive spare parts.
16	50% shares of Logistic System Management BV (LSM BV)	LSM BV is a holding company.

No	KTZ share	Organisation name
17	46.016% ordinary shares of JSC Doszhan Temir Zholy	The main fields of activity for JSC Doszhan Temir Zholy are: ensuring the performance of the concessionary agreement for the construction and operation of the new railway line: Shar Station – Ust-Kamenogorsk, operation of the Shar Station – Ust-Kamenogorsk railway line and other railway infrastructure as well as the transfer of railway lines into state ownership after the operational lifetime under the concessionary agreement expires.
18	23.43% ordinary shares of JSC Temirzhol Zhondeu	The main activities of JSC Temirzhol Zhondeu are: the organisation and performance of reconstruction work, major and interim track repair and other track facilities work, construction of new rail lines, operation, maintenance and repair of heavy track machinery, mechanisms and equipment, covering of rails and cross-ties, assembly and laying of track switches, freight transportation, transportation of track structure materials and bulky goods using own rolling stock.
19	13.403% ordinary shares of JSC Kaskor-Transservice	The principal activities of JSC Kaskor-Transservice are: cargo and passenger transportation, freight forwarding services, communication services, repair and construction of railways.
20	3.521% ordinary shares of JSC Accumulating Pension Fund of Halyk Bank of Kazakhstan (APF HBK)	The principal activities of APF HBK are the acceptance of pension contributions and payment of pensions as well as activities on the securities market.
21	100% interest in LLP Akzhayik-Zapad 2006	LLP Akzhayik-Zapad 2006 is not operating and is undergoing liquidation.
22	100% interest in LLP Lesozashita	LLP Lesozashita is not currently operating and is undergoing liquidation.
23	100% interest in LLP Scientific Research Institute of Transport	The main activities of LLP Scientific Research Institute of Transport are: research and development, design and experimental as well as planning and surveying work.

Ownership structure

(Continued)

№	KTZ share	Organisation name
24	100% interest in LLP Repair Corporation Kamkor	The main activities of LLP Repair Corporation Kamkor are: management of subsidiaries in which the partnership owns interest on rights of ownership; construction and repair of railway tracks; repair, modernisation and manufacture of railway rolling stock; repairs of special rolling stock; service and maintenance of railway rolling stock; design, construction, installation and servicing of alarm, signals and interlocking circuits (SCB) as well as of radio and communication devices.
25	100% ordinary shares in trust of JSC The Khorgos International Centre of Boundary Co-operation	The principal activities of JSC The Khorgos International Centre of Boundary Co-operation are: creation, development and maintenance of the Kazakhstani part of the International Border Cooperation Centre Khorgos's infrastructure, interaction with public authorities and economic entities operating in the Kazakhstani part of the Centre in order to achieve its goals, participation in the development and implementation of the Centre's ongoing and long-term development programmes.
26	100% ordinary shares in trust of JSC National Company Aktau International Commercial Sea Port	The main activities of JSC National Company Aktau International Commercial Sea Port are: loading, unloading and maintenance of CIS and other foreign country ships, freight forwarding, warehouse operations as well as transshipment of freight onto sea transport from other modes of transport and back, servicing and transporting of cargo and passengers using the port's ships on coastal and international voyages, bunkering operation, ensuring safe navigation in the waters of the port, maintenance and repair of ships and other marine vehicles and equipment.



CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the year ended december 31, 2013

Management of JSC National Company Kazakhstan Temir Zholy (the "Company") is responsible for the preparation of consolidated financial statements that present fairly the financial position of the Company and its subsidiaries (collectively, the "Group") as at December 31, 2013, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

In preparing the consolidated financial statements, 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 IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and,

- making an assessment of the Group's ability to continue as a going concern.

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 disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with local legislation and IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended December 31, 2013 were approved by management on March 14, 2014.

On behalf of management of the Group:

President
A.U. Mamin

**Vice-President
of Economics and Finance**
A.M. Lepsbayev

Chief Accountant
N. Kh. Abilova

March 14, 2014

March 14, 2014

March 14, 2014

Independent auditors' report

To the Board of Directors and Shareholder of JSC National Company Kazakhstan Temir Zholy: We have audited the accompanying consolidated financial statements of JSC National Company Kazakhstan Temir Zholy and its subsidiaries (collectively – the "Group"), which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated statements of profit or loss and other comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether

the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**Engagement Partner Chartered
Accountant Certificate of Public
Practice 78586 Australia**
Andrew Weekes

**Qualified auditor Qualification
certificate No.0000095 dated
August 27, 2012,
the Republic of Kazakhstan**
Dulat Taituleyev

March 14, 2014

General Director
Deloitte, LLP
Nurlan Bekenov

Deloitte, LLP
State license on auditing in the
Republic of Kazakhstan No.0000015,
type MFU-2,
issued by the Ministry of Finance of
the Republic of Kazakhstan dated
September 13, 2006

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2013
(in thousands of tenge)

	Notes	December 31, 2013	December 31, 2012 (restated)	January 1, 2012 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	5	1,980,001,42	1,644,295,01	1,295,772,517
Intangible assets	6	9,564,86	8,570,84	8,369,072
Investments in associates	7	1,943,78	2,633,74	2,186,636
Investments in joint ventures	7	24,746,57	12,845,45	2,752,868
Investment property	8	7,296,49	7,129,20	6,578,879
Asset held for the benefit of the Shareholder	13	10,757,88	7,000,00	-
Other financial assets	12	1,922,97	1,874,21	296,800
Other non-current assets	9	185,849,38	134,010,20	55,544,123
Total non-current assets		2,222,083,38	1,818,358,67	1,371,500,895
Current assets				
Inventories	10	37,723,90	34,510,57	42,105,512
Trade accounts receivable	11	8,107,14	7,784,11	4,610,897
Other financial assets	12	36,789,67	48,366,85	57,332,864
Prepaid income tax		2,194,08	2,549,67	6,386,247
Asset held for the benefit of the Shareholder	13	29,204,08	28,238,63	47,777,020
Loans given	14	3,639,29	-	-
Cash and cash equivalents	16	85,855,90	69,706,42	133,596,150
Restricted cash		1,170,37	1,178,13	1,477,440
Other current assets	15	60,709,41	48,160,36	38,855,924
		265,393,88	240,494,77	332,142,054
Assets classified as held for sale	17	-	37,720,51	-
Total current assets		265,393,88	278,215,28	332,142,054
Total assets		2,487,477,27	2,096,573,96	1,703,642,949
EQUITY AND LIABILITIES				
Equity				
Share capital	18	683,932,99	675,526,24	579,417,097
Additional paid-in capital and unissued share capital		242,447,85	43,407,83	103,121,474
Foreign currency translation reserve		(144,081)	(112,268)	(197,201)
Retained earnings		388,868,88	322,966,21	277,824,940
Equity attributable to owner of the Company		1,315,105,64	1,041,788,02	960,166,310
Non-controlling interests	35	14,065,37	7,522,57	6,155,366
Total equity		1,329,171,02	1,049,310,60	966,321,676

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2013 (CONTINUED)
(in thousands of tenge)

	Notes	December 31, 2013	December 31, 2012 (restated)	January 1, 2012 (restated)
Non-current liabilities				
Borrowings	19	295,369,33	220,128,87	178,248,140
Debt securities issued	20	338,063,63	331,688,96	154,927,950
Finance lease liabilities	21	3,413,41	4,546,06	5,016,103
Employee benefit obligations	22	27,737,06	27,211,58	23,439,160
Deferred income tax liability	23	225,465,88	153,590,26	121,030,361
Other non-current liabilities	26	25,010,25	25,215,74	179,704
Total non-current liabilities		915,059,59	762,381,50	482,841,418
Current liabilities				
Borrowings	19	34,868,84	29,166,06	35,694,957
Current portion of debt securities issued	20	1,866,15	7,587,53	2,056,610
Current portion of finance lease liabilities	21	450,64	552,251	614,257
Current portion of employee benefit obligations	22	2,490,34	2,485,74	2,083,485
Trade accounts payable	24	77,375,61	98,503,42	71,573,394
Income tax payable		1,339,27	91,648	117,074
Other taxes payable	25	10,154,71	9,494,68	7,785,408
Other current liabilities	26	114,701,05	120,325,66	134,554,670
		243,246,65	268,207,01	254,479,855
Liabilities directly associated with assets classified as held for sale	17	-	16,674,84	-
Total current liabilities		243,246,65	284,881,85	254,479,855
Total liabilities		1,158,306,24	1,047,263,35	737,321,273
Total equity and liabilities		2,487,477,27	2,096,573,96	1,703,642,949

A.U. Mamin
President

March 14, 2014

A.M. Lepesbayev
Vice-President of
Economics and Finance

March 14, 2014

N. Kh. Abilova
Chief Accountant

March 14, 2014

The notes below form an integral part of the consolidated financial statements.

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2013**
(in thousands of tenge)

	Notes	2013	2012 (restated)
Continuing operations			
Revenue			
Freight transportation		742,800,361	686,097,952
Passenger transportation		73,549,271	63,484,428
Government grants		23,880,765	22,148,264
Other revenue	27	33,335,306	32,728,012
Total revenue		873,565,703	804,458,656
Cost of sales	28	(576,862,081)	(549,358,013)
Gross profit		296,703,622	255,100,643
General and administrative expense	29	(94,155,179)	(79,619,964)
Selling expenses		(154,403)	(193,391)
Loss from impairment of property, plant and equipment	5	(1,523,433)	(101,945)
Other income and expense		3,815,236	5,661,151
Finance income	30	5,703,644	4,353,838
Finance costs	31	(37,811,417)	(30,024,236)
Foreign exchange loss		(8,012,635)	(4,109,145)
Share of profit of associates	7	432,057	489,452
Share of loss of joint ventures	7	(4,701,206)	(561,661)
Profit before taxation		160,296,286	150,994,742
Income tax expense	23	(39,048,623)	(31,022,566)
Profit for the year from continuing operations		121,247,663	119,972,176
Discontinued operations			
Loss for the year from discontinued operations	17	(2,812,097)	(1,109,451)
Profit for the year		118,435,566	118,862,725
Other comprehensive loss, net of income tax			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Actuarial remeasurement of defined benefit obligation	22	(3,808,063)	(2,402,869)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Foreign currency translation (loss)/gain		(31,813)	84,933
Other comprehensive loss for the year		(3,839,876)	(2,317,936)
Total comprehensive income for the year		114,595,690	116,544,789
Profit for the year attributable to:			
Owner of the Company		115,627,571	117,772,108
Non-controlling interests	35	2,807,995	1,090,617
		118,435,566	118,862,725
Total comprehensive income attributable to:			
Owner of the Company		111,787,767	115,454,172
Non-controlling interests		2,807,923	1,090,617
		114,595,690	116,544,789
Earnings per share from continuing and discontinued operations (in whole tenge)	33	235	240
Earnings per share from continuing operations (in whole tenge)	33	241	242

A.U. Mamin
President

March 14, 2014

A.M. Lepesbayev
Vice-President of
Economics and Finance
March 14, 2014N. Kh. Abilova
Chief Accountant

March 14, 2014

The notes below form an integral part of the consolidated financial statements.

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013**
(in thousands of tenge)

	Notes	2013	2012 (restated)
Cash flows from operating activities:			
Profit for the year		118,435,566	118,862,725
Income tax expense recognized in profit or loss		39,124,709	31,382,376
Adjustments for:			
Depreciation and amortization		90,624,626	77,744,796
Finance costs		37,974,159	30,538,415
Allowance for unrecoverable value added tax	9	3,845,992	180,792
Provision on legal claims	29	(907,721)	99,277
Loss from impairment of property, plant and equipment	5	1,523,433	101,945
Loss on disposal of property, plant, and equipment and other fixed assets		404,391	640,221
Finance income		(5,706,120)	(4,386,239)
Accrual of defined benefit plan		(1,254,018)	3,684,888
Share of profit of associates	7	(432,057)	(489,452)
Share of loss of joint ventures	7	4,701,206	561,661
Recovery of allowance for obsolete and slow-moving inventories	10	(148,070)	(32,931)
Allowance for doubtful debts		1,535,663	1,497,821
Unused vacation provision expense		535,279	941,400
Foreign exchange loss		8,066,197	4,343,631
Loss on disposal of assets related to discontinued operations	17	2,274,564	-
Other		(498,577)	(338,160)
Operating income before changes in working capital		300,099,222	265,333,166
Increase in trade accounts receivable		(1,338,033)	(8,924,513)
Decrease in inventories		1,028,942	1,317,325
Decrease/(increase) in other current and non-current assets (including non-current VAT recoverable)		867,202	(20,682,088)
Increase in trade accounts payable		11,583,973	19,054,628
(Decrease)/increase in other taxes payable		(22,100,874)	1,320,472
Increase/(decrease) in other current liabilities		8,775,589	(2,688,788)
Decrease in employee benefit obligations		(2,023,966)	(1,889,242)
Decrease in other non-current liabilities		(18,886)	(9,361)
Cash generated from operations		296,873,169	252,831,599
Interest paid		(41,399,092)	(22,054,866)
Interest received		5,020,020	3,258,839
Income tax paid		(3,872,389)	(5,125,637)
Net cash flows from operating activities		256,621,708	228,909,935

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)
(in thousands of tenge)

	Notes	2013	2012 (restated)
Cash flows from investing activities:			
Purchase of property, plant and equipment		(466,475,313)	(497,685,779)
Purchase of intangible assets		(2,827,957)	(2,604,920)
Proceeds from disposal of property, plant and equipment and other non-current assets		1,392,402	3,650,968
Purchase of other non-current assets		(11,315,142)	(7,377,801)
Acquisition of subsidiaries, less cash and cash equivalents acquired	32	(6,606,733)	-
Purchase of investments in associates		(2,177,211)	-
Purchase of investments in joint ventures		(3,724,340)	(1,269,261)
Purchase of available for sale investments		-	(573,327)
Purchase of other financial assets		(38,684,386)	(105,085,403)
Proceeds from sale of other financial assets		50,805,737	111,705,784
Loans given	14	(10,000,000)	-
Repayment of loans given	14	6,000,000	-
Net cash inflows associated with disposal of a subsidiary	17	4,088,122	-
Net cash flows used in investing activities		(479,524,821)	(499,239,739)
Cash flows from financing activities:			
Receipt of payment for unissued share capital	18	30,000,000	4,000,000
Proceeds from borrowings		283,996,501	190,063,370
Bonds issued		-	173,418,791
Repayments of borrowings		(44,744,451)	(111,072,657)
Dividends and distributions paid		(25,406,373)	(34,219,790)
Purchase of asset held for the benefit of the Shareholder		(3,757,881)	(14,916,953)
Repayments of finance lease liabilities		(1,369,118)	(607,852)
Net cash flows from financing activities		238,718,678	206,664,909
Net increase/(decrease) in cash and cash equivalents		15,815,565	(63,664,895)
Cash and cash equivalents at the beginning of the year	16	69,726,277	133,596,150
Effect of foreign exchange rates on cash and cash equivalents		314,060	(204,978)
Cash and cash equivalents at the end of the year	16	85,855,902	69,726,277
Non-cash transactions:			
Additions of property, plant and equipment as a contribution to share capital		2,992,994	5,514,165
Fair value adjustments on loans received from the Shareholder, recognized in equity	18	148,219,928	33,601,679
Additions of property, plant and equipment within accounts payable		21,073,300	14,554,719
Capitalization of interest expense		3,906,368	1,806,889
Railway administrations debt offset		1,636,176	4,707,817
Contribution of non-current assets to the share capital of LLP Tulpar Talgo	7	-	9,384,985
Acquisition of shares of JSC Kazakh Academy of Transport and Communication	9,26	-	6,996,752
Fair value adjustments on loans given to joint venture, recognized in investment in joint venture	14	589,813	-
Purchase of other non-current assets within accounts payable		838,774	-
Additions of property, plant and equipment for the borrowing funds directly transferred by bank to supplier		17,854,093	-

A.U. Mamin
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Vice-President of
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Chief Accountant

March 14, 2014

March 14, 2014

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The notes below form an integral part of the consolidated financial statements.

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2013
(in thousands of tenge)

	Share capital	Additional paid-in capital and unissued share capital	Foreign currency translation reserve	Retained earnings	Equity attributable to owner of the Parent	Non-controlling interests	Total equity
As at December 31, 2012 (restated)	675,526,248	43,407,831	(112,268)	322,966,218	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)
Comprehensive income for the year	-	-	(31,813)	111,819,580	111,787,767	2,807,923	114,595,690
Contribution from Shareholder (Note 18)	2,976,983	30,016,011	-	(1,859,405)	31,133,589	-	31,133,589
Contribution of entity under common control (Note 18)	-	26,233,840	-	(26,233,840)	-	-	-
Transfer due to legal registration of shares issuance (Note 18)	5,429,760	(5,429,760)	-	-	-	-	-
Dividends declared (Note 18)	-	-	-	(16,999,211)	(16,999,211)	(407,162)	(17,406,373)
Distribution (Notes 18 and 26)	-	-	-	(824,455)	(824,455)	-	(824,455)
Contribution - Adjustment of loan to the fair value, net of deferred tax of 37,054,982 thousand tenge (Notes 19 and 23)	-	148,219,928	-	-	148,219,928	-	148,219,928
Acquisition of subsidiaries (Note 32)	-	-	-	-	-	4,142,036	4,142,036
As at December 31, 2013	683,932,991	242,447,850	(144,081)	388,868,887	1,315,105,647	14,065,376	1,329,171,023

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)

(in thousands of tenge)

	Share capital	Additional paid-in capital and unissued share capital	Foreign currency translation reserve	Retained earnings	Equity attributable to owner of the Parent	Non-controlling interests	Total equity
As at January 1, 2012 (as previously reported)	579,417,097	103,121,474	(197,201)	261,978,267	944,319,637	6,158,078	950,477,715
Adjustments (Note 3)	-	-	-	15,846,673	15,846,673	(2,712)	15,843,961
As at January 1, 2012 (restated)	579,417,097	103,121,474	(197,201)	277,824,940	960,166,310	6,155,366	966,321,676
Profit for the year	-	-	-	117,772,108	117,772,108	1,090,617	118,862,725
Other comprehensive loss for the year	-	-	84,933	(2,402,869)	(2,317,936)	-	(2,317,936)
Comprehensive income for the year	-	-	84,933	115,369,239	115,454,172	1,090,617	116,544,789
Contribution to share capital (Note 18)	4,084,405	5,429,760	-	-	9,514,165	-	9,514,165
Transfer due to legal registration of shares issuance (Note 18)	92,024,746	(92,024,746)	-	-	-	-	-
Dividends declared (Note 18)	-	-	-	(36,866,070)	(36,866,070)	-	(36,866,070)
Distribution (Notes 18 and 26)	-	-	-	(32,958,124)	(32,958,124)	-	(32,958,124)
Contribution - Adjustment of loan to the fair value, net of deferred tax of 6,720,336 thousand tenge (Notes 19 and 23)	-	26,881,343	-	-	26,881,343	-	26,881,343
Change of non-controlling interests in subsidiaries	-	-	-	(403,767)	(403,767)	276,596	(127,171)
As at December 31, 2012 (restated)	675,526,248	43,407,831	(112,268)	322,966,218	1,041,788,029	7,522,579	1,049,310,608

A.U. Mamin
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JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

(in thousands of tenge unless otherwise stated)

1. GENERAL INFORMATION

JSC National Company Kazakhstan Temir Zholy (the "Company") was organized in Kazakhstan in accordance with Resolutions of the Government of the Republic of Kazakhstan (the "Government") for the purpose of establishing a holding company for the Government's railway industry assets. The Company was registered on May 15, 2002. The consolidated financial statements include the results of the operations of the Company, and its wholly owned subsidiaries (collectively, the "Group"). The address of the Company's registered office is: 6 D.Kunayev st., Astana, 010000, the Republic of Kazakhstan.

The Government represented by JSC National welfare fund Samruk-Kazyna (the Ministry of Transportation and Communication of the Republic of Kazakhstan before June 8, 2006; JSC Kazakhstan Holding for the Management of State Assets Samruk before October 17, 2008) is the sole shareholder of the Company (the "Shareholder").

The Government controls the structure of the Group and establishes the long-term strategy of the railway operations in the Republic of Kazakhstan. Since 1997, the Government has been in the process of restructuring the rail system in Kazakhstan which included the establishment of the Group, the segregation of the passenger and cargo transportation and the associated rail tariffs and the introduction of Government subsidies for passenger travel. The Group's development strategy through 2020 assumes significant investment in the railway assets. Within this strategy the Group has developed a detailed restructuring action plan, which will result in the establishment of JSC KTZh-Infrastructure and JSC NC KTZh (corporate center), JSC KTZh-Cargo Transportations, JSC KTZh-Passenger Transportations and JSC KTZh-Production and Repair.

The Group operates a Government regulated nationwide railway system providing freight transportation, passenger transportation and maintenance of railway infrastructures within the Republic of Kazakhstan. As part of the regulation of the rail industry in Kazakhstan, the Government sets the tariffs which the Group charges its freight and passenger customers, and also partially subsidizes certain passenger transportation activities through government grants. These regulated tariffs differ based on the type of transportation provided. The tariff for freight transportation in international transit direction is not regulated by the Government.

In 2013 and 2012 the Group, with the Government's permission, increased freight transportation tariffs by an average of 8.4% and 15%, respectively, and passenger transportation tariffs for international, interregional and inter-district direction by 7% and 10%, respectively. Government grants provided to the Group have also increased.

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)*(in thousands of tenge unless otherwise stated)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared on a going concern basis.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Adoption of new and revised standards

Standards and Interpretations adopted during the current year:

In the current year, the following new and revised Standards have been adopted and have affected the amounts reported in these financial statements.

New and revised standards on consolidation, joint arrangements, associates and disclosure

The Group has applied retrospectively a package of five Standards on consolidation, joint arrangements, associates and disclosures, including IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interest in Other Entities*, IAS 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*.

The key requirements of these five standards are described below.

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)*(in thousands of tenge unless otherwise stated)*

IFRS 10 replaced the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. SIC-12 *Consolidation – Special Purpose Entities* has been withdrawn. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

The Group assessed whether the consolidation conclusion under IFRS 10 differs from IAS 27 /SIC 12 as at January 1, 2013. The Group concluded that the adoption of IFRS 10 did not result in any change in the consolidation status of its subsidiaries.

IFRS 11 replaced IAS 31 *Interests in Joint Ventures*. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* has been withdrawn. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting. The adoption of IFRS 11 did not result in changes to the Group's consolidated financial statements.

IFRS 12 *Disclosure of Interests in Other Entities* is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (Note 7).

IFRS 13 Fair Value Measurement

IFRS 13 *Fair Value Measurement* establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures amount fair value measurements, except in specified circumstances. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

IAS 19 (as revised in 2011) Employee Benefits

The amendments to IAS 19 *Employee Benefits* change the accounting for defined benefit plans and termination benefits. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income.

As a result, the Group recognised all past service costs when they occurred adjusting its financial statements retrospectively. See Note 3 for the effect of adoption of revised IAS 19 on the previously reported amounts. Management of the Group believes that the effect of this application of the amendments to IAS 19 is insignificant to the consolidated financial statements of the Group.

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)***(in thousands of tenge unless otherwise stated)*

In addition, the Group adopted the amendments to various other standards that were part of the annual initiative aimed at the general improvement of the effective IFRS. These amendments were related to certain expressions and issues regarding presentation of consolidated financial statements, and issues of recognition and appraisal. The improvements have led to a number of changes in the detail of the Group's accounting policies – some of which are changes in terminology only, and have had no effect on amounts reported.

Standards and Interpretations in issue to be adopted in future periods:

At the date of authorization of these consolidated financial statements the following Interpretations and Standards were in issue but not yet effective:

	Effective for annual periods beginning on or after
IFRS 9 Financial instruments	January 1, 2015
Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date of IFRS 9 and Transition Disclosures	January 1, 2015
Amendments to IAS 32 Financial Instruments: Offsetting Financial Assets and Financial Liabilities	January 1, 2014
Amendments to IFRS 10, IFRS 12 Investment Entities and IAS 27	January 1, 2014
Amendments to IAS 36 Impairment of Assets	January 1, 2014
Amendments to IAS 39 Financial Instruments: Recognition and Measurement	January 1, 2014
IFRIC 21 Levies	January 1, 2014

Management anticipates that the adoption of the above standards will not have a material impact on the consolidated financial statements of the Group in the period of initial application.

Critical accounting judgments and estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments and use estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on historical experience and other factors that are considered to be relevant, events or actions may mean that actual results ultimately differ from those estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)***(in thousands of tenge unless otherwise stated)**Control assessment**Control over JSC National Company Aktau International Sea Commercial Port*

JSC National Company Aktau International Sea Commercial Port is recognized as a subsidiary of the Group (Notes 3, 18 and 35), although the Group does not legally own shares in JSC National Company Aktau International Sea Commercial Port. The Group assessed whether it has control over JSC National Company Aktau International Sea Commercial Port, considering all relevant facts and circumstances arising from a trust management agreement concluded with JSC National Welfare Fund Samruk-Kazyna, the legal owner, in respect of its 100% ownership interest in JSC National Company Aktau International Sea Commercial Port. As a result, the Group concluded that the Group controls Aktau International Sea Commercial Port. In making their judgment, management of the Group considered the broad power granted to the Group by the sole shareholder, which gives the Group the practical ability to unilaterally direct the relevant activities of JSC National Company Aktau International Sea Commercial Port to affect its returns to the Group.

Control over Tulpar-Talgo LLP

Tulpar-Talgo LLP is not recognized as a subsidiary of the Group (Note 7), although the Group holds a 99.99% interest in Tulpar-Talgo LLP. The Group has no control over Tulpar-Talgo LLP, due to an option contract whereby Talgo Kazajstan S.L. may re-acquire 49.99% of the charter capital of Tulpar-Talgo LLP. Consequently, the Group recognizes Tulpar-Talgo LLP as joint venture and accounts for it using the equity method.

Control over airports

On May 8, 2013 the Group, represented by the subsidiary JSC National Centre for Transport Logistics Development, and the Committee of the state property and privatization of the Ministry of Finance of the Republic of Kazakhstan (hereinafter - the "Committee") entered into an agreement on the trust management of 100% state-owned shares of joint-stock companies Kokshetau Aircompany, Petropavlovsk International Airport, Astana International Airport, Kostanay International Airport, which are owned by the Ministry of Transport and Communications of the Republic of Kazakhstan. The Group has not recognized the airports as subsidiaries of the Group, as the Group is acting as an agent and does not control these airports, exercising its decision making authority delegated to the Group by the Committee for and on behalf of the Committee. This agreement does not entitle the Group to any returns from the operating activities of the airports.

Control over JSC Khorgos International Centre of Boundary Cooperation

On July 1, 2011 the Group entered into a trust management agreement with the Committee in respect of the entire equity interest in JSC Khorgos International Centre of Cross-border Cooperation (hereinafter, "Khorgos"), a state-owned company. The Group has not recognized Khorgos as a subsidiary as the Group is acting as an agent, exercising decision-making authority for and on behalf of the Committee, and does not control the entity. This agreement does not entitle the Group to any returns from the operating activities of Khorgos.

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)***(in thousands of tenge unless otherwise stated)*Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

The assessment of whether there is an indication of impairment is based on a number of factors, such as change in expectations of growth in the railway industry, estimates of future cash flows, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances.

If any such indication exists, the recoverable amount of the asset is estimated and compared to the carrying amount of the asset. If the carrying amount exceeds the recoverable amount an impairment is recorded. The recoverable amount is the greater of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that management believes reflects the current market assessment of the time value of money and the risks specific to the assets. A change in the estimated recoverable amount could result in an impairment, or reversal of an impairment, in future periods.

Post-employment benefits

The Group operates a defined benefit pension scheme which has been accounted for in accordance with IAS 19 *Employee Benefits*. Application of IAS 19 requires the exercise of judgment in relation to various assumptions used in determining the benefit obligation including future annual minimum pay rises, employer and pensioner demographics, discount rates and the expected rate of future annual railway ticket price increases. The Group bases IAS 19 estimates on, amongst other things, historical experience and recommendations from its actuaries. A change in assumptions could have a significant impact on its future operating results. See further information in Note 22.

Inventory valuation

Inventory is valued at the lower of cost or net realizable value. The Group records an allowance to reduce the carrying value of obsolete and slow-moving inventory to net realizable value, when appropriate. The actual value realized on disposition of such inventory may differ from the net realizable value; any such difference could have a significant impact on future operating results.

Recoverability of VAT

At each reporting date the Group assesses the recoverability of VAT arising on sales to customers on international transportation. The Group cannot charge VAT onwards to these customers, and accordingly can only receive these amounts through a collection from the tax authorities. In assessing the recoverability of the VAT receivable, the Group considers information from its internal tax department regarding projected collection of VAT, correspondence with government tax authorities, and historical recovery experience. The actual amount of VAT recovered could differ materially from the Group's estimate and this could materially impact future operating results.

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)***(in thousands of tenge unless otherwise stated)*Depreciation of property, plant and equipment

Depreciation of property, plant and equipment is computed using the straight-line method over estimated useful lives. The estimates of useful lives, residual values and methods of depreciation are reviewed at each reporting date, and adjusted if appropriate. Any changes are accounted for prospectively as a change in accounting estimate. Estimates of the useful lives and residual value of these assets are based on the expected economic use, repair and maintenance programs, and volume of activity, technological advancements and other business conditions and may require significant future expenditures in order to maintain the property to a high level. If these assumptions were to change, it could result in significantly different depreciation amounts than those previously recorded.

Income taxes

Kazakhstan legislative acts and regulations are not always clearly written. Instances of inconsistent opinions between local, regional and national tax authorities are possible. Where additional taxes are imposed by the tax authorities penalties and interest applied are significant; penalties are generally assessed at 50% of the additional taxes accrued, and interest is assessed at 13.75% of taxes not settled on a timely basis. As a result, penalties and interest can exceed the amount of additional accrued taxes.

Because of the uncertainties disclosed above, the ultimate amount of taxes, penalties and interest, if any, imposed may be in excess of the amount expensed to date and accrued as at December 31, 2013. Any difference between the estimated amount and the actual amount paid, if any, could have a significant impact on future operating results.

Loans from the Shareholder at a rate below the market interest rate

The Group receives loans from the Shareholder at a rate below the market rate of interest for similar loans in arms length transactions. These loans are initially recognized at the fair value of the consideration received less directly attributable transaction costs. The Group calculates the fair value of these loans using market rates on governmental long-term treasury bonds with comparable maturities and recognizes an adjustment to the loan value (less the related deferred tax) within additional paid-in capital. When no comparable maturities exist, the Group extrapolates the most comparable market rates to the life of the loan received by the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and entities controlled by the Company and its subsidiaries listed in Note 35.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intragroup transactions, balances, and unrealized gains and losses on transactions between Group companies are eliminated on consolidation.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method of accounting except for business combinations between entities under common control. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

The identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 "Share Based Payment" at the acquisition date; and
- assets (or disposal groups) that are 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.

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Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the fair value of the net identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

Goodwill arising on acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. The Group tests goodwill for impairment annually or more frequently when there is indication that the goodwill may be impaired. The goodwill is allocated to each of the Group's cash generating units (or groups of cash generating units) that is expected to benefit from the synergies of combination. Any impairment loss for goodwill is recognised directly in profit or loss and is not reversed in subsequent periods.

Business combinations under common control

Business combinations of entities under common control (entities controlled by the Government of Kazakhstan) are accounted for on a historical cost basis, which results in the historical book value of assets and liabilities of the acquired entities being combined with that of the Group. The consolidated financial statements of the Group reflect the effect of the combination, as if it occurred, at the beginning of the earliest period presented.

Any difference between the amount recorded as share capital issued and the amount recorded for the share capital acquired is adjusted against retained earnings in the consolidated statement of changes in equity.

Functional and presentation currency

The Group's consolidated financial statements are presented in Kazakhstan tenge ("tenge" or "KZT"). The functional currency of the Company and of its subsidiaries is also the tenge. The functional currency of the Group's branches in Russia is the Russian ruble. The assets and liabilities of these branches are translated into tenge at the exchange rate effective at the reporting date and the profit and loss items are translated into tenge at the weighted-average exchange rate for the year. Exchange rate differences arising on translation are recorded directly to other comprehensive income. Upon disposal of a foreign operation, all of the accumulated exchange differences related to that specific foreign operation are recognized in profit or loss.

The 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 ruling at the date of the transaction using market rates, fixed by the Kazakhstan Stock Exchange ("KASE"). For foreign currencies which are not quoted by KASE, the exchange rates are calculated by the National Bank of Kazakhstan using cross-rates to the US Dollar ("USD" or "US\$") in accordance with quotations received from Reuters.

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Monetary assets and liabilities that are denominated in foreign currencies are translated to the entity's functional currency at the exchange rate effective at the reporting date with all differences arising from a change in exchange rates subsequent to the date of a transaction recognized in profit or loss. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The following table summarizes the foreign currency exchange rates for tenge at:

	December 31, 2013	December 31, 2012
US Dollar	153.61	150.74
Swiss Franc	172.34	165.09
Russian Ruble	4.69	4.96

Weighted-average tenge exchange rates for the years ended December 31 were as follows:

	2013	2012
US Dollar	152.13	149.11
Swiss Franc	164.20	159.06
Russian Ruble	4.78	4.80

Recognition of financial instruments

The Group recognizes financial assets and liabilities on its consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognized using trade date accounting.

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received; including or net of any transaction costs incurred and subsequently recorded at either fair value or amortized cost.

Fair value is generally determined by reference to official market quotes. When market quotes are not available, the fair value is determined using generally accepted valuation methods such as discounted future cash flows based on observable market inputs.

Amortized cost is calculated using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial assets

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" ("FVTPL"), "held-to-maturity" investments, "available-for-sale" ("AFS") financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

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FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)*(in thousands of tenge unless otherwise stated)**Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank, cash in transit, cash on hand and short-term deposits with an original maturity of three months or less.

Held-to-maturity investments

Held-to-maturity investments are debt securities with fixed or determinable payments that the Group has the positive intent and ability to hold to maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL. AFS financial assets are accounted for at the fair value as of the end of each reporting period.

AFS financial assets are stated at fair value at the end of each reporting period. AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Trade receivables are recognized and carried at the original invoice amount less an allowance for doubtful debts.

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 less any impairment.

Impairment of financial assets

Financial assets, except for assets stated at FVTPL, are assessed for evidence of impairment at each reporting date. Financial assets are impaired when there is objective evidence that as a result of one or several events occurring after initial recognition of the financial asset there was in value. Such events include a significant change in estimated future cash flows on the investment, significant financial difficulty of the issuer or counterparty, breach of contract terms, creditors providing preferential conditions, borrower's encountering financial difficulties, it becoming probable that the borrower will enter bankruptcy, collapse of active market for the financial asset etc. For financial assets stated at amortized cost the amount of impairment represents the difference between the carrying value of the asset and present value of the estimated future cash flows discounted at the initial effective interest rate.

The carrying value of a financial asset is reduced by the impairment loss directly on all financial assets, except for trade accounts receivable, where the carrying value is decreased by use of the allowance for doubtful debts.

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An allowance for doubtful debts is recognized when the trade receivable is not collected within its contractual terms, and collection of the full amount is no longer considered probable. The allowance for doubtful debts is reviewed periodically, and as adjustments become necessary, they are reported in profit or loss in the period in which they become known. Bad debts are written-off when identified against an allowance previously recognized.

If in the subsequent period the amount of the impairment loss is decreased and the decrease can be objectively related to the event occurring after recognition of impairment, then the previously recognized impairment loss is reversed in profit or losses to the extent to which the carrying value of the investment at the date of reverse does not exceed the amount of amortized value, if impairment had not been recognized.

*Financial liabilities**Trade and other accounts payable*

Trade and other accounts payable are initially measured at fair value and subsequently revalued at amortized cost using the effective interest method.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

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

Gains and losses, other than borrowing costs eligible for capitalization (for example, commission on guarantees of third parties), are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

Offsetting

Financial assets and liabilities are only offset and reported at the net amount in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and the Group intends to either settle on a net basis or to realize the asset and settle the liability simultaneously.

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)***(in thousands of tenge unless otherwise stated)**Derecognition of financial assets and liabilities**Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement and has transferred substantially all the risks and rewards 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 rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards and continues to control 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 lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability (or a part of financial liability) is derecognized when the obligation under the liability is discharged, cancelled or expires.

Inventories

Inventories largely comprise items that are used in the operation of the railway lines and railway vehicles and are not held for trading purposes.

Inventories are valued at the lower of cost or net realizable value. Costs comprise of charges incurred to bring the inventory to its present location and condition for its intended use. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and costs necessary to make the sale. Inventory is valued on a weighted-average cost basis.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

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

Property, plant and equipment

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

The cost of purchased property, plant and equipment is the cash paid or fair value of the consideration given to acquire the assets and the value of other directly attributable costs, which have been incurred in bringing the assets to their location and condition necessary for their intended use.

The cost of assets constructed by the Group includes the cost of all materials used in construction, direct labor on the project, finance costs that are directly attributable to the project, and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalized as when the asset is ready for its intended use.

At times the Group will enter into a finance lease for equipment to be installed on a project. While that equipment is being prepared for installation it is not in use and therefore is recorded in capital construction in progress. Once ready for use, the equipment is transferred to the relevant asset category to which it relates and accounted for as described in this policy.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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 year the asset is derecognized.

Subsequent expenditure**Track renewals and major capital replacements**

Expenditures relating to track renewals are capitalized to the extent that the flow of the future economic benefits is probable and these expenditures can be reliably measured. The replaced assets are valued at the lower of cost and net realizable value and transferred to inventories or property, plant and equipment, as applicable. The excess of the carrying value of the replaced assets over their net realizable values is recognized as an expense in profit or loss. All expenditures relating to track renewals that do not provide future economic benefit are expensed immediately in profit or loss.

Depreciation

Property, plant and equipment, excluding land and capital construction in process, are depreciated on a straight-line basis over the estimated useful lives of the assets, as the Group believes that the wear and tear on each category of assets is spread evenly over the useful life. The estimated useful lives used by the Group in all reporting periods presented are as follows (in years):

Buildings and construction	18-45
Railway infrastructure	10-80
Machinery and equipment	3-30
Railway transport	15-32
Other transport	5-20
Other	3-40

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Land and capital construction in progress are not depreciated. Capital construction in progress is transferred to the appropriate asset category upon completion and then depreciated as described above. The estimated useful life and depreciation method are reviewed at the end of each annual reporting period taking into account any changes in assessment in the future.

Intangible assets

Intangible assets are stated at cost less accumulated amortization and impairment loss. Intangible assets primarily include software and software licenses. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets of more than one year and up to 10 years. The estimated useful life and amortization method are reviewed at the end of each annual reporting period taking into account any changes in assessment in the future.

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation of investment property is expensed based on a straight-line basis.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (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 the property is derecognized.

Investment properties are depreciated on a straight-line basis over the estimated useful lives of the assets as follows (in years):

Buildings	45
Machinery and equipment	4-20

Impairment of tangible and intangible assets excluding goodwill

At each reporting date the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. The recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that management believes reflects current market assessment of the time value of money and the risks specific to the assets.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

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VAT receivable is generated on sales to customers on international transportation where the Group incurs VAT costs (through fuel and other operating costs) but does not legally have the right to charge VAT to the customer. All VAT on such transactions can be collected from the Kazakhstan tax authorities. At the end of each reporting period an analysis is performed by the Company's tax department, in conjunction with the Kazakhstan tax authorities, to determine the amount that is expected to be collected in the upcoming 12 months. The amount expected to be recovered within 12 months is recorded in other current assets. The Group estimates the amount of the non-current asset that it believes it will recover and establishes an allowance against the remaining balance.

Investments in associates and joint ventures

The Group's investments in its associates and joint ventures are accounted for using the equity method of accounting. Associates are entities in which the Group has significant influence and which are neither subsidiaries nor joint ventures of the Group. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The investment in associates and joint ventures are carried in the consolidated statement of financial position at cost adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates and joint ventures. When the Group's share of losses of these entities exceeds the Group's interest in that entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the entity), the Group discontinues recognising its share of further losses. The consolidated statement of profit or loss and other comprehensive income reflects the Group's share of the results of operations of the associates and joint ventures.

Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

Borrowing costs

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets as part of the cost of that asset. Investment income from a temporary investment of certain loans, expecting to be used on qualifying assets, is deducted from borrowing costs on loans fit for capitalization.

Borrowing costs also include the exchange differences arising from loans in foreign currencies to the extent to which they are considered to be an interest expense adjustment. The exchange difference amount capitalized as an interest expense adjustment must not exceed the interest expense amount which would be capitalized by the Group if the loan was received in the local currency. Any excess of exchange difference is recognized in profit or loss.

All other borrowing costs, including any excess exchange differences, are recognized in profit or loss in the period in which they are incurred.

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In accordance with the Labor Union Agreement the Group provides certain benefits to its employees upon their retirement ("Defined Benefit Scheme"). Pursuant to this agreement, the Group provides the following benefits under an unfunded scheme:

- one-time retirement grant;
- annual financial support to pensioners;
- free train passenger tickets;
- funeral aid; and
- financial assistance on denture treatment.

The obligation and cost of benefits under the Defined Benefit Scheme are determined using the projected unit credit method. This method considers each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The cost of providing benefits is charged to the consolidated statement of profit or loss and other comprehensive income, so as to attribute the total benefit cost over the service lives of employees in accordance with the benefit formula of the plan. This obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest on government bonds where the currency and terms of these bonds are consistent with the currency and estimated terms of the defined benefit obligation.

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss in the line items 'cost of sales' and/or 'general and administrative expense' (Note 22). Curtailment gains and losses are accounted for as past service costs.

The Group presents the 'Remeasurement' component in other comprehensive income.

For other long-term employee benefits, the Group recognises the 'Remeasurement' component in profit or loss.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Equity*Share capital*

Common shares are classified as equity. Costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. All non-cash contributions to share capital are assessed at fair value as at the date of the contribution by an independent appraiser. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

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Consideration received for common shares yet to be issued is recognized as unissued share capital until such time as the common shares are issued, when such proceeds are transferred to share capital.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorized for issue.

Distributions

Distributions are recognized in equity when the Group has irrevocably committed to transfer cash or non-cash assets to its Shareholder/ultimate Shareholder and the amount of the commitment can be reliably measured. Distributions are recognized in equity at their fair value, net of any related deferred tax effects, where appropriate.

Recognition of revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and measured based upon the fair value of the consideration received or receivable.

In respect of services related to transportation, revenue is recognized by reference to the stage of completion of the transportation at the reporting date provided that the stage of completion of the transportation and the amount of revenue can be measured reliably. The extent of completion of the cargo transportation process is calculated as the ratio of services volume, provided as at the reporting date to the total services volume according to information on the dates of cargo departure and arrival (intersection of joint station).

Prepayments received from customers relating to transportation services that have not been initiated are recognized as "Advances received from customers". Upon commencement of the services, the amount related to that service is reclassified to deferred income under the "Other current liabilities" caption in the consolidated statement of financial position. Deferred income is credited to revenue as the service is provided.

Income relating to services for the use of wagons is recognized in the period of use of the Group's wagons.

In respect to the sale of goods, revenue is recognized when the goods are delivered and titles have passed, at which time all of the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be reliably measured;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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The Group is eligible to receive a subsidy, in the form of a Government grant, for a portion of the costs of transporting passengers on socially important routes within the Republic of Kazakhstan, as defined by the Government. The Group, along with other railway companies in the Republic of Kazakhstan, submits an application for these grants to the Government on an annual basis. If awarded the contract, the Group is eligible for a subsidy of the costs to transport passengers on the socially important routes within the Republic of Kazakhstan up to a pre-budgeted amount, which is determined by the Government.

Government grants are recognized in profit or loss in the period in which the transportation is provided to the passengers at the reduced tariffs set by the Government when there is reasonable assurance that the Group will comply with the conditions attaching to the grants and the collection of the grant funds can be reasonably assured.

Taxes*Current tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, 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 arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized.

Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current tax liabilities and deferred taxes relate to the same taxable entity and the same taxation authority.

Current and deferred income tax are recognised as an expense or benefit in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Leases*Operating leases*

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

Finance leases

The Group recognizes assets under finance leases in the consolidated statement of financial position at amounts equal to the fair value of the leased property at the commencement of the lease term or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as finance lease obligation. In calculating the present value of minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

A finance lease gives rise to depreciation expense for the asset as well as a finance expense for each accounting period. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned if the lease period is greater than that period. If the term of the lease is less than the depreciation period of similar fixed assets, the leased asset is depreciated based on the lease period.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). When some or all of the economic

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benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**3. CHANGE IN CLASSIFICATION, RETROSPECTIVE APPLICATION OF
AMENDMENTS TO IFRS, BUSINESS COMBINATION UNDER COMMON CONTROL***IAS 19 Employee Benefits*

According to the Amendments to IAS 19, the Group has revised comparative information as at January 1 and December 31, 2012.

Business combination under common control

In November 2013, in accordance with Government Degree #1539 dated December 4, 2012 and based on the agreement on trust management, the sole Shareholder transferred its 100% ownership interest in JSC National Company Aktau International Sea Commercial Port for trust management to the Group.

As the transfer of shares of JSC National Company Aktau International Sea Commercial Port represents a business combination under common control, these consolidated financial statements have been prepared as if the transfer of JSC National Company Aktau International Sea Commercial Port had occurred at the beginning of the earliest period presented (i.e. January 1, 2012), and, as a result, the related comparative data as at December 31, 2012 and January 1, 2012 have been restated.

Change in classification

In 2013 the Group revised its presentation of interest received on bank deposits in the consolidated statement of cash flows. The Group now presents the interest received on bank deposits within operating activities, where previously it was presented within investing activities. As a result, the Group has reclassified comparative information for year ended December 31, 2012 in accordance with the presentation of financial information adopted for the year ended December 31, 2013.

The effect of the changes described in the previous four paragraphs on the corresponding financial information at January 1 and December 31, 2012 as well as for the year ended December 31, 2012 is presented in the table below:

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(in thousands of tenge unless otherwise stated)

Effect on the consolidated statement of financial position

	As previously reported	IAS 19 (2011)	Business combination under common control	Restated
At December 31, 2012				
ASSETS				
Non-current assets				
Property, plant and equipment	1,618,330,771	-	25,964,239	1,644,295,010
Intangible assets	8,522,684	-	48,163	8,570,847
Other financial assets	-	-	1,874,213	1,874,213
Other non-current assets	133,189,328	-	820,872	134,010,200
Total non-current assets	1,789,651,189	-	28,707,487	1,818,358,676
Current assets				
Inventories	33,794,699	-	715,879	34,510,578
Trade accounts receivable	7,689,604	-	94,509	7,784,113
Other financial assets	43,050,711	-	5,316,139	48,366,850
Prepaid income tax	2,125,829	-	423,841	2,549,670
Cash and cash equivalents	67,313,397	-	2,393,032	69,706,429
Restricted cash	223,531	-	954,603	1,178,134
Other current assets	47,688,985	-	471,378	48,160,363
Total current assets	267,845,906	-	10,369,381	278,215,287
Total assets	2,057,497,095	-	39,076,868	2,096,573,963
LIABILITIES AND EQUITY				
Equity				
Retained earnings	305,078,378	(5,195,539)	23,083,379	322,966,218
Equity attributable to owner of the Company	1,023,900,189	(5,195,539)	23,083,379	1,041,788,029
Non-controlling interests	7,525,291	(2,712)	-	7,522,579
Total equity	1,031,425,480	(5,198,251)	23,083,379	1,049,310,608
Non-current liabilities				
Borrowings	210,731,801	-	9,397,078	220,128,879
Employee benefit obligations	21,581,319	5,197,526	432,738	27,211,583
Deferred income tax liability	150,504,835	-	3,085,426	153,590,261
Other non-current liabilities	25,150,747	-	64,998	25,215,745
Total non-current liabilities	744,203,735	5,197,526	12,980,240	762,381,501
Current liabilities				
Borrowings	27,279,361	-	1,886,700	29,166,061
Current portion of employee benefit obligations	2,387,767	-	97,981	2,485,748
Trade accounts payable	98,355,798	-	147,623	98,503,421
Income tax payable	89,812	-	1,836	91,648
Other taxes payable	9,488,936	-	5,746	9,494,682
Other current liabilities	119,452,297	-	873,363	120,325,660
Liabilities directly associated with assets classified as held for sale	16,674,119	725	-	16,674,844
Total current liabilities	281,867,880	725	3,013,249	284,881,854
Total liabilities	1,026,071,615	5,198,251	15,993,489	1,047,263,355
Total equity and liabilities	2,057,497,095	-	39,076,868	2,096,573,963

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FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)

(in thousands of tenge unless otherwise stated)

	As previously reported	IAS 19 (2011)	Business combination under common control	Restated
At January 1, 2012				
ASSETS				
Non-current assets				
Property, plant and equipment	1,269,468,987	-	26,303,530	1,295,772,517
Intangible assets	8,356,743	-	12,329	8,369,072
Other financial assets	-	-	296,800	296,800
Other non-current assets	55,428,341	-	115,782	55,544,123
Total non-current assets	1,344,772,454	-	26,728,441	1,371,500,895
Current assets				
Inventories	41,484,666	-	620,846	42,105,512
Trade accounts receivable	4,568,143	-	42,754	4,610,897
Other financial assets	51,221,664	-	6,111,200	57,332,864
Prepaid income tax	5,538,970	-	847,277	6,386,247
Cash and cash equivalents	130,211,949	-	3,384,201	133,596,150
Restricted cash	224,665	-	1,252,775	1,477,440
Other current assets	38,437,374	-	418,550	38,855,924
Total current assets	319,464,451	-	12,677,603	332,142,054
Total assets	1,664,236,905	-	39,406,044	1,703,642,949
LIABILITIES AND EQUITY				
Equity				
Retained earnings	261,978,267	(5,631,253)	21,477,926	277,824,940
Equity attributable to owner of the Company	944,319,637	(5,631,253)	21,477,926	960,166,310
Non-controlling interests	6,158,078	(2,712)	-	6,155,366
Total equity	950,477,715	(5,633,965)	21,477,926	966,321,676
Non-current liabilities				
Borrowings	167,374,546	-	10,873,594	178,248,140
Employee benefit obligations	17,455,418	5,633,965	349,777	23,439,160
Deferred income tax liability	118,599,053	-	2,431,308	121,030,361
Other non-current liabilities	104,554	-	75,150	179,704
Total non-current liabilities	463,477,624	5,633,965	13,729,829	482,841,418
Current liabilities				
Borrowings	33,119,423	-	2,575,534	35,694,957
Current portion of employee benefit obligations	1,985,504	-	97,981	2,083,485
Trade accounts payable	70,963,528	-	609,866	71,573,394
Income tax payable	107,835	-	9,239	117,074
Other taxes payable	7,779,382	-	6,026	7,785,408
Other current liabilities	133,655,027	-	899,643	134,554,670
Total current liabilities	250,281,566	-	4,198,289	254,479,855
Total liabilities	713,759,190	5,633,965	17,928,118	737,321,273
Total equity and liabilities	1,664,236,905	-	39,406,044	1,703,642,949

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)

(in thousands of tenge unless otherwise stated)

Effect on the consolidated statement of profit or loss and other comprehensive income

	As previously reported	IAS 19 (2011)	Business combination under common control	Restated
For the year ended December 31, 2012:				
Other revenue	24,058,149	-	8,669,863	32,728,012
Total revenue	795,788,793	-	8,669,863	804,458,656
Cost of sales	(547,142,199)	2,418,6	(4,634,452)	(549,358,013)
Gross profit	248,646,594	2,418,6	4,035,411	255,100,643
General and administrative expense	(78,800,676)	379,7	(1,199,027)	(79,619,964)
Other income and expense	5,605,289	-	55,862	5,661,151
Finance income	3,991,446	-	362,392	4,353,838
Finance costs	(29,188,901)	-	(835,335)	(30,024,236)
Foreign exchange loss	(4,053,360)	-	(55,785)	(4,109,145)
Profit before taxation	145,832,847	2,798,377	2,363,518	150,994,742
Income tax expense	(30,304,707)	-	(717,859)	(31,022,566)
Profit for the year from continuing operations	115,528,140	2,798,37	1,645,659	119,972,176
Profit for the year	114,418,689	2,798,37	1,645,659	118,862,725
Actuarial remeasurement of defined benefit obligation	-	(2,362,663)	(40,206)	(2,402,869)
Other comprehensive income/(loss) for the year	84,933	(2,362,663)	(40,206)	(2,317,936)
Total comprehensive income for the year	114,503,622	435,714	1,605,453	116,544,789
Profit for the year attributable to the owner of the Company (thousand tenge)	113,328,072	2,798,37	1,645,659	117,772,108
Earnings per share from continuing and discontinued operations (in whole tenge)	231	6	3	240
Profit for the year from continuing operations attributable to the owner of the Company (thousand tenge)	114,437,523	2,798,37	1,645,659	118,881,559
Earnings per share from continuing operations (in whole tenge)	233	6	3	242

Effect on the consolidated statement of cash flows

	As previously reported	Reclassifications	Business combination under common control	Restated
For the year ended December 31, 2012:				
Cash flows from operating activities	221,663,352	3,258,839	3,987,744	228,909,935
Cash flows used in investing activities	(493,490,252)	(3,258,839)	(2,490,648)	(499,239,739)
Cash flows from/(used in) financing activities	209,175,805	-	(2,510,896)	206,664,909
Net increase/(decrease) in cash and cash equivalents	(62,651,095)	-	1,013,800	(63,664,895)
Effect of foreign exchange rates on cash and cash equivalents	(227,609)	-	22,631	(204,978)

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)

(in thousands of tenge unless otherwise stated)

4. SEGMENT INFORMATION

The Group determines reportable segments based on the services provided, and consequently the Group discloses two segments: cargo transportation and passenger transportation. All other segments include mainly communication services, utilities services, loading and unloading services and vessels servicing, which in aggregate do not exceed quantitative thresholds for disaggregation, and thus are not separately disclosed.

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

The Group monitors multiple measures of segment profitability such as profit before taxation, profit for the year and gross profit. However, profit for the year from continuing operations is the primary measure used for the purpose of resource allocation and assessment of segment performance. The Group does not have a specified pricing policy for inter-segmental sales, however in general intersegment transactions are charged at prevailing market prices.

	For the year ended December 31, 2013			
	Cargo transportation	Passenger transportation	All other segments	Total
Key operating measures				
Revenue				
Transportation	771,487,429	75,626,319	-	847,113,748
Government grants	-	23,880,765	-	23,880,765
Other revenue	18,312,991	3,783,242	30,625,259	52,721,492
Intersegment revenue	(31,224,586)	(2,614,905)	(16,310,811)	(50,150,302)
Revenue	758,575,834	100,675,421	14,314,448	873,565,703
Cost of sales	(489,927,305)	(82,164,126)	(4,770,650)	(576,862,081)
General and administrative expense	(81,274,639)	(6,944,216)	(5,936,324)	(94,155,179)
Selling expenses	(154,403)	-	-	(154,403)
Finance income	4,740,517	279,161	683,966	5,703,644
Finance costs	(34,479,155)	(1,104,341)	(2,227,921)	(37,811,417)
Foreign exchange loss	(7,837,733)	49,567	(224,469)	(8,012,635)
Loss from impairment of property, plant and equipment	(1,410,805)	(77,621)	(35,007)	(1,523,433)
Share of profit/(loss) of associates	665,480	-	(233,423)	432,057
Share of profit/(loss) of joint ventures	777,880	-	(5,479,086)	(4,701,206)
Other income and expense	2,129,886	1,494,801	190,549	3,815,236
Income tax expense	(34,239,815)	(3,046,812)	(1,761,996)	(39,048,623)
Profit for the year from continuing operations	117,565,742	9,161,834	(5,479,913)	121,247,663
Other key segment information				
Capital expenditures for property, plant and equipment	372,335,883	40,965,869	15,966,317	429,268,069
Depreciation of property, plant and equipment	80,478,342	6,145,354	4,818,007	91,441,703

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)

(in thousands of tenge unless otherwise stated)

	For the year ended December 31, 2012 (restated)			
	Cargo transportation	Passenger transportation	All other segments	Total
Key operating measures				
Revenue				
Transportation	711,871,117	65,291,005	-	777,162,122
Government grants	-	22,148,264	-	22,148,264
Other revenue	17,321,763	3,269,149	32,884,691	53,475,603
Intersegment revenue	(27,961,455)	(2,216,426)	(18,149,452)	(48,327,333)
Revenue	701,231,425	88,491,992	14,735,239	804,458,656
Cost of sales	(468,755,736)	(75,187,023)	(5,415,254)	(549,358,013)
General and administrative expense	(70,341,996)	(5,226,346)	(4,051,622)	(79,619,964)
Selling expenses	(193,391)	-	-	(193,391)
Finance income	3,701,777	233,473	418,588	4,353,838
Finance costs	(28,426,360)	595,853	(2,193,729)	(30,024,236)
Foreign exchange loss	(3,952,174)	120,938	(277,909)	(4,109,145)
Loss from impairment of property, plant and equipment	(137,786)	(23,481)	59,322	(101,945)
Share of profit of associates	489,452	-	-	489,452
Share of loss of joint ventures	-	-	(561,661)	(561,661)
Other income and expense	4,730,951	872,920	57,280	5,661,151
Income tax expense	(28,349,761)	(1,772,544)	(900,261)	(31,022,566)
Profit for the year from continuing operations	109,996,401	8,105,782	1,869,993	119,972,176
Other key segment information				
Capital expenditures for property, plant and equipment	442,968,339	20,895,716	10,021,393	473,885,448
Depreciation of property, plant and equipment	67,874,284	5,514,157	4,101,526	77,489,967

Geographical information for the Group

The Group derives its revenues from customers in multiple geographical regions. The table below provides revenue based on customer country of domicile for each of the years ended December 31.

Customer country of domicile	2013	2012 (restated)
Kazakhstan	867,306,230	789,131,688
Russia	4,933,932	8,631,408
Other	1,325,541	6,695,560
	873,565,703	804,458,656

Substantially all of the Group's non-current assets are in Kazakhstan.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)

(in thousands of tenge unless otherwise stated)

5. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the year ended December 31, 2013 was as follows:

	Land	Buildings and construction	Railway infrastructure	Machinery and equipment	Railway transport	Other transport	Other	Capital construction in progress	Total
Historical cost:									
As at December 31, 2012									
Acquired	1,979,290	151,992,544	667,976,311	215,696,993	875,971,649	13,340,137	14,113,825	141,336,193	2,049,217,220
Additions	42,865	2,344,398	394,214	4,540,875	153,959,494	3,755,173	3,276,469	279,636,469	429,269,367
Acquired through business combination (Note 12)	1,740,448	9,203,861	-	242,674	-	24,879	231,879	-	11,475,730
Transfers	71,965	6,876,250	48,989,299	13,783,965	11,644,930	1,084,365	2,384,993	(96,969,519)	-
Depreciation	(24,274)	(391,981)	(117,972)	(1,314,299)	(9,899,643)	(93,967)	(237,439)	-	(11,882,607)
Transfer to inventory	-	(986)	(9,899,794)	(146,111)	(21,096)	(22,198)	(79,317)	(1,649,794)	(13,779,610)
Transfer to intangible assets (Note 6)	-	-	-	(192,843)	-	-	(745)	(1,411,766)	(1,605,354)
Transfer to investment property (Note 6)	(3,954)	(417,871)	-	(161,877)	-	-	-	-	(573,702)
As at December 31, 2013	1,834,430	192,493,117	705,749,852	216,424,394	961,421,854	26,496,731	19,698,133	267,407,132	2,429,152,720
Accumulated depreciation and impairment:									
As at December 31, 2012									
As at December 31, 2012	-	(17,699,827)	(95,340,491)	(69,971,226)	(199,879,794)	(6,971,690)	(4,980,247)	(4,449,477)	(371,822,210)
Charge for the year	-	(5,647,612)	(29,654,874)	(39,274,894)	(163,989,369)	(1,379,285)	(1,722,155)	-	(391,441,760)
Loss from impairment for the year	-	(40,969)	(114,973)	(19,823)	(3,771)	(39,226)	(19,433)	(967,291)	(1,224,633)
Transfers	-	15,671	44,181	1,218,628	11,255,036	897	34,842	-	13,528,346
Depreciation	-	194,273	64,181	1,131,137	9,291,982	69,784	218,019	-	11,609,387
Transfer to inventory	-	180	4,632,291	67,361	26,240	39	4,717	-	4,726,612
Transfer to intangible assets (Note 6)	-	-	-	31,291	-	-	19	-	31,310
Transfer to investment property (Note 6)	-	45,716	-	-	-	-	-	-	45,716
As at December 31, 2013	-	(23,861,761)	(145,711,842)	(88,795,196)	(274,699,690)	(7,446,743)	(6,182,561)	(1,612,789)	(499,151,620)
Net book value:									
As at December 31, 2013	1,834,430	168,631,356	560,037,960	126,629,198	786,721,164	19,050,000	13,515,572	265,794,343	1,930,001,100

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FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)

(in thousands of tenge unless otherwise stated)

The movement of property, plant and equipment for the year ended December 31, 2012 was as follows:

	Land	Buildings and construction	Railway infrastructure	Machinery and equipment	Railway transport	Other transport	Other	Capital construction in progress	Total
Historical cost:									
As at December 31, 2011 (restated)	1,833,630	139,837,341	772,736,810	214,762,689	190,939,813	13,887,668	16,933,226	181,627,299	1,466,071,676
Additions	364,292	170,492	279,623	14,629,187	261,297,629	1,881,869	1,227,640	191,284,380	473,881,448
Disposals	(13,793)	(3,000,047)	(196,999,871)	(31,499,046)	(281,76,843)	(78,155)	(3,288,732)	(17,937,134)	(283,116,367)
Transfers to inventory	484,676	(476,673)	(2,019,049)	(1,660,574)	(6,534,629)	(13,189)	(218,276)	(9,248,535)	(20,112,479)
Transfers to other non-current assets	-	(988,176)	(511,276)	(94,376)	-	-	-	(1,493,828)	(1,984,626)
Transfers from non-current assets (Note 8)	-	-	-	14,826	-	-	-	(2,241,715)	(2,226,889)
Reclassified as held for sale (Note 17)	(18,000)	(9,811,190)	-	(8,811,622)	(46,812)	(1,28,276)	(389,141)	(349,818)	(17,211,421)
Transfer to investment property (Note 9)	-	(791,089)	-	(173,422)	-	-	-	-	(964,511)
As at December 31, 2012 (restated)	1,976,290	131,602,244	665,676,114	214,866,099	623,611,619	16,541,137	14,513,027	181,076,093	2,613,217,229
Accumulated Depreciation and Impairments									
As at December 31, 2011 (restated)	-	(16,961,641)	(76,458,611)	(71,661,621)	(112,266,411)	(5,177,522)	(4,064,412)	(3,863,680)	(316,394,999)
Charge for the year	-	(5,547,741)	(19,791,996)	(17,346,114)	(14,127,671)	(5,137,619)	(1,192,511)	-	(77,499,667)
Loss from impairment for the year	-	31,240	64,346	34,766	69,996	(3,322)	1,891	(181,751)	(163,945)
Transfers	-	(41,213)	(66,994)	26,276	(1,184)	39,396	6,217	-	-
Disposals	-	189,690	1,701,498	1,661,272	5,218,919	97,689	198,962	-	8,646,712
Transfer to inventory	-	-	(3,669,428)	(6,646)	21	2,613	138	-	(3,611,418)
Transfer from intangible assets (Note 8)	-	-	-	(1,736)	-	-	-	-	(1,736)
Reclassified as held for sale (Note 17)	-	736,761	-	1,374,272	14,219	42,142	69,113	-	2,212,415
Transfer to investment property (Note 9)	-	11,314	-	56,630	-	-	-	-	67,944
As at December 31, 2012 (restated)	-	(17,469,627)	(95,369,461)	(88,071,220)	(119,219,966)	(6,893,880)	(4,966,232)	(4,945,432)	(371,822,218)
Net book value:									
As at December 31, 2012 (restated)	1,976,290	117,465,717	570,306,653	196,811,769	641,892,423	6,272,137	9,547,595	176,130,661	2,241,395,011

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In 2013 the Group received train stations and passenger platforms of 2,976,983 thousand tenge from the Shareholder, which is recognized as a contribution to share capital (2012: cargo carriages of 5,429,760 thousand tenge were recognised as a Shareholder contribution in additional paid-in capital in the statement of changes in equity) (Note 18).

As at December 31, 2013 and 2012, property, plant and equipment of the Group with a carrying value of 153,138,190 thousand tenge and 54,246,713 thousand tenge, respectively, was pledged as collateral for a portion of the Group's borrowings (Note 19).

As at December 31, 2013 and 2012, the cost of fully depreciated property, plant and equipment which was still in use, amounted to 196,677,251 thousand tenge and 185,537,366 thousand tenge, respectively.

As at December 31, 2013 the carrying value of property, plant and equipment under finance lease included in machinery and equipment and railway transport amounted to 6,190,687 thousand tenge (December 31, 2012: 6,674,426 thousand tenge).

6. INTANGIBLE ASSETS

The movement of intangible assets for the year ended December 31, 2013 was as follows:

	Licenses	Software	Other ⁽¹⁾	Goodwill	Total
Cost:					
As at December 31, 2012 (restated)	808,203	13,303,050	404,953	322,335	14,838,541
Additions	105,734	172,511	4,679	-	282,924
Business acquisitions (Note 32)	592	6,862	-	-	7,454
Transfer from inventory	7,589	163,901	-	-	171,490
Transfer from property, plant and equipment (Note 5)	311,965	2,254,824	38,526	-	2,605,315
Transfers	(14,750)	14,752	(2)	-	-
Disposals	(1,440)	(222,008)	(201)	-	(223,649)
As at December 31, 2013	1,217,893	15,693,892	447,955	322,335	17,682,075
Accumulated amortization:					
As at December 31, 2012 (restated)	(577,387)	(5,628,409)	(61,898)	-	(6,267,694)
Charge for the year	(47,606)	(1,945,745)	(54,493)	-	(2,047,844)
Transfer from property, plant and equipment (Note 5)	-	(23,314)	-	-	(23,314)
Transfers	539	(1,647)	1,108	-	-
Disposals	677	220,913	52	-	221,642
As at December 31, 2013	(623,777)	(7,378,202)	(115,231)	-	(8,117,210)
Net book value as at December 31, 2013	594,116	8,315,690	332,724	322,335	9,564,865

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FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)

(in thousands of tenge unless otherwise stated)

The movement of intangible assets for the year ended December 31, 2012 was as follows:

	Licenses	Software	Other ⁽¹⁾	Goodwill	Total
Cost:					
As at December 31, 2011 (restated)	782,575	11,267,762	837,465	322,335	13,210,137
Additions	563	214,358	53,695	-	268,616
Business acquisitions (Note 32)	-	-	-	-	-
Transfer from inventory	-	136,337	-	-	136,337
Transfer from/(to) property, plant and equipment (Note 5)	41,098	2,047,533	156,262	-	2,244,893
Transfers	(10,011)	(16,171)	26,182	-	-
Reclassified as held for sale (Note 17)	-	(212,759)	(668,651)	-	(881,410)
Disposals	(6,022)	(134,010)	-	-	(140,032)
As at December 31, 2012 (restated)	808,203	13,303,050	404,953	322,335	14,838,541
Accumulated amortization:					
As at December 31, 2011 (restated)	(539,170)	(4,095,098)	(206,797)	-	(4,841,065)
Charge for the year	(152,631)	(1,696,601)	(21,594)	-	(1,870,826)
Transfer (from)/to property, plant and equipment (Note 5)	-	3,720	-	-	3,720
Transfers	108,427	16,174	(124,601)	-	-
Reclassified as held for sale (Note 17)	-	10,142	291,094	-	301,236
Disposals	5,987	133,254	-	-	139,241
As at December 31, 2012 (restated)	(577,387)	(5,628,409)	(61,898)	-	(6,267,694)
Net book value as at December 31, 2012 (restated)	230,816	7,674,641	343,055	322,335	8,570,847

As at December 31, 2013 the cost of fully amortized intangible assets, represented by software used by the Group in operations, which were still in use amounted to 2,563,214 thousand tenge (December 31, 2012: 1,821,584 thousand tenge).

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FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)

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7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates comprised the following as at December 31, 2013 and 2012:

	LLP Aktobe rail and section mill plant	Logistic System Management B.V. (JSC Kedentransservice)	Other	Total
Investments at December 31, 2011	-	2,186,636	-	2,186,636
Share of profit	-	489,452	-	489,452
Dividends received	-	(42,342)	-	(42,342)
Investments at December 31, 2012	-	2,633,746	-	2,633,746
Acquisitions	2,158,386	-	18,825	2,177,211
Share of (loss)/profit	(228,034)	665,480	(5,389)	432,057
Transfer to joint ventures	-	(3,066,714)	-	(3,066,714)
Dividends received	-	(232,512)	-	(232,512)
Investments at December 31, 2013	1,930,352	-	13,436	1,943,788

Details of each of the Group's significant associates at December 31 are as follows:

Name of associate	Principal activity	Place of incorporation and principal place of business	Nature of relations between the Group and its associates, and whether it is strategically important for the Group	Fair value of investments (if the investments are accounted for using the equity method, if quoted market prices for investment are available)
At December 31, 2012				
Logistic System Management B.V. (JSC Kedentransservice)	Forwarding services, handling rolling stock, terminal service	Kazakhstan	Operator of container transportation and terminal services for container transportation at Dostyk station.	Unquoted
At December 31, 2013				
LLP Aktobe rail and section mill plant	Production and sales of metal roll	Kazakhstan	Established to provide the Group with modern rails.	Unquoted

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As at December 31 and for the years then ended, summary financial information for the Group's investments in associates is as follows:

	December 31, 2013	December 31, 2012
	LLP Aktobe rail and section mill plant	Logistic System Management B.V. (JSC Kedentransservice)
Current assets	1,704,036	3,302,702
Non-current assets	15,512,078	6,878,915
Total assets	17,216,114	10,181,617
Current liabilities	99,379	1,791,715
Non-current liabilities	10,682,227	408,855
Total liabilities	10,781,606	2,200,570
Net assets	6,434,508	7,981,047
Proportion of the Group's ownership interest	30.00%	33.00%
Group's share of net assets of associates	1,930,352	2,633,746
Carrying amount of the Group's interest in associates	1,930,352	2,633,746

	LLP Aktobe rail and section mill plant	Logistic System Management B.V. (JSC Kedentrans- service)	2013 Total	Logistic System Management B.V. (JSC Kedentrans- service)	2012 Total
Revenue	-	32,086,790	32,086,790	17,293,142	17,293,142
(Loss) / profit from continuing operations	(760,112)	2,016,606	1,256,494	1,483,187	1,483,187
(Loss)/profit for the year	(760,112)	2,016,606	1,256,494	1,483,187	1,483,187
Total comprehensive income for the year	(760,112)	2,016,606	1,256,494	1,483,187	1,483,187
Group's share of (loss)/profit of associates	(228,034)	665,480	437,446	489,452	489,452

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(in thousands of tenge unless otherwise stated)

Aggregate information for other associates of the Group:

	December 31, 2013	December 31, 2012
The Group's share of loss from continuing operations	(1,343,660)	(902,796)
The Group's share of total comprehensive loss	(1,343,660)	(902,796)
Recognised share of loss for the year	(5,389)	-
Unrecognised share of loss for the year	(1,338,271)	(902,796)

¹The unrecognized share of losses relate to associates whose cumulative share of losses exceed the Group's interest in the entity, and for which the Group has not incurred legal or constructive obligations or made payments on behalf of the associate.

As of December 31, 2012, the Group had a 33% interest in its associate JSC Kedentransservice. In May 2013 the Group contributed its 33% share in associate JSC Kedentransservice in exchange for a 33% interest in Logistic System Management B.V. Logistic System Management B.V. is a newly-formed holding company whose only investment is JSC Kedentransservice. This exchange transaction lacked commercial substance and did not result in any changes to the accounting for the Group's investment.

In December 2013, the Group acquired an additional 17% share in Logistic System Management B.V. for 3,251,928 thousand tenge. As a result of this incremental acquisition, the Group now has a 50% interest in Logistic System Management B.V. and has joint control. The Group's investment was reclassified as a joint venture.

Investments in joint ventures comprised the following as at December 31, 2013 and 2012:

	LLP Electrovoz kurastyru zaulyty	LLP Tulpar- Talgo	Logistic System Management B.V.	JSC Locomotive Kurastyru Zaulyty	Other	Total
Investments at December 31, 2011	2,752,868	-	-	-	-	2,752,868
Acquisitions	1,269,261	9,384,985	-	-	-	10,654,246
Share of (loss)/profit	(189,177)	(372,484)	-	-	-	(561,661)
Investments at December 31, 2012	3,832,952	9,012,501	-	-	-	12,845,453
Acquisitions	-	819,690	3,253,657	9,071,018	391,250	13,535,615
Share of (loss)/profit	(251,674)	(5,227,412)	-	628,504	149,376	(4,701,206)
Transfer from associates	-	-	3,066,714	-	-	3,066,714
Investments at December 31, 2013	3,581,278	4,604,779	6,320,371	9,699,522	540,626	24,746,576

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Details of each of the Group's material joint ventures at December 31 are as follows:

Name of joint ventures	Principal activity	Place of principal place of business	Place of incorporation (if different from principal place of business)	Nature of relations between the Group and its associates, and whether it is strategically important for the Group	Fair value of investments (if the investments are accounted for using the equity method, if quoted market prices for investment are available)
At December 31, 2012					
LLP Electrovoz kurastyru zauyty	Cargo and passenger electric locomotives production	Kazakhstan	Kazakhstan	JV satisfies the need of the Group in electric locomotives, thus ensuring the sustainability of transport activities. JV is strategically important for the Group	Unquoted
LLP Tulpar-Talgo	Passenger wagons production	Kazakhstan	Kazakhstan	JV satisfies the need of the Group in high-speed passenger carriages. JV is strategically important for the Group	Unquoted
At December 31, 2013					
LLP Electrovoz kurastyru zauyty	Cargo and passenger electric locomotives production	Kazakhstan	Kazakhstan	JV satisfies the need of the Group in electric locomotives, thus ensuring the sustainability of transport activities. JV is strategically important for the Group	Unquoted
LLP Tulpar-Talgo	Passenger wagons production	Kazakhstan	Kazakhstan	JV satisfies the need of the Group in high-speed passenger carriages. JV is strategically important for the Group	Unquoted
JSC Locomotive Kurastyru Zauyty	Assembly of locomotives	Kazakhstan	Kazakhstan	JV satisfies the need of the Group in diesel locomotives, thus ensuring the sustainability of transport activities. JV is strategically important for the Group	Unquoted
Logistic System Management B.V. (former JSC Kedentransservice)	Forwarding services, handling rolling stock, terminal service	Kazakhstan	Netherlands	Operator of container transportation and terminal services for container transportation at Dostyk station.	Unquoted

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As at December 31, 2013 and for the year then ended, summary financial information for the Group's investments in joint ventures is as follows:

	LLP Electrovoz kurastyru zauyty	LLP Tulpar-Talgo	Logistic System Management B.V.	JSC Locomotive Kurastyru Zauyty	Total
Current assets	10,270,836	8,438,971	4,826,664	35,694,977	59,231,448
<i>Including cash and cash equivalents</i>	25,566	96,060	773,664	5,003,082	5,898,372
Non-current assets	19,315,284	10,779,929	7,437,672	16,352,904	53,885,789
Total assets	29,586,120	19,218,900	12,264,336	52,047,881	113,117,237
Current liabilities	9,377,553	14,493,161	2,727,460	23,069,356	49,667,530
<i>Including current financial liabilities (excluding trade and other payables and provisions)</i>	601,567	3,639,298	37,321	3,684,092	7,962,278
Non-current liabilities	13,046,012	120,926	243,803	7,311,107	20,721,848
<i>Including non-current financial liabilities (excluding trade and other payables and provisions)</i>	6,762,134	-	-	5,328,347	12,090,481
Total liabilities	22,423,565	14,614,087	2,971,263	30,380,463	70,389,378
Net assets	7,162,555	4,604,813	9,293,073	21,667,418	42,727,859
Proportion of the Group's ownership interest	50.00%	99.999%	50.00%	50.00%	
Group's share of net assets of joint ventures	3,581,278	4,604,779	4,646,537	10,833,709	23,666,303
Goodwill	-	-	1,673,834	-	1,673,834
Fair value adjustment of the remaining interest	-	-	-	(1,134,187)	(1,134,187)
Carrying amount of the Group's interest in joint ventures at December 31, 2013	3,581,278	4,604,779	6,320,371	9,699,522	24,205,950
Revenue	20,205,980	28,651,968	-	25,061,388	73,919,336
Depreciation and amortisation	(528,803)	(512,775)	-	(1,099,149)	(2,140,727)
Finance income	12	-	-	56,383	56,395
Finance costs	(384,792)	(246,235)	-	(193,065)	(824,092)
Income tax expense (income)	2	(80,975)	-	(1,929,090)	(2,010,063)
(Loss) / profit from continuing operations	(503,348)	(5,227,451)	-	1,257,007	(4,473,792)
(Loss) / profit for the year	(503,348)	(5,227,451)	-	1,257,007	(4,473,792)
Total comprehensive (loss) / income for the year	(503,348)	(5,227,451)	-	1,257,007	(4,473,792)
Group's share of (loss)/profit of joint ventures for 2013	(251,674)	(5,227,412)	-	628,504	(4,850,582)

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As at December 31, 2012 and for the year then ended, summary financial information for the Group's investments in joint ventures is as follows:

	LLP Electrovoz kurastyru зауыты	LLP Tulpar- Talgo	Total
Current assets	5,951,827	10,791,415	16,743,242
Including cash and cash equivalents	71,636	663,533	735,169
Non-current assets	21,023,769	10,530,924	31,554,693
Total assets	26,975,596	21,322,339	48,297,935
Current liabilities	3,671,540	12,221,387	15,892,927
Including current financial liabilities (excluding trade and other payables and provisions)	3,151	1,039,013	1,042,164
Non-current liabilities	15,638,153	88,384	15,726,537
Including non-current financial liabilities (excluding trade and other payables and provisions)	3,688,405	-	3,688,405
Total liabilities	19,309,693	12,309,771	31,619,464
Net assets	7,665,903	9,012,568	16,678,471
Proportion of the Group's ownership interest	50.00%	99.999%	
Group's share of net assets of joint ventures	3,832,952	9,012,501	12,845,453
Carrying amount of the Group's interest in joint ventures at December 31, 2012	3,832,952	9,012,501	12,845,453
Revenue	-	11,632,307	11,632,307
Depreciation and amortisation	(4,292)	(209,686)	(213,978)
Finance income	-	-	-
Finance costs	(12,136)	(152,715)	(164,851)
Income tax expense (income)	-	-	-
Loss from continuing operations	(378,354)	(372,487)	(750,841)
Loss for the year	(378,354)	(372,487)	(750,841)
Total comprehensive loss for the year	(378,354)	(372,487)	(750,841)
Group's share of loss of joint ventures for 2012	(189,177)	(372,484)	(561,661)

Aggregate information for other joint ventures of the Group:

	December 31, 2013	December 31, 2012
The Group's share of profit from continuing operations	149,376	-
The Group's share of total comprehensive income	149,376	-
Unrecognised share of loss of an associate for the year	-	-

In October 2012, the Group, through its subsidiary JSC Remlocomotive made additional contributions of non-current assets in the amount of 9,384,984 thousand tenge to the charter capital of Tulpar-Talgo LLP, the joint venture with Talgo Kazajstan S.L., increasing its share from 50% to 99.99%. At the same time the Group entered into an option contract whereby Talgo Kazajstan S.L. may re-acquire 49.99% of the charter capital of Tulpar-Talgo LLP. The increase in ownership in Tulpar-Talgo LLP by the Group did not affect the right of veto by the other investor over key operating decisions. As a result, this investment continues to be accounted for as investment in a joint venture. The option contract is currently exercisable and expires on August 6, 2014.

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8. INVESTMENT PROPERTY

The movement of investment property for the years ended December 31, 2013 and 2012 is as follows:

	2013	2012
Historical cost:		
As at the beginning of the year	7,874,955	6,925,230
Transfer from property, plant and equipment (Note 5)	579,202	949,725
As at the end of the year	8,454,157	7,874,955
Accumulated depreciation and impairment:		
As at the beginning of the year	(745,748)	(346,351)
Charge for the year	(346,201)	(331,673)
Transfer from property, plant and equipment (Note 5)	(65,716)	(67,724)
As at the end of the year	(1,157,665)	(745,748)
Net book value:		
As at the end of the year	7,296,492	7,129,207

For years ended December 31, 2013 and 2012 the Group recognized rental income of 909,669 thousand tenge and 926,574 thousand tenge, respectively, and depreciation and maintenance expenses of 854,232 thousand tenge and 705,516 thousand tenge, respectively.

The Group assessed the fair value of investment property as at December 31, 2013 and 2012. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties in Astana city. In estimating the fair value of the properties, the highest and best use of the properties was considered to be their current use. There has been no change to the valuation technique during the year.

As at December 31, 2013 and 2012 the fair value of investment property approximately equals its carrying value. Due to lack of exact comparable market for this investment property such assessment of fair value relates to Level 3 of the fair value hierarchy.

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Other non-current assets comprised the following as at December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012 (restated)
Advances to suppliers for property, plant and equipment	134,014,062	87,852,096
VAT receivable	33,695,637	30,429,912
Residential properties	20,262,309	7,517,201
Assets for sale to the Government	14,148,355	14,239,451
Available for sale investments	726,523	8,217,780
Other	2,026,768	2,135,238
	<u>204,873,654</u>	<u>150,391,678</u>
Less: allowance for advances to suppliers for property, plant and equipment	(1,499,823)	(2,703,025)
Less: allowance for unrecoverable VAT receivable	(17,524,445)	(13,678,453)
	<u>185,849,386</u>	<u>134,010,200</u>

As at December 31, 2013 advances to suppliers for property, plant and equipment primarily represent prepayments for the construction of Zhezkazgan – Beineu and Arkalyk – Shubarkol railway lines of 66,760,438 thousand tenge (December 31, 2012: 40,685,938 thousand tenge), advances paid for the supply of locomotives of 24,149,238 thousand tenge (December 31, 2012: 14,903,951 thousand tenge) and advances paid for the supply of passenger wagons of 21,824,138 thousand tenge (December 31, 2012: 17,976,773 thousand tenge).

During 2012 the Group concluded an agreement for the construction of residential properties for its employees. As at December 31, 2013 the Group incurred construction cost of 19,625,072 thousand tenge (2012: 3,845,427 thousand tenge) and paid advances of 547,186 thousand tenge (2012: 3,532,374 thousand tenge).

The movements in the allowance for advances to suppliers for property, plant and equipment for the years ended December 31, were as follows:

	2013	2012 (restated)
Allowance for advances to suppliers for property, plant and equipment at the beginning of the year	(2,703,025)	(2,012,763)
Accrued for the year	(79,263)	(785,435)
Written off during the year against the allowance previously recorded	15,265	95,173
Transfer to other current assets (Note 15)	1,267,200	-
	<u>(1,499,823)</u>	<u>(2,703,025)</u>

As at December 31, 2013 and 2012, non-current VAT receivable represents amounts that arose from the purchases of goods, services, and property, plant and equipment and are expected to be recovered in more than one year.

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The movements in the allowance for unrecoverable VAT receivable for the years ended December 31, were as follows:

	2013	2012 (restated)
Allowance for unrecoverable VAT receivable at the beginning of the year	(13,678,453)	(13,497,661)
Accrued for the year	(3,845,992)	(180,792)
	<u>(17,524,445)</u>	<u>(13,678,453)</u>

In 2011, the ultimate Shareholder issued the Company with a decree in which it requested that the Company, at the end of the construction phase, sells certain assets, constructed within railway lines construction projects, to the ultimate Shareholder at a yet to be agreed amount. The sale is expected to occur in 2015 and while the sales price is yet to be agreed, it is expected to be at a minimum, the carrying value of the said assets. In these consolidated financial statements such assets have been presented within other non-current assets. As at December 31, 2013 and 2012 the carrying value of assets for sale to the Government is 14,148,355 thousand tenge and 14,239,451 thousand tenge, respectively.

As at December 31, 2012 available-for-sale investments include investments in JSC Kazakh Academy of Transport and Communications named after M.Tynyspaev. In November 2012 the Group acquired 65% of shares of this entity for 7,496,751 thousand tenge to be paid in installments until June 2013. At that date and as at December 31, 2012 the Group had no control over the JSC Kazakh Academy of Transport and Communications named after M.Tynyspaev, as the seller had the right to veto any decision of the Group until full payment for the acquired shares was made. As at December 31, 2012 the amount payable for the acquisition of shares was 6,996,752 thousand tenge (Note 26). As at December 31, 2013 the Group repaid the debt for the purchased shares and gained control of the entity (Note 32).

In addition, available for sale investments include other investments of 726,523 thousand tenge (2012: 721,028 thousand tenge).

10. INVENTORIES

Inventories comprised the following as at December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012 (restated)
Materials and supplies	14,560,641	12,999,560
Spare parts	10,418,550	13,246,710
Fuel	5,671,686	4,642,759
Upper railway components	4,038,067	1,562,678
Construction components	1,391,568	1,358,757
Work in process	707,826	693,240
Finished goods	532,577	551,867
Other	1,121,067	726,532
Less: allowance for obsolete and slow-moving inventories	(718,081)	(1,271,525)
	<u>37,723,901</u>	<u>34,510,578</u>

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)***(in thousands of tenge unless otherwise stated)*

The movements in the allowance for obsolete and slow-moving inventories were as follows for the years ended December 31:

	2013	2012 (restated)
Allowance for obsolete and slow-moving inventories at the beginning of the year	(1,271,525)	(1,619,110)
Recovered for the year	148,070	32,931
Written off during the year	405,374	314,654
Allowance for obsolete and slow-moving inventories at the end of the year	<u>(718,081)</u>	<u>(1,271,525)</u>

11. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable comprised the following as at December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012 (restated)
Trade accounts receivable	12,765,803	13,229,359
Less: allowance for doubtful debts	<u>(4,658,654)</u>	<u>(5,445,246)</u>
	<u>8,107,149</u>	<u>7,784,113</u>

As at December 31, 2013 eight debtors represented 41% of the Group's trade accounts receivable (December 31, 2012: eight debtors represented 42%).

The movements in the allowance for doubtful debts were as follows for the years ended December 31:

	2013	2012 (restated)
Allowance for doubtful debts at the beginning of the year	(5,445,246)	(5,204,454)
Provided against during the year	188,219	(555,228)
Written off during the year against the allowance previously recorded	598,373	314,436
Allowance for doubtful debts at the end of the year	<u>(4,658,654)</u>	<u>(5,445,246)</u>

As at December 31, 2013 and 2012 the Group's trade accounts receivable, net of allowance for doubtful debts, were denominated in various currencies as follows:

	December 31, 2013	December 31, 2012 (restated)
Tenge	7,154,473	5,369,491
Swiss Francs	491,782	1,987,559
US Dollars	355,472	381,837
Russian Rubles	105,422	45,226
	<u>8,107,149</u>	<u>7,784,113</u>

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)***(in thousands of tenge unless otherwise stated)***12. OTHER FINANCIAL ASSETS**

As at December 31, 2013 and 2012 other financial assets represent bank deposits with original maturities of greater than three months:

	December 31, 2013		December 31, 2012 (restated)	
	Interest rate	Amount	Interest rate	Amount
Current other financial assets:				
JSC Tsesnabank	3.2%-4.5%	20,934,346	3.0%-7.0%	17,992,707
JSC Eurasian Bank	4.5%	9,312,153	2.7%-5.5%	6,512,525
JSC Halyk Bank of Kazakhstan	6.5%	4,000,000	-	-
JSC Kazinvest Bank	4.5%	1,766,516	6.5%	2,000,000
JSC Kaspi Bank	6.0%	400,000	-	-
JSC Alliance Bank (Note 36)	3.5%	101,757	-	-
JSC Kazkommertsbank	-	-	2.7%-5.0%	14,992,500
JSC SB Sberbank of Russia	-	-	2.0-4.0%	3,559,410
JSC Bank CenterCredit	-	-	3.5%-4.0%	1,663,858
JSC Bank RBK	-	-	4.8%-6.0%	1,553,748
		<u>38,434,796</u>		<u>50,148,961</u>
Non-current other financial assets:				
JSC Tsesnabank	5%	1,834,302	4.9%	1,874,213
JSC Bank CenterCredit	2.0%-5.2%	35,722	-	-
JSC SB Sberbank of Russia	7.0%	50,000	-	-
		<u>277,848</u>		<u>92,102</u>
Accrued interest receivable		<u>38,712,644</u>		<u>50,241,063</u>
Less: current portion of other financial assets		<u>(36,789,673)</u>		<u>(48,366,850)</u>
Non-current portion of other financial assets		<u>1,922,971</u>		<u>1,874,213</u>

As at December 31, 2013, bank deposits of the Group with a carrying value of nil (2012: 1,500,000 thousand tenge) were pledged as collateral for a portion of the Group's borrowings.

As at December 31, 2013 and 2012 other financial assets were denominated in the following currencies:

	December 31, 2013	December 31, 2012 (restated)
Tenge	4,510,570	37,117,595
US Dollars	<u>34,202,074</u>	<u>13,123,468</u>
	<u>38,712,644</u>	<u>50,241,063</u>

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)***(in thousands of tenge unless otherwise stated)***13. ASSET HELD FOR THE BENEFIT OF THE SHAREHOLDER**

In May 2010 the Government directed the Group to construct a building for a teleradio complex in Astana at the Group's expense. Group management formally approved the construction project in November 2010. In 2011, the Group confirmed acceptance of a further obligation to fit out the building with media and technical equipment to enable it to function as a teleradio complex and subsequently entered into an agreement for the supply of media and technical equipment for installation as well as incurred costs on the acquisition of land (Notes 18 and 26).

As at December 31, 2012 the Group had incurred total costs for construction of this complex, the supply of media and technical equipment and the acquisition of land of 58,926,941 thousand tenge. In July 2012 the building for the teleradio complex including the land on which it is located for a total cost of 30,688,303 thousand tenge was donated to the Information and Archives Committee of the Ministry of Culture and Information of the Republic of Kazakhstan on the basis of a contract of donation.

In July 2012 the Government directed the Group to construct a multifunctional ice palace in Astana at the Group's expense. The Group's management formally approved the construction of the ice palace in July 2012. In October 2012, the Group entered into an agreement with a construction company for 25,146,747 thousand tenge. In 2013 the Group entered into an additional agreement and reduced the estimated construction value for 140,995 thousand tenge (Notes 18 and 26). As at December 31, 2013 the Group prepaid advances for construction of 2,884,571 thousand tenge (2012: 7,000,000 thousand tenge) and incurred costs of construction of 7,873,310 thousand tenge (2012: nil). These costs are recognized as non-current assets held for the benefit of the Shareholder in the consolidated statement of financial position since it is expected that these assets will be transferred to the Shareholder upon completion of construction planned for June 2015.

In 2013 the Group entered into commitment to donate social facilities to Mangistau municipality of 965,450 thousand tenge built pursuant to a decree of the ultimate Shareholder within social-economic development of Mangistau oblast (Note 18 and 26). These costs are reflected as a current asset held for the benefit of the Shareholder in the consolidated statement of financial position, as it is expected that the asset will be transferred to the Shareholder during 2014.

14. LOANS GIVEN

During 2013 the Group's subsidiary JSC Remlocomotive gave interest free loans to Tulpar-Talgo LLP, a joint-venture, with maturities on December 31, 2013 and 2014 in the amount of 6,000,000 thousand tenge and 4,000,000 thousand tenge, respectively (2012: nil) (Note 36). During 2013, in-line with the stipulated maturity dates, Tulpar-Talgo LLP returned 6,000,000 thousand tenge of these loans.

As the loan was issued to Tulpar-Talgo, at an interest-free rate, the Group calculated the fair value of this loan and recognized an adjustment to the loan value of 589,813 thousand tenge within investments in joint-venture. To calculate the fair value of the loans, the Group used effective interest rates of 11% and 11.3% using the market interest rates. The unwinding of a discount of 229,111 thousand tenge has been recorded within finance income (2012: nil).

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)***(in thousands of tenge unless otherwise stated)***15. OTHER CURRENT ASSETS**

Other current assets comprised the following as at December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012 (restated)
VAT recoverable	52,848,833	34,090,871
Advances paid	4,223,354	6,164,312
Claims, fines and penalties	3,659,833	2,698,650
Other taxes prepaid	1,547,027	1,298,834
Prepaid expense	1,122,870	2,807,506
Receivables from employees	780,929	872,867
Other	3,818,301	5,282,549
	68,001,147	53,215,589
Less: Allowance for doubtful debts	(7,291,735)	(5,055,226)
	60,709,412	48,160,363

The current VAT recoverable represents the amount the Group expects to recover against VAT liabilities in the upcoming year.

The movements in the allowance for doubtful debts related to advances paid and other current assets were as follows for the years ended December 31:

	2013	2012 (restated)
Allowance for doubtful debts at the beginning of the year	(5,055,226)	(5,204,371)
Provided for during the year	(1,665,155)	(6,187)
Written off during the year against the allowance previously recorded	695,846	149,023
Discontinued operations	-	6,309
Transfer from non-current assets (Note 9)	(1,267,200)	-
Allowance for doubtful debts at the end of the year	(7,291,735)	(5,055,226)

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)***(in thousands of tenge unless otherwise stated)***16. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprised the following as at December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012 (restated)
Cash in current accounts in tenge	32,956,050	59,643,126
Cash in current accounts in US Dollars	11,749,561	8,723,151
Cash in current accounts in Euro	1,406,172	2,719
Cash in current accounts in Russian rubles	539,262	114,054
Cash in current accounts in Great Britain pounds	3,621	-
Cash in current accounts in Swiss francs	-	88,775
Short-term bank deposits in tenge	37,969,952	-
Short-term bank deposits in US Dollars	1,193,818	452,220
Short-term bank deposits in Euro	-	638,798
Petty cash	37,466	43,586
	<u>85,855,902</u>	<u>69,706,429</u>
Cash included in a disposal group held for sale (Note 17)	-	19,848
	<u>85,855,902</u>	<u>69,726,277</u>

Cash in current accounts earns interest at floating rates based on daily bank deposit rates ranging from 0.20% to 7.00% per annum (2012: 0.05% to 5.50% per annum).

Short-term bank deposits in tenge and foreign currency are placed for varying periods of up to three months depending on the Group's immediate cash requirements and earn interest at the respective short-term deposit rates ranging from 0.07% to 10% per annum (2012: 0.2% to 0.3% per annum).

As at December 31, 2013 and 2012 the Group's cash in current accounts, which is in banks that are related parties of the Group, amounted to 173,446 and 412,264 thousand tenge, respectively (Note 36).

17. ASSETS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

During 2012 Group management committed the entity to a plan to sell a controlling interest (50%) in the subsidiary, JSC Locomotive Kurastyru Zauyty; and in May 2013 the transaction was completed through the sale of 26% of the Group's interest and simultaneous issue of 24% of shares of JSC Locomotive Kurastyru Zauyty to a third party. As a result of the sale, the Group lost control over JSC Locomotive Kurastyru Zauyty. The Group recognized its remaining 50% interest in JSC Locomotive Kurastyru Zauyty as investment in joint-venture (Note 7).

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Loss from discontinued operations for the reporting period is presented as follows:

	2013	2012
Loss from discontinued operations for the period	(537,533)	(1,109,451)
Loss on disposal of assets related to discontinued operations	(2,274,564)	-
	<u>(2,812,097)</u>	<u>(1,109,451)</u>

The results of the discontinued operations, which have been included in the consolidated statement of profit or loss and other comprehensive income, were as follows:

	2013	2012
Revenue	34,128	2,978,342
Cost of sales	(9,581)	(2,413,994)
General and administrative expenses	(272,483)	(632,361)
Other income	317	60,572
Finance income	2,476	6,465
Finance costs	(162,742)	(514,179)
Foreign exchange loss	(53,562)	(234,486)
	<u>(461,447)</u>	<u>(749,641)</u>
Income tax expense	(76,086)	(359,810)
	<u>(537,533)</u>	<u>(1,109,451)</u>
Loss for the year from discontinued operations	<u>(537,533)</u>	<u>(1,109,451)</u>
Basic loss per share (in whole tenge)	(6)	(2)

The cash flows from discontinued operations are presented below:

	2013	2012
Net cash inflows from operating activities	2,634,211	1,045,021
Net cash outflows from investing activities	(475,328)	(1,265,601)
Net cash outflows from financing activities	(1,738,653)	(2,098,503)
	<u>420,230</u>	<u>(2,319,083)</u>
Net cash inflows/(outflows)	<u>420,230</u>	<u>(2,319,083)</u>

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The assets and liabilities of the discontinued operation at the date of disposal were as follows:

	<u>May 30, 2013</u>
Assets	
Property, plant and equipment	14,941,115
Intangible assets	537,886
Other non-current assets	595,928
Inventories	22,627,994
Trade accounts receivable	12,123
Other current assets	2,126,482
Cash and cash equivalents	440,078
Liabilities	
Borrowings	10,605,396
Employee benefit obligations	23,829
Deferred tax liability	773,121
Trade accounts payable	12,440,528
Taxes payable	965,197
Other non-current liabilities	146,957
Other current liabilities	452,796
Disposed net assets	<u>15,873,782</u>

Loss from disposal of the subsidiary

	<u>2013</u>
Consideration received	4,528,200
Disposed net assets	(15,873,782)
Fair value of the remaining interest	9,071,018
Loss on disposal	<u>(2,274,564)</u>

The Group assessed the fair value of the remaining interest by reference to the value of consideration it received for its 50% interest in JSC Locomotive Kurastyru Zauyty which was disposed of.

Net cash inflows from disposal of the subsidiary

	<u>2013</u>
Consideration in cash	4,528,200
Less cash and cash equivalents disposed	(440,078)
	<u>4,088,122</u>

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The major classes of assets and liabilities held for sale as at December 31, 2012 were as follows:

	<u>December 31, 2012</u>
Property, plant and equipment (Note 5)	15,298,888
Intangible assets (Note 6)	580,174
Other non-current assets	2,982,179
Inventories	18,750,948
Accounts receivable	11,186
Other current assets	77,289
Cash and cash equivalents	19,848
Assets held for sale	<u>37,720,512</u>
Borrowings	12,397,157
Employee benefit obligations	23,829
Deferred tax liability	697,035
Accounts payable	1,577,962
Taxes payable	1,563,916
Other non-current liabilities	101,345
Other current liabilities	313,600
Liabilities directly associated with assets classified as held for sale	<u>16,674,844</u>

18. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL

Share capital consists of the following at December 31, 2013 and 2012:

	<u>Number of shares authorized</u>	<u>Number of shares issued and paid</u>	<u>Share capital, in thousands of tenge</u>
As at December 31, 2011	502,040,458	491,190,412	579,417,097
<i>Cash contributions</i>			
Transfer due to legal registration of share issuance (January 26, 2012)	-	91,567	90,821,510
Shares paid on July 12, 2012	-	4,000	4,000,000
<i>Non-cash contributions</i>			
Transfer due to legal registration of share issuance (January 26, 2012)	-	1,203	1,203,236
Transfer of non-current assets to the Company (May 3, 2012)	-	489	84,405
As at December 31, 2012	<u>502,040,458</u>	<u>491,287,671</u>	<u>675,526,248</u>
<i>Non-cash contributions</i>			
Transfer due to legal registration of share issuance (January 29, 2013)	-	6,189	5,429,760
Transfer of non-current assets to the Company (May 22, 2013)	-	3,959	2,976,983
As at December 31, 2013	<u>502,040,458</u>	<u>491,297,819</u>	<u>683,932,991</u>

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The Company's initial share capital was established through a series of share issuances in exchange for either cash or property, plant and equipment. The Shareholder is entitled to dividends, a part of the Company's property in the event of liquidation, and preference in purchasing the Company's shares or other securities convertible into the Company's shares.

The shares are issued at par value.

Contributions

During 2013, the Shareholder contributed to the Company's share capital (including additional paid-in capital and unissued share capital):

- (a) cash of 30,000,000 thousand tenge. As at December 31, 2013 this contribution was recorded as additional paid-in capital as the shares were not legally issued.
- (b) non-current assets of 2,992,994 thousands tenge, including buildings of train stations and passenger platforms of 2,976,983 thousands tenge. The contribution of train stations and passenger platforms has been made taking into account the costs of capital repairs incurred by the Group of 1,859,405 thousand tenge before contribution of these assets to share capital. The Group recognised these costs in retained earnings as at December 31, 2013.

During 2012, the Shareholder contributed to the Company's share capital (including additional paid-in capital and unissued share capital):

- (a) cash of 4,000,000 thousand tenge;
- (b) non-current assets of 5,514,165 thousands tenge of which 84,405 thousand tenge related to other assets recorded as shares issued and paid, and 5,429,760 thousand tenge related to cargo carriages recorded as additional paid in capital and unissued share capital. As at December 31, 2013, the Group has legally registered shares issuance of 5,429,760 thousand tenge and during 2013 the contribution was transferred from additional paid-in capital to share capital.

In addition during 2013 the Shareholder transferred to the Group for trust management 100% ownership interest in JSC National Company Aktau International Sea Commercial Port valued at 26,233,840 thousand tenge. The Group recorded this transaction within additional paid in capital.

During 2013 a fair value adjustment to loans of 185,274,910 thousand tenge (2012: 33,601,679 thousand tenge) less deferred tax of 37,054,982 thousand tenge (2012: 6,720,336 thousand tenge) was recognized within additional paid-in capital (Note 19).

Dividends and distributions*Dividends*

As at December 31, 2013 the Group declared dividends of 16,999,211 thousand tenge relating to 2012 (2012: 36,866,070 thousand tenge relating to 2011).

As at December 31, 2013 dividends were fully paid to the Shareholder (2012: dividends of 28,866,070 thousand tenge were paid to the Shareholder and 8,000,000 thousand tenge was payable).

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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As described in Note 13 above, in 2010-2012 the Group entered into an irrevocable commitment totaling 58,926,941 thousand tenge with the Government to construct a building for a teleradio complex and to fit out the building with media and technical equipment to enable it to function. As a consequence of this transaction, an irrevocable commitment was recognized as a distribution to the Shareholder of 3,183,126 thousand tenge in 2012.

Construction of a multifunctional ice palace for the benefit of the Shareholder

As described in Note 13 above, in 2012 the Group entered into an irrevocable commitment with the Government to construct a multifunctional ice palace resulting in the recognition of a distribution to the Shareholder equaling the value of the associated construction contract of 25,146,747 thousand tenge. In 2013 the Group reduced its irrevocable commitment by 140,995 thousand tenge.

Social facilities of Mangistau oblast for the benefit of the ultimate Shareholder

During 2013 the Group entered into commitment to donate to Mangistau municipality social facilities of 965,450 thousand tenge built pursuant to a decree of the ultimate Shareholder within social-economic development of Mangistau oblast. As a consequence, the Group recognized a distribution to the Shareholder and an irrevocable commitment equaling the value of the associated construction.

Charity provided to the ultimate Shareholder

During 2012, the Group provided sponsorship support at the request of the ultimate Shareholder to support Kazakhstan's professional hockey and football teams. The cost of doing this was recognised as a distribution to the Shareholder in the amount of 4,628,251 thousand tenge.

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19. BORROWINGS

Borrowings, including accrued interest, comprised the following as at December 31, 2013 and 2012:

	Currency	Installments	Interest rate	December 31, 2013	December 31, 2012 (restated)
Short-term borrowings:					
JSC Citibank Kazakhstan:					
Loan 1	Tenge	July 22, 2013	6.00%	800,000	-
Loan 2	US Dollars	February 12, 2013	1-month LIBOR + 3%	-	4,523,032
JSC SB Sberbank:					
Loan 1	Tenge	April - May 2013	9-9.5%	-	1,371,861
Loan 2	Tenge	February 28, 2013	4%	-	1,502,225
Loan 3	Tenge	February 13, 2014	9.00%	612,745	-
JSC SB Alfa-bank:					
Loan 1	Tenge	May 31, 2013	9.00%	-	2,204,693
Loan 2	Tenge	February-December, 2014	9.00%	1,842,683	-
Other loans	Tenge	April 2013	8%-15%	-	181,317
Long-term borrowings:					
ABN Amro Bank N.V.	US Dollars	32 quarterly installments commencing May 15, 2005 (last installment, May 15, 2014)	3-month LIBOR + 0.07%	277,681	1,880,488
Japan Bank for International Cooperation ("JIBC")	Japanese Yen	37 semi-annual installments commencing December 20, 2002 (last installment, December 20, 2020)	3.00%	3,961,785	5,427,102
Instituto de Crédito Oficial ("ICO")	US Dollars	25 semi-annual installments commencing July 9, 2009 (last installment, July 9, 2021)	2.50%	2,726,627	3,010,146
JSC Rehabilitation fund	US Dollars	August 2013	-	-	755,702
JSC Development Bank of Kazakhstan (Note 36):					
Loan 1	US Dollars	15 semi-annual installments commencing June 4, 2006 (last installment, June 4, 2013)	9.80%	-	190,576
Loan 2	Tenge	7 semi-annual installments commencing March 8, 2012 (last installment, March 8, 2015)	8%	501,162	985,648
Loan 3	US Dollars	July 20, 2023	1.15 * 6-month LIBOR + 1.28%	2,722,598	2,957,765
Loan 4	US Dollars	November 15, 2023	8.078%	6,943,000	7,570,311
Loan 5	Tenge	September 25, 2018	7.60%	11,371,859	-
JSC European Bank of Reconstruction and Development ("EBRD"):					
Loan 1	US Dollars	15 semi- installments commencing September 2011 (last installment, September 2018)	6-month LIBOR + 3.25-3.35%	-	13,201,537
Loan 2	US Dollars	15 semi-annual installments commencing April 13, 2013 (last installment, April 13, 2020)	6-month LIBOR + 3.25%	6,682,658	7,571,116
Loan 3	US Dollars, tenge	12 semi-annual installments commencing May 10, 2013 (last installment, November 10, 2018)	3-month LIBOR + 2.95% for US Dollar tranche and all-in cost + 2.95% for tenge tranche	24,608,895	28,558,406

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	Currency	Installments	Interest rate	December 31, 2013	December 31, 2012 (restated)
Long-term borrowings:					
Eurasian Development Bank					
JSC National Welfare Fund Samruk-Kazyna (Note 36):	Tenge	October 2020	7.70%	3,122,103	-
Loan 1	Tenge	January 25, 2024	2%	22,296,575	21,716,866
Loan 2	Tenge	November 2036	0.75%	2,049,230	1,943,077
Loan 3	Tenge	December 2036	0.75%	7,668,079	7,270,865
Loan 4	Tenge	September 15, 2017	7.2%	15,048,000	15,048,000
Loan 5	Tenge	September 15, 2017	7.2%	60,192,000	60,192,000
Loan 6	Tenge	July 20, 2042	2%	29,192,639	28,644,289
Loan 7	Tenge	July 10, 2037	0.75%	1,299,188	1,248,361
Loan 8	Tenge	November 30, 2062	0.10%	4,571,761	-
Loan 9	Tenge	February 25, 2038	0.75%	11,848,374	-
Loan 10	Tenge	November 30, 2062	0.10%	1,482,705	-
Loan 11	Tenge	November 30, 2062	0.10%	148,575	-
JSC AIF Bank:					
Loan 1	Tenge	May 27, 2013	9.93%-15%	-	298
Loan 2	Tenge	September 20, 2017	8.48%	899,053	1,106,212
Loan 3	US Dollars	December 4, 2017	8.84%	1,452,503	1,771,843
Secured notes	Euro	April 30, 2016	5.48%	187,062	246,158
JSC Halyk Bank of Kazakhstan:					
Loan 1	Tenge	September 8, 2016	11%	-	297,370
Loan 2	Tenge	July 2013 - January 2016	7%-12%	8,304,487	6,999,034
Loan 3	Tenge	April 13, 2018	10%	6,580,971	4,217,201
JSC SB Sberbank:					
Loan 1	Tenge	July 20, 2013	9.75%	-	120,642
Loan 2	Tenge	August 6, 2017	10.5%	1,075,959	1,285,088
Loan 3	Tenge	October 31, 2014	9.7%	6,481,148	3,160,444
HSBC Bank plc	US Dollars	16 semi-annual installments, starting from October 10, 2014 (last installment April 10, 2022)	6-month LIBOR + 3%	10,612,700	10,323,708
HSBC Bank France	Euro	20 semi-annual installments, starting from October 30, 2014 (last installment April 2024)	CIRR in Euro + 0.9%	18,539,131	-
JSC SB Alfa-bank	Tenge	October 9, 2015	9.5%	1,320,089	1,811,559
Export-Import Bank of United States of America	US Dollars	1st tranche: 28 quarter installments, 2nd tranche - 36- quarter installments, 3rd-6th tranche - 40 quarter installments (last installment, September 15, 2023)	CIRR in US Dollar	52,814,157	-
				330,238,182	249,294,940
Less: Current portion of borrowings				(34,868,844)	(29,166,061)
				295,369,338	220,128,879

* All-in cost represents the costs of funding the loan (fees, commissions, etc.) that are repaid by the borrower over the term of the loan expressed as a rate per annum

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The bank loans disclosed above are repayable as follows:

	December 31, 2013	December 31, 2012 (restated)
Within 1 year	34,868,844	29,166,061
1 to 2 years	29,820,383	18,663,167
2 to 3 years	26,007,294	16,385,762
3 to 4 years	98,034,175	14,465,703
4 to 5 years	23,216,101	89,198,340
Over 5 years	118,291,385	81,415,907
	<u>330,238,182</u>	<u>249,294,940</u>

As at December 31, 2013 and 2012 borrowings were denominated in various currencies as follows:

	December 31, 2013	December 31, 2012 (restated)
Tenge	198,709,385	175,702,279
US Dollars	108,840,819	67,919,401
Japanese Yen	3,961,785	5,427,102
Euro	18,726,193	246,158
	<u>330,238,182</u>	<u>249,294,940</u>

EBRD

Loan 1: In 2010 the Group entered into a credit line agreement with EBRD to finance the construction of a primary backbone transportation communication line. Pursuant to this credit agreement, JSC Transtelecom, a subsidiary, received a loan of 12,488,409 thousand tenge in 2010 and 59,134 thousand tenge in 2013. The loan is guaranteed by the Company. As at December 31, 2013 the loan was repaid.

Loan 2: On March 29, 2010 the Group's subsidiary, JSC Kaztemirtrans, entered into a loan agreement with EBRD to finance the purchase of up to 1000 units of cargo wagons for 50,000 thousand US Dollars. During 2013 JSC Kaztemirtrans received 49,800 thousand US Dollars (7,506,852 thousand tenge) under this loan. During 2013 the effective interest rate on the loan was 3.43% (2012: 3.96%). The loan is guaranteed by the Company. Interest is paid semi-annually.

Loan 3: On December 1, 2010 the Group's subsidiary, JSC Kaztemirtrans, entered into a loan agreement with EBRD to finance the purchase up to 4000 units of cargo wagons for 200,000 thousand US Dollars. During 2012 JSC Kaztemirtrans received a tranche in US Dollars of 95,142 thousand US Dollars (14,341,673 thousand tenge) and a tranche in tenge of 14,277,707 thousand tenge. In February 2013 within this loan agreement JSC Kaztemirtrans received a further tranches in US Dollars of 71,910 US Dollars (10,819 thousand tenge) and a tranche in tenge of 482,536 thousand tenge. According to a written confirmation of EBRD, the Group successfully completed the conversion option of tranche in tenge to US Dollars loan from February 11, 2013 at the rate of 150.4 tenge per US Dollar. For the year ended December 31, 2013 the effective interest rate was 3.43% (2012: 4.93%). The loan is guaranteed by the Company. Interest is paid quarterly.

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Loan 1: On October 21, 2010 the Group entered into a loan agreement with the Shareholder for 30,000,000 thousand tenge. This loan was provided for the construction of railway lines: Uzen – state border with Turkmenistan and Khorgos – Zhetigen. The loan is unsecured. Interest is paid semi-annually beginning from January 2011. The principal is paid at maturity. As the loan was issued at a rate below the market rate of interest, the fair value of the loan was calculated based on interest rate equal to 5.4%.

Loans 2 and 3: On December 23 and 28, 2011, the Group entered into loan agreements with the Shareholder for 4,000,000 thousand tenge and 15,000,000 thousand tenge, respectively. The loans are provided for the renewal of passenger rolling stock of its subsidiary, JSC Passenger Transportation. The loans are unsecured. Interest is paid in 25 annual installments beginning from November and December 2012, respectively. The principal is repaid in equal annual installments beginning after a five year grace period until full repayment in November and December 2036, respectively. As the loans were issued at a rate below the market rate of interest, the fair value of the loans was calculated based on interest rate equal to 7.02%.

Loan 4: On April 21, 2011 the Group's subsidiary JSC Locomotive received a long-term loan from the Shareholder of 15,000,000 thousand tenge. This loan is provided for the purchase of not less than 40 units of locomotives. The interest is paid quarterly. The principal is paid at maturity. The loan is guaranteed by the Company.

Loan 5: On April 21, 2011 the Group's subsidiary JSC Kaztemirtrans received a long-term loan from the Shareholder of 60,000,000 thousand tenge. This loan is provided for the purchase of not less than 3,200 units of cargo wagons. The interest is paid quarterly. The principal is paid at maturity. The loan is guaranteed by the Company.

Loan 6: On July 13, 2012 the Group entered into a loan agreement with the Shareholder of 60,755,000 thousand tenge. These loans are provided for the construction of railway lines: Zheskazgan – Beineu and Arkalyk – Shubarkol. The loans are unsecured. Interest is paid semi-annually beginning from January 2013. The principal is paid at maturity. As the loans were issued at a rate below the market rate of interest, the fair value of the loans was calculated based on interest rate equal to 5.58%, 5.62%, 5.87%, 6.43%, 6.60%, 6.71%.

Loan 7: On September 11, 2012 the Group entered into loan agreements with the Shareholder for 2,155,239 thousand tenge. The loans are provided for the renewal of passenger rolling stock of the subsidiary, JSC Passenger Transportation. The loans are unsecured. Interest is paid in 25 annual installments beginning from July 2013. The principal is repaid in equal annual installments beginning after a five year grace period until full repayment in July 2037. As the loans were issued at a rate below the market rate of interest, the fair value of the loans was calculated based on interest rate equal to 5.15%.

Loan 8: On January 31, 2013 the Group signed a loan agreement with the Shareholder for 118,346,000 thousand tenge to finance the construction of railway lines Zheskazgan-Beineu and Arkalyk-Shubarkol. The loan matures in November 2062. The Group received the full amount of the loan on February 1, 2013. The loan is not secured. The interest on loans is paid in semi-annual installments at an interest rate of 0.1% per annum beginning from July 2013. The principal is repaid at the maturity of the loan. As the loan was issued at a rate below the market rate of interest, the fair value of the loan was calculated based on interest rate equal to 7.68%.

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Loan 9: On March 7, 2013 the Group signed a credit agreement with the Shareholder for 24,673,376 thousand tenge. This loan was given for the purposes of the renewal of the rolling stock of the railway passenger wagons of the Group's subsidiary, JSC Passenger Transportation. The loan is not secured. Interest on the loan is repayable at the interest rate of 0.75% per annum, starting from February 25, 2014. The principal is repayable in equal annual installments after a five year grace period with full repayment due in February 2038. As the loan was issued at a rate below the market rate of interest, the fair value of the loan was calculated based on interest rate equal to 7.37% and 6.53%.

Loan 10: On June 23, 2013 the Group signed a loan agreement with the Shareholder for 51,298,000 thousand tenge to finance the construction of railway lines Zhezkazgan-Beineu, with a maturity of November 2062. Under the agreement the Group received a loan in full amount. The loan is unsecured. Interest on the loan is repaid semi-annually at an interest rate of 0.1% starting from January 2014. The principal is paid at maturity. As the loan was issued at a rate below the market rate of interest, the fair value of the loan was calculated based on interest rate equal to 8.63% and 8.47%.

Loan 11: On December 28, 2013 the Group signed a loan agreement with the Shareholder for 8,166,000 thousand tenge to finance the construction of railway lines Zhezkazgan-Beineu, with a maturity of November 2062. Under the agreement the Group received a loan in full amount. The loan is unsecured. Interest on loan is repaid semi-annually at an interest rate of 0.1% beginning from July 2014. The principal is paid at maturity. As the loan was issued at a rate below the market rate of interest, the fair value of the loan was calculated based on interest rate equal to 7.83%.

During 2013 the Group recognized a fair value adjustment to loans of 185,274,910 thousand tenge (2012: 33,601,679 thousand tenge) less deferred tax effect of 37,054,982 thousand tenge (2012: 6,720,336 thousand tenge) within additional paid-in capital.

The Group is eligible for early repayment of the whole or a part of the loans upon an agreement with Shareholder without premium or penalty.

HSBC Bank France

On May 31, 2012, the Group's subsidiary, JSC Locomotive, concluded a General framework agreement with JSC SB HSBC Kazakhstan, jointly with HSBC Bank plc and HSBC Bank France with a support from export-credit agency COFACE for financing the delivery of 200 cargo and 95 passenger electric locomotives in the total amount of 880,877,000 Euro for 10 years. In accordance with the terms of loan agreement, the funds are to be transferred by 5 (five) tranches. In line with this Framework agreement, on May 31, 2012 JSC Locomotive concluded Credit agreement on purchase of cargo electric locomotives (1st tranche) of 172,123,456 Euro for 10 years at the interest rate of CIRR plus margin of 0.9%, whereby original lenders are HSBC BANK France, Citibank International Plc and The Bank of Tokyo – Mitsubishi UFJ, Ltd. The loan is repayable on a semi-annual basis until the full repayment in 2024. The loan was obtained under the guarantee of the Company. As part of signed supplementary agreement, in 2013 credit funds in the total amount of 97,104,195 Euro (19,623,433 thousand tenge) (amount takes into account COFACE premium) were obtained and used, funds were directly transferred to Alstom Transport SA. During 2013 the effective interest rate on the loan was 7.21%.

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On November 26, 2012 the Group's subsidiary, JSC Locomotive signed a 10 year loan agreement for 424,856,806 US dollars with Export-Import Bank of United States of America for the acquisition of 196 Evolution series locomotives. The interest rate on the loan is the Commercial Interest Reference Rate (in US dollars). In accordance with the terms of agreement, the funds are to be transferred by nine tranches. As at December 31, 2013, six tranches have been received in full: on January 23, 2013 (tranches 1, 2 and 3.1) and January 24, 2013 (tranche 3.2), May 13, 2013 (tranche 4), July 26, 2013 (tranche 5) and November 8, 2013 (tranche 6) in the total amount of 424,856,806 US dollars (64,241,395 thousand tenge) with a bank commission withheld of 44,297,573 US dollars (6,698,507 thousand tenge). The principal on the 1st tranche is repaid by 28 quarterly installments starting from March 15, 2013; on the 2nd tranche – by 36 quarterly installments; on the 3rd-6th tranches – by 40 quarterly installments. As at December 31, 2013 principal amount of 40,829,642 US dollars was repaid. The interest is paid quarterly. During 2013 the effective interest rate on the loan was 3.89%. The loan was obtained under the guarantee of the Company and its subsidiary, JSC Kaztemirtrans.

As at December 31, 2013 the Group's loans were secured by non-current assets (including buildings, railway transport, equipment and other property plant and equipment) with a carrying value of 153,138,190 thousand tenge (2012: 54,246,713 thousand tenge). The Group is not allowed to pledge these assets for other borrowings or to sell them to another entity.

The capitalization rate used to determine the amount of borrowing costs eligible for capitalization ranges from 5.15% to 11.63% (2012: from 5.15% to 7.02%).

20. DEBT SECURITIES ISSUED

The Group's debt securities issued as at December 31, 2013 and 2012 were as follows:

	Maturity date	Interest rate, per annum	December 31, 2013	December 31, 2012
Eurobonds issued at price				
7% Eurobonds due 2016 (98.292% - tranche 2)	May 11, 2016	7.00%	53,763,500	52,759,002
6.375% Eurobonds due 2020 (100%)	October 6, 2020	6.375%	107,527,000	05,517,999
6.95% Eurobonds due 2042 (105.521%)	July 10, 2042	6.95%	169,158,785	66,047,828
			<u>330,449,285</u>	<u>24,324,829</u>
Adjustments:				
Discount on debt securities issued			(339,854)	458,995
Transaction costs			(987,509)	1,074,913
Premium on debt securities issued			8,941,716	,898,048
Accrued interest on debt securities issued			1,866,159	7,587,539
			<u>339,929,797</u>	<u>339,276,508</u>
Total debt securities issued				
Less: current portion of debt securities issued			(1,866,159)	(7,587,539)
			<u>338,063,638</u>	<u>331,688,969</u>
Long-term portion of debt securities issued				

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On May 11, 2006 Kazakhstan Temir Zholy Finance B.V. (the "Issuer"), a subsidiary of the Group, issued two tranches of Eurobonds totalling 800,000 thousand US Dollars on the Singapore Exchange Securities Trading Limited (SGX-ST). The Eurobonds are guaranteed by the Company and its subsidiaries: JSC Kaztemirtrans and JSC Locomotive (the "Guarantors"). Interest is payable on such Eurobonds semi annually on May 11 and November 11. On May 11, 2011 the Group repaid the 5-year eurobonds (Tranche 1) of 65,493,000 thousand tenge (450 million US Dollars). The 10-year Eurobonds (Tranche 2) mature May 11, 2016.

On October 6, 2010 the Issuer issued Eurobonds totalling 700,000 thousand US Dollars on the London Stock Exchange (LSE). Such Eurobonds are guaranteed by the Guarantors. Interest is payable semi annually on April 6 and October 6, and the Eurobonds mature on October 6, 2020.

On July 10, 2012 and November 8, 2012, the Issuer issued on the external (LSE) and internal (KASE) markets 6.95% Eurobonds totalling 800,000 thousand US Dollars and 300,000 thousand US Dollars, respectively. Such 6.95% Eurobonds are guaranteed by the Guarantors. Interest is payable semi annually on January 10 and July 10, and the Eurobonds mature on July 10, 2042.

The Eurobonds contain covenants that place certain limitations on the Group including, but not limited to, limitations on changes in the business and the disposal of property, and limitations on mergers and consolidations with other legal entities. In the case of any payment default, or any of default as defined by the Eurobond indenture, investors are entitled to require repayment of the Eurobonds.

21. FINANCE LEASE LIABILITIES

The Group's finance lease liabilities as at December 31, 2013 and 2012 were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Within one year	1,057,642	1,351,102	450,644	552,251
From two to five years inclusive	4,123,390	5,168,999	2,527,083	2,810,225
After five years	987,324	1,868,529	886,332	1,735,839
Net minimum lease liabilities	6,168,356	8,388,630	3,864,059	5,098,315
Less future finance charges	(2,304,297)	(3,290,315)	-	-
Present value of lease payments	3,864,059	5,098,315	3,864,059	5,098,315
Less liability payable within 12 months			(450,644)	(552,251)
Amount payable after 12 months			3,413,415	4,546,064

In 2004 the Group represented by the subsidiary JSC Transtelecom entered into a non-cancelable finance lease arrangement for telecommunication equipment (the "Finance Lease") with LLP TeleKRONA. The term of the Finance Lease is 14.5 years with an optional renewal term of one year. In accordance with the terms of the lease agreement, the Group received telecommunication equipment in installments through the end of 2010. In 2010 and 2009 the Group received telecommunication equipment for 3,506 thousand tenge and 853,108 thousand tenge, respectively. Effective interest rate implicit in the lease is 18.25% per annum.

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On December 11, 2008 the Group represented by the subsidiary JSC Kaztemirtrans entered into a finance lease state purchase agreement with JSC BRK Leasing, a related party, to provide 340 units of rolling stock to its subsidiary JSC Center of Transport Service. In 2008 the Group received 190 cistern wagons with a carrying value of 1,028,838 thousand tenge. In 2009 the Group received the residual 150 cistern wagons with a carrying value of 712,852 thousand tenge. Effective interest rate implicit in the lease is 10.77% per annum. The term of the finance lease is 10 years. This contract is secured by a guarantee from the Company.

On December 28, 2011 the Group represented by LLP Temirzhol Zhondeu, subsidiary of Repair Corporation Kamkor LLP, entered into a finance lease state purchase agreement with JSC Islam Bank Al Hilal to purchase two units of track equipment. In 2012 the Group received such track equipment with a carrying value of 1,021,007 thousand tenge and initial direct acquisition costs were 21,022 thousand tenge. Effective interest rate implicit in the lease is 17.62% per annum. The term of the finance lease is five years. This contract is secured by a guarantee from LLP Temirzholenergo, a subsidiary of the Company, in the amount of 290,000 thousand tenge.

All lease liabilities are denominated in tenge.

22. EMPLOYEE BENEFIT OBLIGATIONS**Social tax and pension contributions**

The Group pays social tax, which is expensed as incurred, based on the current statutory requirements of the Republic of Kazakhstan. The social tax charges in 2013 and 2012 were 21,720,625 thousand tenge and 20,960,289 thousand tenge, respectively, and were recorded in profit or loss within cost of sales and general and administrative expenses.

The Group also withholds and contributes 10% from the salaries of its employees as the employee's contribution to their cumulative pension funds. According to legislation of the Republic of Kazakhstan, pension contributions are the responsibility of employees, and the Group has no current or future obligations to make payments to employees following their retirement, apart from those stipulated in the agreement with the Labor Union (see below).

Defined benefits scheme and other non-current employee benefits

Employee benefit obligations are payable in accordance with the Labor Union Agreement concluded between the Group and its employees for 2012-2014.

The total liability payable in accordance with this agreement comprised the following as at December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012 (restated)
Present value of defined benefit obligation	30,227,410	29,697,331
Liability falling due within one year	(2,490,345)	(2,485,748)
Liability falling due after one year	27,737,065	27,211,583

The defined benefit scheme is unfunded.

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Movements in the present value of the obligation are as follows for the years ended December 31:

	2013	2012 (restated)
Total liability taken over at the beginning of the year	29,697,331	25,522,645
Current service cost	1,161,244	942,614
Past service cost	(4,471,546)	(12,321)
Interest cost	1,773,996	1,527,369
Actuarial remeasurement recognized in other comprehensive income, including:	3,808,063	2,402,869
- Changes in demographic assumptions	(18,535)	66,744
- Changes in financial assumptions	1,498,367	660,005
- Experience adjustments	1,956,888	1,676,120
- Other	371,343	-
Benefits paid during the year	(2,023,966)	(1,907,401)
Actuarial loss recognized in profit and loss during the year	282,288	1,236,391
Discontinued operations	-	(14,835)
Total liability at the end of the year	<u>30,227,410</u>	<u>29,697,331</u>

The past service cost recognized for the years ended December 31, 2013 and 2012 primarily resulted from changes in the Pension legislation regarding increase of women's retirement age at predetermined scale and also changes in the Labor Union Agreement.

The total amounts recognized in profit and loss in respect to these defined benefit obligations and other long term benefits during 2013 and 2012 were as follows:

	2013	2012 (restated)
Cost of sales (Note 28)	(1,106,104)	3,143,370
General and administrative expenses (Note 29)	(147,914)	550,683
Recognized in profit and loss during the year	<u>(1,254,018)</u>	<u>3,694,053</u>

The defined benefits plans typically expose the Group to actuarial risks such as: interest rate risk, longevity risk and salary risk.

- Interest risk - A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.
- Longevity risk - The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
- Salary risk - The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

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The estimates of the Group's obligations were made on the basis of the published statistical data regarding mortality and the actual Group's data concerning the number, age, sex and years of service of the employees and pensioners and the Group's turnover statistics. Other principal assumptions at the reporting date were as follows:

	2013	2012
Discount rate	6.30%	6.00%
The expected rate of future annual material assistance increases	4.70%	5.43%
The expected rate of future annual minimum salary increases	4.70%	3.43%
The expected rate of future annual railway ticket price increases	7.70%	6.43%

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by 2,711,399 thousand tenge (increase by 3,204,105 thousand tenge).
- If the expected salary, inflation, monthly calculated index growth increases (decreases) by 1%, the defined benefit obligation would increase by 3,219,219 thousand tenge (decrease by 2,771,853 thousand tenge).
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by 1,051,914 thousand tenge (decrease by 1,109,346 thousand tenge).
- If the employee turnover increases (decreases) by 1%, the defined benefit obligation would decrease by 550,139 thousand tenge (increase by 595,480 thousand tenge).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

23. INCOME TAX

Entities based in Kazakhstan are subject to income tax on taxable profit as determined under the laws of the Republic of Kazakhstan. The income tax rate was 20% in both 2013 and 2012.

Income tax expense comprised the following for the years ended December 31:

	2013	2012 (restated)
Current income tax expense	3,381,290	4,460,347
Current income tax expense for prior years	846,687	385,430
Deferred income tax expense	<u>34,820,646</u>	<u>26,176,789</u>

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A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense reported in the consolidated financial statements was as follows for the years ended December 31:

	2013	2012 (restated)
Profit before taxation from continuing operations	160,296,286	150,994,742
Statutory tax rate	20%	20%
Theoretical tax expense at the statutory rate	32,059,257	30,198,948
Tax effect of expenses/(gains) that are not deductible/(not taxable) for tax purposes:		
Change of income tax related to previous years	846,687	385,430
Non-deductible expenses	5,389,020	607,495
Change in previously unrecognized deferred tax losses	753,659	(169,307)
Income tax expense recognised in profit or loss (relating to continuing operations)	39,048,623	31,022,566

Deferred tax balances calculated by applying the statutory tax rates in effect at the respective reporting dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the consolidated financial statements, are as at follows at December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012 (restated)
Deferred tax assets:		
Tax losses carried forward	35,902,760	12,868,077
Unused vacation provision	2,285,703	2,141,602
Differences in accounts receivable	876,562	1,097,800
Allowance for obsolete and slow-moving inventories	143,616	254,147
Loans given	72,141	-
Accrued liabilities	378,753	303,030
Accrued interest payable	588,233	-
	40,247,768	16,664,656
Deferred tax liabilities:		
Property, plant and equipment and other non-current assets	(218,741,842)	(159,897,123)
Adjustment of loan to fair value	(46,971,815)	(10,357,794)
	(265,713,657)	(170,254,917)
Total net deferred tax liabilities	(225,465,889)	(153,590,261)
	2013	2012 (restated)
Net deferred income tax liability as at the beginning of the year	(153,590,261)	(121,030,361)
Recorded in profit or loss	(34,820,646)	(26,176,789)
Recorded in the consolidated statement of changes in equity	(37,054,982)	(6,720,336)
Discontinued operations	-	337,225
Net deferred income tax liability as at the end of the year	(225,465,889)	(153,590,261)

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The Group has unrecognised deferred tax assets relating to tax losses carry forwards. In management's opinion, it is not probable that there will be sufficient taxable income available in the future against which such deferred tax assets can be utilized. The total tax effect of unrecognised tax loss carryforwards as at December 31, 2013 amounted to 1,758,540 thousand tenge (December 31, 2012: 1,004,881 thousand tenge).

24. TRADE ACCOUNTS PAYABLE

Trade accounts payable comprised the following as at December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012 (restated)
Accounts payable for inventory	31,536,054	33,981,737
Accounts payable for services	24,947,864	16,631,486
Accounts payable for property, plant and equipment	19,451,884	40,060,897
Other accounts payable	1,439,817	7,829,301
	77,375,619	98,503,421

As at December 31, 2013 and 2012 trade accounts payable were denominated in various currencies as follows:

	December 31, 2013	December 31, 2012 (restated)
Tenge	72,009,932	92,153,312
US Dollars	3,378,345	5,187,865
Swiss Francs	438,116	413,183
Other currencies	1,549,226	749,061
	77,375,619	98,503,421

Trade payables principally comprise amounts outstanding for trade purchases of inventory, property, plant and equipment and ongoing costs. The average credit period taken for trade purchases is 55 days (2012: 56 days).

25. OTHER TAXES PAYABLE

Other taxes payable comprised the following as at December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012
VAT	2,925,372	3,292,813
Personal income tax	2,848,742	2,355,319
Social tax	1,729,810	1,366,484
Social contribution	1,111,038	952,096
Withholding tax	737,752	737,539
Environmental tax	300,172	261,715
Property tax	159,275	65,065
Other	342,554	463,651
	10,154,715	9,494,682

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FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)***(in thousands of tenge unless otherwise stated)***26. OTHER LIABILITIES**

Other liabilities comprised the following as at December 31, 2013 and 2012:

	December 31, 2013	December 31, 2012 (restated)
Construction commitment for benefit of the Shareholder	54,209,840	53,385,385
Advances received from customers	40,981,595	36,356,994
Salaries payable	14,617,858	13,017,616
Unused vacation provision	11,428,516	10,708,010
Deferred income	11,147,295	10,184,643
Obligatory pension contributions	3,657,412	3,125,827
Dividends payable (Note 18)	-	8,000,000
Payable for available for sale investments (Note 9)	-	6,996,752
Provision for additional payments to employees living in regions of environmental disaster	-	50,734
Other liabilities	3,668,787	3,715,444
	<u>139,711,303</u>	<u>145,541,405</u>
Less: other current liabilities	(114,701,051)	(120,325,660)
Other non-current liabilities	<u>25,010,252</u>	<u>25,215,745</u>

As described in Notes 13 and 18 above, in 2010 the Group entered into an irrevocable commitment to construct a building for a teleradio complex (27,129,708 thousand tenge), and in 2011, the Group entered into a similar commitment with respect to fitting out the complex (28,125,000 thousand tenge). In 2011 the Group also acquired the land on which the teleradio complex was built (489,107 thousand tenge). As discussed in the Summary of Significant Accounting Policies, distributions are recognized in equity, along with an associated "Construction commitment", when the Group has irrevocably committed to transfer cash or non-cash assets to its Shareholder/ultimate Shareholder and the amount of the commitment can be reliably measured. As a consequence of the commitments entered into by the Group with respect to the construction and fit out of the teleradio complex, a liability of 55,743,815 thousand tenge was recognized as of December 31, 2011.

In 2012 the Group recognized an additional obligation relating to VAT resulting from the transfer of title of the building to the Shareholder of 3,232,968 thousand tenge and reduced the "Construction commitment" by 49,842 thousand tenge resulting from a minor adjustment to the initial construction accruals, which consisted of a reduction of 163,480 thousand tenge related to the building construction accrual and increase of 113,638 thousand tenge related to the media and technical equipment construction accrual.

In July 2012 the teleradio complex (excluding the fit out thereof) together with the land on which it was located was transferred to the Shareholder. This resulted in a reduction of Assets held for the benefit of the Shareholder and the related "Construction commitment" of 30,688,303 thousand tenge.

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As described in Note 13 and 18 above, in 2012 the Group entered into an irrevocable commitment with the Government to construct a multifunctional ice palace in Astana. The value of that commitment was estimated by management to be the value of the related construction contract, namely 25,146,747 thousand tenge. In 2013 the Group reduced the "Construction commitment" by 140,995 thousand tenge resulting from a minor adjustment to the initial construction value. The commitment amount has been recognised as a "Construction commitment" above, and is considered non-current due to the expectation that the commitment will be fulfilled upon completion of construction planned for June 2015.

As described in Note 13 and 18 above, in 2013 the Group entered into commitment to donate social facilities to Mangistau municipality of 965,450 thousand tenge built pursuant to a decree of the ultimate Shareholder within social-economic development of Mangistau oblast. The commitment amount has been recognised as a "Construction commitment" above, and is considered current due to the expectation that the commitment will be fulfilled within 2014.

As at December 31, 2013 and 2012 the Group accrued for unused vacation, estimated based on quantity of unused vacation days and average salary per day, and for additional payments to employees living in regions of environmental disaster, estimated according to the labor legislation.

As at December 31, 2013 and 2012 current salaries payable and other current liabilities were primarily payable in tenge.

27. OTHER REVENUE

Other revenue for the years ended December 31 comprised the following:

	2013	2012 (restated)
Revenue from the sale of goods and provision of other services	30,537,425	29,762,273
Penalties received	2,797,881	2,965,739
	<u>33,335,306</u>	<u>32,728,012</u>

Revenue from the sale of goods and provision of other services consists primarily of profit on the sale of loading and unloading services, vessels servicing, the sale of inventory and scrap, communication services and sales of electricity.

Penalties received represent mainly revenue earned on the assessment of penalties on the late pickup of cargo cars for breach of contract terms.

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Cost of sales for the years ended December 31 comprised the following:

	2013	2012 (restated)
Personnel costs, including short-term provisions	214,957,848	208,471,826
Fuels and lubricants	88,255,494	82,996,544
Depreciation and amortization	85,795,861	72,238,098
Materials and supplies	61,720,563	65,605,670
Services	44,373,206	44,131,932
Electricity	32,261,100	30,649,736
Repair and maintenance	28,099,112	23,283,703
Railway charges of third parties	5,716,746	1,207,613
Business trip expenses	3,528,330	3,087,296
Utilities and building maintenance	2,139,253	1,652,877
Insurance	1,613,088	1,889,955
Operating lease expenses	1,409,658	1,440,643
Communication services	1,087,234	1,071,248
Personnel training	982,888	502,784
Transportation services	626,815	268,279
Security services	302,658	534,261
Lease of communication channels	223,507	1,921,889
Taxes	209,793	191,505
Fines and penalties	204,580	1,357,530
Employee benefit (recovery)/expenses (Note 22)	(1,106,104)	3,143,370
Other	4,460,451	3,711,254
	<u>576,862,081</u>	<u>549,358,013</u>

Personnel costs, including short-term provisions, for the years ended December 31 comprised the following:

	2013	2012 (restated)
Personnel costs	195,849,594	189,578,054
Social tax	18,684,639	18,039,206
Provision for additional payments to employees living in regions of environmental disaster (Note 26)	-	50,734
Unused vacation provision expense	423,615	803,832
	<u>214,957,848</u>	<u>208,471,826</u>

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FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)***(in thousands of tenge unless otherwise stated)***29. GENERAL AND ADMINISTRATIVE EXPENSE**

General and administrative expense for the years ended December 31 comprised the following:

	2013	2012 (restated)
Personnel costs, including short-term provisions	36,596,768	34,982,912
Property tax and other taxes	23,152,689	20,380,094
Charities and sponsorship	9,187,271	3,384,979
Depreciation and amortization	4,024,251	4,169,974
Allowance for unrecoverable VAT receivable (Note 9)	3,845,992	180,792
Consulting, audit and legal services	2,407,505	2,152,212
Professional services	1,838,414	1,475,329
Business trip expenses and representative expenses	1,625,459	1,766,831
Allowances for doubtful debts (Note 9, 11, 15)	1,556,199	1,346,850
Expenses on holiday and cultural events	1,385,967	1,311,775
Advertising expenses	1,036,819	932,941
Bank services	943,389	890,578
Utilities and building maintenance	863,061	753,266
Materials	832,077	1,064,721
Professional trainings and qualifications	826,938	558,780
Other services	649,899	743,917
Repair and maintenance	349,083	413,895
Social sphere objects maintenance	325,579	285,770
Operating lease expenses	263,385	258,079
Insurance	236,450	239,398
Employee benefit (recovery)/expenses (Note 22)	(147,914)	550,683
Obsolete inventory recovery of provision (Note 10)	(148,070)	(32,931)
(Recovery of)/accrual of provision on legal claims	(907,721)	99,277
Other expenses	3,411,689	1,709,842
	<u>94,155,179</u>	<u>79,619,964</u>

Personnel costs, including short-term provisions, for the years ended December 31 comprised the following:

	2013	2012 (restated)
Personnel costs	33,449,118	31,928,250
Social tax	3,035,986	2,921,083
Unused vacation provision expense	111,664	133,579
	<u>36,596,768</u>	<u>34,982,912</u>

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Finance income for the years ended December 31 comprised the following:

	2013	2012 (restated)
Interest income on short-term investments and bank deposits	4,780,841	4,249,204
Amortization of premium on debt securities issued	110,108	56,055
Other finance income	812,695	48,579
	<u>5,703,644</u>	<u>4,353,838</u>

For the years ended December 31, 2013 and 2012 the Group's finance income included interest income on short-term investments and bank deposits of 1,899 thousand tenge and 47,121 thousand tenge, respectively, placed with related parties (Note 36).

31. FINANCE COSTS

Finance costs for the years ended December 31 comprised the following:

	2013	2012 (restated)
Interest expense on debt securities issued	22,146,325	15,721,972
Interest expense on loans	13,308,342	12,452,405
Finance lease charge	1,020,146	955,841
Unwinding of discount on borrowings and debt securities issued	1,336,604	894,018
	<u>37,811,417</u>	<u>30,024,236</u>

For the years ended December 31, 2013 and 2012 the Group's finance costs included expenses of 8,250,933 thousand tenge and 7,770,642 thousand tenge, respectively, with related parties (Note 36).

32. BUSINESS COMBINATION

In November 2012 the Group acquired 65% of the shares of JSC Kazakh Academy of Transport and Communications named after M.Tynyspaev ("KazATC JSC") for 7,496,752 thousand tenge to be paid in installments until June 2013. At that date the Group had no control over KazATC JSC, as the seller had the right to veto any decision of the Group until full payment for the acquired shares had been made. As at June 30, 2013 the Group repaid the debt for the purchased shares and gained control over the organisation. The business combination was accounted for using the acquisition method:

	Date of acquisition	Share	Consideration paid
KazATC JSC	June 30, 2013	65%	7,496,752
	Education, training and re-training		

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The primary reasons for the business combination are to implement by Kaz ATC JSC technology assessment and examination, selection of the optimal specifications of railway transport and infrastructure taking into account existing and perspective technologies, as well as training, retraining and qualifying employees of railway transport.

If this business combination occurred on January 1, 2013, the Group's revenue would have been more for 1,658,006 thousand tenge more for the year ended December 31, 2013.

Consideration paid for acquisition

	2013
Cash	7,496,752
Less cash paid in prior period	(500,000)
Total paid for the period	<u>6,996,752</u>

The allocation of purchase consideration for the business acquired is based on fair value of assets and liabilities acquired at the date in which control was obtained. Net assets acquired are presented as follows:

ASSETS**Non-current assets**

Property, plant and equipment	11,473,761
Intangible assets	7,454
Other non-current assets	5,495

Total non-current assets

11,486,710

Current assets

Inventories	129,592
Accounts receivable	331,816
Other current assets	47,473
Cash and cash equivalents	390,019

Total current assets

898,900

Total assets

12,385,610

Current liabilities

Accounts payable	11,465
Taxes payable	78,369
Other current liabilities	461,386

Total liabilities

551,220

Acquired net assets

11,834,390

Consideration given	7,496,752
Plus: non-controlling interest (35% in KazATC JSC)	4,142,036
Less fair value of acquired net assets	(11,834,390)

Bargain purchase gain

(195,602)

The fair value of acquired net assets has been arrived at on the basis of a valuation carried out by an independent appraiser. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar assets.

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Net cash payments related to acquisitions of the subsidiaries

	<u>2013</u>
Cash consideration	6,996,752
Less acquired cash and cash equivalents	<u>(390,019)</u>
	<u>6,606,733</u>

33. EARNINGS PER SHARE

Basic earnings per share are calculated based on the weighted average number of common shares outstanding during the year. Basic and diluted per share data are the same, as there are no material dilutions.

	<u>2013</u>	<u>2012</u> <i>(restated)</i>
Profit for the year attributable to the owner of the Company (thousand tenge)	115,627,571	117,772,108
Weighted average number of common shares	<u>491,295,733</u>	<u>491,278,795</u>
Basic and diluted earnings per share from profit for the year (tenge)	<u>235</u>	<u>240</u>

	<u>2013</u>	<u>2012</u> <i>(restated)</i>
Profit for the year from continuing operations attributable to the owner of the Company (thousand tenge)	118,439,668	118,881,559
Weighted average number of common shares	<u>491,295,733</u>	<u>491,278,795</u>
Basic and diluted earnings per share from continuing operations (tenge)	<u>241</u>	<u>242</u>

Book value per share is calculated based on the number of common shares outstanding as at the reporting date. Book value per share as at December 31, 2013 and 2012 is presented below.

	<u>2013</u>	<u>2012</u> <i>(restated)</i>
Net assets, excluding intangible assets	1,305,540,782	1,033,217,182
Number of common shares in issue	<u>491,297,819</u>	<u>491,287,671</u>
Book value per share (tenge)	<u>2,657</u>	<u>2,103</u>

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34. FINANCIAL AND CONTINGENT LIABILITIES

Capital and operating lease commitments

Capital commitments

As at December 31, 2013, the Group had committed to contracts for the construction of Zhezkazgan – Beineu and Arkalyk – Shubarkol railways, the construction of a multifunctional ice palace in Astana, the primary backbone transport communication net, and the purchase of cargo and passenger electric locomotives, cargo and passenger wagons and backbone locomotives totalling 567,979,072 thousand tenge (December 31, 2012: 748,373,215 thousand tenge). This amount includes commitments for purchase of passenger electric locomotives from joint venture JSC Electrovoz Kurastyru Zauyty for the amount of 215,934,453 thousand tenge (2012: 255,039,771 thousand tenge) for supply through December 31, 2020, locomotives from joint venture JSC Locomotive Kurastyru Zauyty for the amount of 82,173,533 thousand tenge and also commitments for purchase of passenger wagons from joint venture Tulpar-Talgo LLP for the amount of 21,138,992 thousand tenge (2012: 41,033,536 thousand tenge) for supply through December 31, 2014.

Operating lease commitments

As at December 31, 2013 the Group had operating lease commitments of 773,848 thousand tenge, which are all due within one year (December 31, 2012: 516,055 thousand tenge).

Contingent liabilities

Legal claims

The Group is subject to various legal proceedings related to business operations, such as property damage claims. The Group does not believe that pending or threatened claims of these types, individually or in aggregate, are likely to have any material adverse effect on the Group's consolidated financial position, results of operations, or cash flows.

Kazakhstan taxation contingencies

Kazakhstan legislative acts 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 quite usual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan laws, decrees and related regulations are severe. Where additional taxes are imposed by the tax authorities penalties and interest applied are significant; penalties are generally assessed at 50% of the additional taxes accrued, and interest is assessed at 13.75% of taxes not settled on a timely basis. As a result, penalties and interest can exceed the amount of additional accrued taxes.

Therefore, penalties and interest can result in amounts that are multiples of any incorrectly reported taxes resulting in an understatement.

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During 2012 and 2011 the tax authorities conducted tax audits of the Group for the period of 2007-2010. As a result of these audits the tax authorities have assessed additional taxes, including fines and penalties of 13,289,087 thousand tenge. The Group has challenged these assessments and believes the claims were groundless, the Group intends to appeal the results in a court. During 2012 the Group has recognized a tax liability of 757,419 thousand tenge, which represents Group's best estimate of the amount required to settle this liability.

During 2012 and 2013, the tax authorities performed a tax audit of the Group on VAT return for the period from the first half of 2007 to 2008. As a result of this audit, the tax authorities identified VAT in the amount of 1,919,593 thousand tenge that were previously claimed but were unsubstantiated based on a counter check of suppliers. As a result, in 2013 the Group accrued a provision of 1,919,593 thousand tenge as the Group believes there is a high probability of future losses and reclassified this VAT to long-term portion (Note 9 and 29).

In 2013, the tax authorities conducted comprehensive tax audits of the Group's subsidiary, JSC Transtelecom, for the period of 2007-2011. As a result of these audits the tax authorities have assessed additional taxes, including fines and penalties of 1,479,161 thousand tenge associated with the agreement on joint activity with Kazakh Transit Telecommunications LLP. As management believes there is a high probability that they will have to pay this total amount, JSC Transtelecom accrued for this amount in full. The amount is recognized in the following line items: corporate income tax (561,069 thousand tenge), penalties on corporate income tax (326,886 thousand tenge), fine on corporate income tax (280,535 thousand tenge), value added tax (280,508 thousand tenge), and penalties on value added tax (30,163 thousand tenge).

Due to the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, if any, related to the years under audit and the subsequent years may be in excess of the amount expensed to date and accrued as at December 31, 2013. It is not practicable to determine the amount of any unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome.

Insurance

The insurance market is still in the early stage of development in Kazakhstan and, in common with other state-owned enterprises, the Group does not, with the exception of obligatory passenger insurance with regard to personal injury, death and loss or damage to passenger property, maintain any insurance against the risk of damage to any of its properties, assets or equipment (including infrastructure, rolling stock and stations) nor against business interruption or third party liability in respect of property or environmental damage arising from accidents to the Group's property or relating to the Group's operations. The Group maintains the required insurance coverage under policies purchased from commercial insurance operators in Kazakhstan.

Other contingencies

In 2011-2012 Kazakh Transit Telecommunications LLP (hereinafter – "KT&T") brought a number of actions against the Group's subsidiary, JSC Transtelecom, for non-compliance with its obligations under the agreement on joint activity. In May 2012 the Company filed a counter claim to KT&T and JSC Transtelecom on the recognition of the agreement on joint activity invalid. On August 14, 2013 based on decision of the Supreme Court of the Republic of Kazakhstan the agreement on joint activity was recognized as invalid. As a result as at December 31, 2013 the Group reversed earlier established provisions of 694,415 thousand tenge.

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On September 17, 2012 the Company entered into guarantee agreement #123 with Eurasian Development Bank and provided a guarantee of 2,370,000 thousand tenge to ensure fulfillment of obligations of a joint venture Electrovoz Kurastyru Zauyty LLP established by one of its subsidiaries provided for the purpose of financing the construction of electric locomotives manufacturing plant till 2022. The guarantee matures within 1 year of the fulfillment of obligations by the joint venture under a credit line agreement in 2022.

On July 4, 2013 the Company entered into guarantee #110-AO to Development Bank of Kazakhstan and provided a guarantee of 11,609,100 thousand tenge to ensure fulfillment of the obligations of an associate Aktobe rail and section mill plant LLP established by one of its subsidiaries provided for the purpose of financing the construction of rail and section mill plant till 2023.

On January 27, 2011 joint venture JSC Locomotive Kurastyru Zauyty concluded a credit agreement #K004-2011 with JSC ATF Bank for refinancing of loan provided on August 4, 2008 by ABN Amro Bank N.V. (The Royal Bank of Scotland for the purpose of locomotive assembly plant construction in Astana of 13,952,650 thousand tenge (95,000 thousand US dollars). In accordance with the loan agreement the Company provided a guarantee of 95,000 thousand US dollars, with maturity till 2016.

As at December 31, 2013 and 2012, the Group has not recognized a liability in relation to the above listed guarantees.

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35. SUBSIDIARIES

Information about the composition of the Group at the end of the reporting period is included in the following table:

Subsidiary	Nature of activities	Country of residence	Percentage holding, %	
			2013	2012 (restated)
1. JSC Kaztemirtrans	Operation of cargo wagons	Kazakhstan	100	100
2. JSC Passenger Transportation	Passenger transportation	Kazakhstan	100	100
3. JSC Locomotive	Locomotive haul services	Kazakhstan	100	100
4. JSC KTZ Express (JSC National centre on development of transport logistics)	Formation of transport and logistics	Kazakhstan	100	100
5. JSC Temirzholsu	Utilities	Kazakhstan	100	100
6. JSC Remlocomotive	Repair of locomotives	Kazakhstan	100	100
7. JSC Almaty Wagon Repair Plant	Repair of wagons	Kazakhstan	100	100
8. JSC Locomotive Service Center	Repair of locomotives	Kazakhstan	100	100
9. JSC Kaztransservice	Transit cargo transportation	Kazakhstan	100	100
10. JSC Transtelecom	Communication services	Kazakhstan	100	100
11. LLP Lesozashita	Protection of railway transportation property from unfavorable weather conditions	Kazakhstan	100	100
12. JSC Center of Transport Service	Operating of local railway lines	Kazakhstan	100	100
13. JSC Militarized Railway Guard	Security services	Kazakhstan	100	100
14. LLP Akzhaiyk Zapad 2006	Flushing and steaming of wagons	Kazakhstan	100	100
15. JSC Locomotive Kurastyru Zauyty	Assembly of locomotives	Kazakhstan	-	100
16. Repair Corporation Kamkor LLP	Repair of railway rolling stock and mainline railway track	Kazakhstan	100	100
17. JSC Vokzal-service	Railway stations activities	Kazakhstan	100	100
18. JSC Kazakh Academy of Transport and Communications named after M.Tynyshpaev	Education, training and retraining	Kazakhstan	65	-
19. JSC National Company Aktau International Sea Commercial Port	Sea port services, loading, unloading vessels servicing	Kazakhstan	100	100
20. LLP Research Institute of Transport and Communications	Research and development activities	Kazakhstan	100	-

As at December 31, 2013 LLP Akzhaiyk Zapad 2006, the subsidiary of the Company, was in the process of liquidation.

In July 2012 the Group established a subsidiary Research Institute of Transport and Communications LLP. In 2013 this subsidiary began its operations.

In July 2013 the Group renamed its subsidiary JSC National Centre on Development of Transport Logistics, dealing with formation of transport and logistics, into JSC KTZ Express with a change in activities to multimodal transportation.

In June 2013 the Group acquired controlling interest in JSC Kazakh Academy of Transport and Communications named after M.Tynyshpaev and obtained control over it (Note 32).

In November 2013 the Shareholder transferred 100% ownership interest in JSC National Company Aktau International Sea Commercial Port to the Group's trust management (Note 3). JSC National Company Aktau International Sea Commercial Port is recognized as a subsidiary of the Group, although the Group does not legally own its shares. As discussed in Note 3, these financial statements have been retrospectively restated to reflect the inclusion of JSC National Company Aktau International Sea Commercial Port effective January 1, 2012.

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In May 2013 the Group sold its controlling interest in the subsidiary JSC Locomotive Kurastyru Zauyty (Note 17).

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Repair Corporation Kamkor LLP	Kazakhstan	42.28%	41.59%	2,860,094	1,215,750	10,169,696	7,716,764
Individually immaterial subsidiaries with non-controlling interests				(52,099)	(125,133)	3,895,680	(194,185)
				<u>2,807,995</u>	<u>1,090,617</u>	<u>14,065,376</u>	<u>7,522,579</u>

The Group's subsidiary, Repair Corporation Kamkor LLP, owns subsidiaries with substantial non-controlling interests.

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Summarised financial information in respect of Repair Corporation Kamkor LLP is set out below.

	December 31, 2013	December 31, 2012
Current assets	45,332,092	42,088,084
Non-current assets	54,573,303	35,815,469
Current liabilities	34,805,600	44,760,357
Non-current liabilities	41,048,765	14,586,978
Equity attributable to owners of the Company	13,881,334	10,839,454
Non-controlling interests	10,169,696	7,716,764
	2013	2012
Revenue	145,382,958	94,463,328
Expenses	(140,820,898)	(96,178,894)
Profit for the year	5,887,048	1,648,724
Profit attributable to owners of the Company	3,026,954	432,974
Profit attributable to the non-controlling interests	2,860,094	1,215,750
Other comprehensive income attributable to owners of the Company	10,848	61,344
Other comprehensive income attributable to the non-controlling interests	-	-
Other comprehensive income for the year	10,848	61,344
Total comprehensive income attributable to owners of the Company	3,037,802	494,318
Total comprehensive income attributable to the non-controlling interests	2,860,094	1,215,750
Total comprehensive income for the year	5,897,896	1,710,068
Net cash inflow from operating activities	30,649,561	5,896,494
Net cash (outflow) from investing activities	(22,383,990)	(11,660,783)
Net cash (outflow) / inflow from financing activities	(2,600,643)	7,485,528
Net cash inflow	5,664,928	1,721,239
Dividends paid attributable to the non-controlling interests	(407,162)	(725,469)

36. RELATED PARTY TRANSACTIONS

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 parties under common control with the Group are considered to be related. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The Group's policy with respect to the approval of transactions with related parties is that the transaction should be approved by management by a majority of votes but not less than three quarters of the elected members. If the Management Board is not available to approve the transaction, then a majority of the members of the Board of Directors who do not have a financial interest in the transaction may vote to approve the transaction. If all members of the Board of Directors are have a financial interest, then a majority of the independent directors may vote to approve the transaction. If the independent directors are not available to approve the transaction, then the Shareholder may approve it.

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Related parties may enter into transactions that unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of related party relationships for those related parties with which the Group entered into significant transactions or had significant balances outstanding as at December 31, 2013 and 2012 that are not outlined elsewhere in these notes are detailed below.

Amounts due to and due from profit-oriented state-owned entities (entities under common control), recorded within trade accounts payable, other current liabilities, trade accounts receivable, other current and non-current assets as well as the transactions with commercial organizations, fully controlled by the government (entities under common control) as at December 31, 2013 and 2012 were as follows:

Company name	Due from related party		Due to related party	
	December 31, 2013	December 31, 2012 (restated)	December 31, 2013	December 31, 2012 (restated)
JSC National Company KazMunaiGas	141,732	38,189	1,478,802	786,427
JSC Kazpost	148,352	107,401	7,885	5,809
JSC Kazakhtelecom	15,702	14,209	638,668	69,663
JSC National Nuclear Company Kazatomprom	39,726	3,314	62,572	74,972
JSC KEGOC	1,983	448	52,280	12,397
JSC National Company Kazakhstan Engineering	59,563	19,827	671,959	679,231
JSC Samruk-Energo	20,671	12,593	22,859	29,961
JSC Air Astana	43	431	1,246	1,132
LLP Samruk-Kazyna Contract	2,424	1,376	25,916	21,893
JSC KOREM	-	-	2,997	2,014
LLP JV Betpak Dala	-	-	2,346	1,679
LLP JV Katco	-	-	1,969	2,951
JSC International Airport Atyrau	-	-	304	1,243
JSC Alliance Bank	-	-	-	50
JSC Development Bank of Kazakhstan	-	-	87	1
JSC BTA Bank	4	311	102,979	3,171
JSC Temir Bank	36	37	98	129
JSC Astana Finance	-	96	-	-
JSC Ekibastuz GRES-2	82,992	87,597	11,380	11,559
JSC Ekibastuz GRES-1	-	-	468,846	92,964
LLP Bogatyr Komir	22,234	289,124	477,731	138
JSC KazZinc	37,982	-	44,124	-
Other	96	18	2,794	2,955
	573,540	574,971	4,077,842	1,800,339

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Transactions for services with profit oriented state-owned entities (entities under common control) related to the Group's operating activities were as follows for the years ended December 31:

Company name	Sales of services		Purchases of services	
	2013	2012 (restated)	2013	2012 (restated)
JSC National Company KazMunaiGas	10,977,937	6,010,913	622,037	520,772
JSC Kazpost	788,977	712,552	213,660	204,134
JSC Kazakhtelecom	136,013	151,826	676,676	524,277
JSC National Nuclear Company Kazatomprom	1,214,256	1,148,171	62,450	12,444
JSC KEGOC	20,616	7,734	4,141,066	3,576,300
JSC National Company Kazakhstan Engineering	348,165	405,284	1,052,172	2,424,367
JSC Samruk-Energo	116,298	154,848	276,044	329,502
JSC Air Astana	105,039	93,697	123	60
LLP JV Betpak Dala	2,976	5,503	-	-
LLP JV Katco	14,078	15,551	-	-
JSC Kazyna Capital Management	-	5	-	-
JSC International Airport Atyrau	3,197	6,781	-	-
JSC KOREM	-	-	-	8,826
LLP Samruk-Kazyna Contract	-	-	189,193	91,315
JSC Alliance Bank	2,135	1,639	72	2
JSC Development Bank of Kazakhstan	-	14,437	1,318	27,785
JSC BTA Bank	4,830	3,637	118,889	64,495
JSC Temir Bank	1,616	1,244	1,202	1,725
JSC Astana Finance	-	1,309	-	-
JSC Ekibastuz GRES-2	23,786	54,832	15,430,203	11,987,603
JSC Ekibastuz GRES-1	14,162	19,790	4,425,788	8,287,106
LLP Bogatyr Komir	17,999,119	32,445,467	49,770	3,077
JSC KazZinc	597,012	-	10,137	-
Other	5,764	16,174	83	123
	<u>32,375,976</u>	<u>41,271,394</u>	<u>27,270,883</u>	<u>28,063,913</u>

The services provided to profit oriented state-owned entities include mainly cargo transportation services.

In addition, in the year ended December 31, 2013 the Group acquired inventories of 9,577,205 thousand tenge (2012: 13,100,542 thousand tenge), and non-current assets in the amount of 85,939 thousand tenge (2012: 9,368 thousand tenge) profit oriented state-owned entities.

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In addition to services related to operating activities, the Group has various balances and transactions with profit oriented state-owned entities related to its investments and financing including the following:

- as at December 31, 2013 and 2012 the Group's borrowings of 2,726,627 thousand tenge and 3,010,146 thousand tenge, respectively, were guaranteed by the Government of the Republic of Kazakhstan (Note 19);
- as at December 31, 2013 and 2012 the Group has loans of 21,538,619 thousand tenge, and 11,704,300 thousand tenge, respectively, from JSC Development Bank of Kazakhstan, an entity under common control (Note 19);
- as at December 31, 2013 and 2012 the Group's finance lease liabilities to JSC Development Bank of Kazakhstan, an entity under common control, amounted to 370,057 thousand tenge and 1,187,941 thousand tenge, respectively;
- as at December 31, 2013 the Group has loans of 155,797,126 thousand tenge (December 31, 2012: 136,063,458 thousand tenge) from the Shareholder. The loans received in 2013 were recognized at amortized cost and reflect a discount of 185,274,909 thousand tenge, less a deferred tax effect of 37,054,982 thousand tenge, due to such loans being issued to the Company at less than fair value (2012: discount of 33,601,679 thousand tenge, less a deferred tax effect of 6,720,336 thousand tenge) (Note 19);
- as at December 31, 2013 certain loans of joint ventures were guaranteed by the Group (Note 34);
- as at December 31, 2013 the Group has loans of 4,000,000 thousand tenge given to Tulpar-Talgo LLP, a joint venture (Note 14);
- for the years ended December 31, 2013 and 2012 the Group recognized finance cost on above mentioned loans of 8,250,933 thousand tenge and 7,770,642 thousand tenge, respectively (Note 31); and,
- as at December 31, 2013 and 2012 the Group deposited cash on current and deposit accounts with several banks under common control, including JSC BTA Bank, JSC Alliance Bank, JSC Temir Bank and JSC Development Bank of Kazakhstan. The Group recognized finance income from these bank current accounts and deposits in the amount of 1,899 thousand tenge and 47,121 thousand tenge during the years ended December 31, 2013 and 2012, respectively (Note 30). The deposits and current accounts with these banks at December 31, 2013 and 2012 consist of the following:

	December 31, 2013	December 31, 2012 (restated)
JSC BTA Bank		
Cash on current accounts and on short-term deposits with maturity period of up to three months (Note 16)	121,337	62,261
JSC Alliance Bank		
Cash on current accounts and on short-term deposits with maturity period of up to three months (Note 16)	16,350	311,589
Deposits with maturity period of 3 to 12 months (Note 12)	101,757	-
JSC Temir Bank		
Cash on current accounts and on short-term deposits with maturity period of up to three months (Note 16)	34,965	21,013
JSC Development Bank of Kazakhstan		
Cash on current accounts and on short-term deposits with maturity period of up to three months (Note 16)	794	17,401
Restricted cash	715,142	223,531

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Amounts due to and from associates and joint ventures, recorded within trade accounts payable, other current liabilities, trade accounts receivable, other current and non-current assets, as at December 31, 2013 and 2012 and transactions with associates and joint ventures for the years then ended are as follows:

	December 31, 2013	December 31, 2012 (restated)
Due		
From associates and joint ventures	46,218,374	33,063,113
To associates and joint ventures	2,698,047	790,176
	2013	2012 (restated)
Transactions with associates and joint ventures		
Sales	18,752,456	7,741,172
Purchases of services	3,307,009	3,097,790
Contribution to charter capital (Note 7)	-	9,384,984
Purchases of assets	64,973,125	7,054,614

The transactions entered into with associates and joint ventures primarily relate to purchases of property, plant and equipment and other services and are entered into at terms consistent with that of third parties.

As at December 31, 2013 amounts due to and from associates and joint ventures include advances paid to Tulpar-Talgo LLP for acquisition of passenger wagons of 21,824,138 thousand tenge (2012: 17,951,544 thousand tenge), advances paid to Electrovoz Kurastyru Zauyty LLP for acquisition of locomotives of 14,840,659 thousand tenge (2012: 14,903,951 thousand tenge) and advances paid to Locomotive Kurastyru Zauyty LLP for acquisition of locomotives of 9,308,579 thousand tenge (2012: nil).

Outstanding balances at year-end are unsecured and interest free; settlement of balances is made in cash. There have been no guarantees provided or received for any related party receivables or payables, other than guarantees disclosed in the Note 34. In the year ended December 31, 2013 the Group recovered receivables due from related parties on which an allowance for doubtful debts had been recognized of 13,647 thousand tenge (2012: recovered receivables of 54,397 thousand tenge). The requirement to recognize an allowance against related party receivables is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Group

Key management personnel comprise members of the Group's Management Board and Board of Directors and other key managers, totaling 28 persons as at December 31, 2013 (December 31, 2012: 24 persons). Compensation to key management personnel for the years ended December 31 was as follows:

	2013	2012
Salaries	258,812	249,745
Social tax	57,667	55,914
Income tax	55,045	52,335
Pension deductions	25,740	27,743
Bonuses	245,586	233,506
Social deductions	2,207	2,123
Total	645,057	621,366

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)***(in thousands of tenge unless otherwise stated)***37. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES
AND POLICIES**

The Group's principal financial instruments consist of borrowings, debt securities issued (Eurobonds), finance lease liabilities, cash and cash equivalents, and short-term deposits as well as trade accounts receivable and trade accounts payable. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and credit risk. The Group further monitors the market risk and liquidity risk arising from all financial instruments.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to the Shareholder by optimizing the balance of debt and equity. The Group's overall strategy remains unchanged from 2012.

The Group's capital structure includes net debt (which is comprised of borrowings, debt securities and finance lease liabilities as disclosed in Notes 19, 20 and 21, respectively, after deducting cash and bank balances) and equity of the Group (which is comprised of share capital, additional paid-in capital and unissued share capital, foreign currency translation reserve, retained earnings and non-controlling interests).

Significant accounting policies

The significant accounting policies and adopted methods, including criteria of recognition, evaluation basis and the basis on which income and expenses are recognized with respect to each class of financial assets, financial liabilities and equity instruments are disclosed in Note 2 to the consolidated financial statements.

Financial risk management objectives

Management of risk is an essential element of the Group's operations. The Company monitors and manages financial risks relating to the Group's operations through internal reports on risks which analyze the exposure to risk by the degree and size of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), liquidity risk and cash flow interest rate risk. A description of the Group's risk management policies in relation to those risks follows.

Interest rate risk

The interest rate risk to the Group is the risk of changes in market interest rates reducing the overall return on the Group's investments and/or increasing cash outflow on its borrowings and debt securities issued. The Group limits its interest rate risk by monitoring changes in interest rates in the currencies in which its financial instruments are held, and by maintaining a balance between its loans with fixed and floating interest rates.

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The Group's exposure to interest risk relates primarily to the Group's long-term and short-term debt (borrowings and debt securities issued), on which weighted average effective interest rates were as follows as at December 31, 2013 and 2012:

	December 31, 2013 (% per annum)	December 31, 2012 (% per annum)
Short-term borrowings:		
Tenge	8.26	9.63
US Dollars	-	3.31
Long-term borrowings:		
Tenge	7.25	7.04
US Dollars	6.19	6.27
Japanese Yen	3.73	3.83
Euro	7.52	6.48

Interest rate sensitivity analysis

The following table shows the allocation of changes in the finance income and finance costs between changes in the volume of the related financial instrument, and changes in the rate. The volume fluctuation is calculated based on the movement in the average balances and the interest rate fluctuation is calculated based on changes in interest rates on average, interest bearing assets and average interest bearing liabilities.

	2013/2012		Total change	Change in interest rate, %	2012/2010		Total change	Change in interest rate, %
	Change due to increase/(decrease) Volume	Rate			Change due to increase/(decrease) Volume	Rate		
Finance income:								
Short-term deposits	1,899,314	-	1,899,314	-	418,665	-	418,665	-
Other financial assets	(549,508)	-	(549,508)	-	(943,303)	-	(943,303)	-
Finance costs:								
Bank loans	622,771	(426,149)	196,622	(0.90%)	5,740,767	495,544	6,236,311	0.81%
Finance lease	64,305	-	64,305		(99,122)	-	(99,122)	-
Debt securities	7,526,254	-	7,526,254		4,297,983	-	4,297,983	-

The following table reflects the Group's sensitivity to a 1% increase and decrease in the interest rates (a 1% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates). The sensitivity analysis is based on an assumption that the amount of the borrowing that was outstanding at the end of the reporting period was outstanding for the whole year. The positive figure indicates the increase in profits for the reporting period in case of lowering the interest rate. In the event interest rates increase, there would be an equal and opposite effect on profits.

	2013	2012
Borrowings	455,621	641,715

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(in thousands of tenge unless otherwise stated)

Foreign currency risk

The Group undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise.

A significant portion of the Group's short-term and long-term foreign currency debt is denominated in US Dollars. A change in the tenge value against the US Dollar, or any other foreign currency in which debt is denominated will result in a foreign exchange gain or loss. The Group maintains a portion of its cash and cash equivalents and other financial assets in US dollars in order to partially offset any foreign currency gain or loss on the borrowings.

The Group limits foreign currency risk by monitoring changes in exchange rates in the currencies in which its financial instruments are denominated.

Foreign currency sensitivity analysis

The following table reflects the Group's sensitivity to a 20% increase and decrease in the value of tenge with respect to relevant foreign currencies in 2013 (2012: 10%). 20% (2012: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis is based on the amounts outstanding at the end of the period. The sensitivity analysis includes (a) external loans and accounts payable and (b) accounts receivable of the Group, when the loan or accounts payable/receivable are denominated in the currency differing from the currency of the creditor or debtor. The following table indicates changes in financial assets and liabilities, in case of strengthening of tenge by 20% with respect to the relevant currency in 2013 (2012: 10%).

The positive figure indicates the increase in profits for the reporting period and negative indicates the decrease in profits. In the event the tenge weakens by 20% (2012: 10%) with respect to the relevant currency, there would be an equal and opposite effect on profits.

	Effect of change in the exchange rate as at December 31, 2013						
	US Dollars	Euro	Swiss Francs	Russian Rubles	Great Britain Pounds	Japanese Yen	Total effect
Financial assets:							
Cash and cash equivalents	(2,588,676)	(281,234)	-	(107,852)	(724)	-	(2,978,486)
Restricted cash	(234,075)	-	-	-	-	-	(234,075)
Other financial assets	(6,840,415)	-	-	-	-	-	(6,840,415)
Trade accounts receivable	(71,094)	-	(98,356)	(21,084)	-	-	(190,534)
							(10,243,510)
Financial liabilities:							
Trade accounts payable	675,669	145,988	87,623	163,857	-	-	1,073,137
Loans and accrued interest	21,768,164	3,745,239	-	-	-	792,357	26,305,760
Debt securities	67,985,959	-	-	-	-	-	67,985,959
							95,364,856
Net effect							<u>85,121,346</u>

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)*(in thousands of tenge unless otherwise stated)*

	Effect of change in the exchange rate as at December 31, 2012 (restated)					Total effect
	US Dollars	Euro	Swiss Francs	Russian Rubles	Japanese Yen	
Financial assets:						
Cash and cash equivalents	(917,537)	(64,152)	(8,878)	(11,405)	-	(1,001,972)
Restricted cash	(117,813)	-	-	-	-	(117,813)
Other financial assets	(1,312,347)	-	-	-	-	(1,312,347)
Trade accounts receivable	(38,184)	-	(198,756)	(4,523)	-	(241,463)
						<u>(2,673,595)</u>
Financial liabilities:						
Trade accounts payable	518,787	11,753	41,318	63,153	-	635,011
Loans and accrued interest	6,791,940	24,616	-	-	542,710	7,359,266
Debt securities	33,927,651	-	-	-	-	33,927,651
						<u>41,921,928</u>
Net effect						<u>39,248,333</u>

The carrying value of financial assets and financial liabilities, denominated in foreign currencies as at December 31, 2013 and 2012 is as follows:

	December 31, 2013	December 31, 2012 (restated)
Financial assets:		
Cash and cash equivalents	14,892,434	10,019,717
Restricted cash	1,170,375	1,178,134
Other financial assets	34,202,074	13,123,468
Trade accounts receivable	952,676	2,414,622
	<u>51,217,559</u>	<u>26,735,941</u>
Financial liabilities:		
Trade accounts payable	5,365,687	6,350,109
Loans and accrued interest	131,528,797	73,592,661
Debt securities	339,929,797	339,276,508
	<u>476,824,281</u>	<u>419,219,278</u>

Credit risk

Credit risk arising from the inability of a party to meet the terms of the Group's financial instrument contracts is generally limited to the amounts, if any, by which the counterparty's obligations exceed the obligations of the Group to that party. It is the Group's policy to enter into financial instruments with a diversity of creditworthy parties. The maximum exposure to credit risk is represented by the carrying value of each financial asset.

Concentrations of credit risk may arise from exposures to a single debtor or to groups of debtors having similar characteristics such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions.

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

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The maximum exposure to credit risk with regard to trade accounts receivable domestically, and for foreign receivables were as following as at the reporting date:

	December 31, 2013	December 31, 2012 (restated)
Within the country	7,154,473	5,369,491
Outside the country	952,676	2,414,622

Procedures are in place to ensure that sales are only made to customers with an appropriate credit history and that an acceptable credit exposure limit is not exceeded. Credit risk is minimized by the fact that the Group operates on a prepayment basis with the majority of its customers. Prepayments are secured by bank guarantees.

The Group does not guarantee the obligations of other parties.

As at December 31, 2013 and 2012 the allocation of trade accounts receivable by the aging was as following:

	December 31, 2013	December 31, 2012 (restated)
Not overdue	8,096,773	7,780,918
3-6 months overdue	3,386	2,260
6-12 months overdue	6,990	935
	<u>8,107,149</u>	<u>7,784,113</u>

As at December 31, 2013 and 2012 the allocation of impaired trade accounts receivable by the aging was as following:

	December 31, 2013	December 31, 2012 (restated)
3-6 months overdue	-	287,272
6-12 months overdue	240,073	1,258,976
Over 12 months overdue	4,418,581	3,898,998
	<u>4,658,654</u>	<u>5,445,246</u>

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Group manages market risk through the periodic estimation of potential losses that could arise from adverse changes in market conditions.

Liquidity risk

The Group manages short-term, mid-term and long-term financing liquidity risk in accordance with requirements of the Shareholder. The Group manages the liquidity risk by maintaining adequate reserves, bank loans and accessible credit lines by constant monitoring of the projected and actual cash flows and comparison of maturities of financial assets and liabilities.

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The following tables reflect contractual terms of the Group's financial liabilities. The table was prepared based on the undiscounted cash flows on financial liabilities on the basis of the earliest date at which the Company can be required to pay. The table includes cash flows both on interest and principal.

	Interest rate	Less than 1 month	1-3 months	3 months – 1 year	1-5 years	Greater than 5 years	Total
2013							
<i>Non-interest bearing:</i>							
Trade accounts payable	-	40,540,988	15,390,591	21,444,040	-	-	77,375,619
Accrued salary	-	14,617,858	-	-	-	-	14,617,858
Other current liabilities	-	3,657,412	-	3,668,787	-	-	7,326,199
<i>Interest bearing:</i>							
ABN Amro Bank N.V.	3-month LIBOR + 0.07%	-	211,505	82,224	-	-	293,729
Japan Bank for International Cooperation ("JIBC")	3.00%	-	-	679,952	2,550,401	1,173,349	4,403,702
Instituto de Credito Oficial ("ICO")	2.50%	-	-	398,572	1,509,071	873,771	2,781,414
JSC Development Bank of Kazakhstan (Loan 2)	8.00%	-	182,436	176,254	169,607	-	528,297
JSC Development Bank of Kazakhstan (Loan 3)	1.15 * 6-month LIBOR + 1.28%	165,688	-	164,453	1,271,183	1,335,638	2,936,962
JSC Development Bank of Kazakhstan (Loan 4)	8.078%	-	-	1,303,558	4,597,289	3,610,180	9,511,027
JSC Development Bank of Kazakhstan (Loan 5)	7.60%	-	1,536,872	1,494,552	10,434,083	-	13,465,507
EBRD (Loan 2)	6-month LIBOR + 3.25%	-	-	1,253,492	4,640,752	1,586,007	7,480,251
EBRD (Loan 3)	3-month LIBOR + 2.95%	-	201,380	5,498,961	21,204,771	-	26,905,112
Eurasian Development Bank	7.70%	76,347	-	118,657	2,677,328	1,393,818	4,266,150
JSC NWF Samruk-Kazyna (Loan 1)	2.00%	300,000	-	300,000	2,400,000	33,300,000	36,300,000
JSC NWF Samruk-Kazyna (Loan 2)	0.75%	-	-	30,000	687,143	3,672,861	4,390,004
JSC NWF Samruk-Kazyna (Loan 3)	0.75%	-	-	112,500	2,577,679	13,781,696	16,471,875
JSC NWF Samruk-Kazyna (Loan 4)	7.20%	-	270,000	810,000	17,970,000	-	19,050,000
JSC NWF Samruk-Kazyna (Loan 5)	7.20%	-	1,080,000	3,240,000	71,880,000	-	76,200,000
JSC NWF Samruk-Kazyna (Loan 6)	2.00%	607,550	-	607,550	4,860,400	89,917,400	95,992,900
JSC NWF Samruk-Kazyna (Loan 7)	0.75%	-	-	16,164	269,020	2,095,307	2,380,491
JSC NWF Samruk-Kazyna (Loan 8)	0.10%	59,173	-	59,173	473,384	123,595,960	124,187,690
JSC NWF Samruk-Kazyna (Loan 9)	0.75%	-	153,147	-	1,915,124	25,348,957	27,417,228
JSC NWF Samruk-Kazyna (Loan 10)	0.10%	23,065	-	25,649	205,192	53,573,779	53,827,685
JSC NWF Samruk-Kazyna (Loan 11)	0.10%	-	-	8,053	32,664	8,524,760	8,565,477
JSC ATF Bank (Loan 2)	8.48%	-	40,575	250,927	766,423	-	1,057,925
JSC ATF Bank (Loan 3)	8.84%	-	-	506,273	1,325,060	-	1,831,333
Notes payable	5.48%	-	-	83,367	117,334	-	200,701
JSC Halyk Bank of Kazakhstan (Loan 2)	8.00-12.00%	298,899	591,372	3,747,972	4,158,980	-	8,797,223
JSC Halyk Bank of Kazakhstan (Loan 3)	10%	143,662	285,191	1,248,154	4,850,377	-	6,527,384
JSC Citibank Kazakhstan	3.31%	-	-	-	-	-	-
HSBC plc	6-month LIBOR + 3%	-	-	1,084,963	6,812,364	5,333,042	13,230,369
HSBC Bank France	4.80%	-	480,832	2,442,868	17,565,673	3,792,315	24,281,688
Export-Import Bank	1.7-2.25%	-	2,090,292	6,213,080	31,687,098	24,854,149	64,844,619
JSC Sberbank (Loan 2)	9.00-10.5%	39,616	680,972	290,894	891,693	-	1,903,175
JSC Sberbank (Loan 3)	9.70%	44,860	104,361	3,599,773	3,511,802	-	7,260,796
JSC Alfa bank	9.00%	68,847	264,240	2,344,968	687,544	-	3,365,599
Other loans	8.50%	4,133	7,867	815,067	-	-	827,067
Debt securities	6.38-7.00%	-	-	16,471,253	133,849,486	571,999,443	722,320,182
Finance lease	8.50-18.25%	-	-	1,057,642	4,123,390	987,324	6,168,356
		60,648,098	23,571,633	81,649,792	362,672,315	970,749,756	1,499,291,594

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FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)

(in thousands of tenge unless otherwise stated)

	Interest rate	Less than 1 month	1-3 months	3 months – 1 year	1-5 years	Greater than 5 years	Total
2012 (restated)							
<i>Non-interest bearing:</i>							
Trade accounts payable	-	60,914,088	1,990,183	35,999,150	-	-	98,903,421
Accrued salary	-	13,017,616	-	-	-	-	13,017,616
Other current liabilities	-	3,125,827	-	18,712,196	-	-	21,838,023
<i>Interest bearing:</i>							
ABN Amro Bank N.V.	3-month LIBOR + 0.07%	-	575,244	1,141,240	288,300	-	2,004,784
Japan Bank for International Cooperation ("JIBC")	3.00%	-	-	861,805	3,209,525	2,157,882	6,229,012
Instituto de Credito Oficial ("ICO")	2.50%	-	-	399,501	1,514,377	1,215,070	3,128,948
JSC Development Bank of Kazakhstan (Loan 1)	9.80%	-	-	198,719	-	-	198,719
JSC Development Bank of Kazakhstan (Loan 2)	8.00%	-	229,230	223,636	623,544	-	1,076,410
JSC Development Bank of Kazakhstan (Loan 3)	1.15 * 6-month LIBOR + 1.28%	170,573	-	169,999	1,289,647	1,632,747	3,272,068
JSC Development Bank of Kazakhstan (Loan 4)	8.078%	-	-	1,339,744	4,753,561	4,579,765	10,673,070
EBRD (Loan 1)	6-month LIBOR + 3.25% 6-month LIBOR for USD denominated deposits + 3.25%	-	1,355,930	1,336,641	9,887,815	2,251,336	14,831,722
EBRD (Loan 2)	3-month LIBOR + 2.95% for US Dollar tranche and all-in cost + 2.95% for tenge tranche	-	-	1,285,213	4,747,119	2,648,920	8,681,252
EBRD (Loan 3)	2.00%	-	416,292	4,797,477	22,898,679	3,010,889	33,123,337
JSC NWF Samruk-Kazyna (Loan 1)	2.00%	300,000	-	300,000	2,400,000	33,900,000	36,900,000
JSC NWF Samruk-Kazyna (Loan 2)	0.75%	-	-	30,900	499,524	3,890,480	4,420,004
JSC NWF Samruk-Kazyna (Loan 3)	0.75%	-	-	112,500	1,873,661	14,598,214	16,584,375
JSC NWF Samruk-Kazyna (Loan 4)	7.20%	-	267,000	813,000	19,053,000	-	20,133,000
JSC NWF Samruk-Kazyna (Loan 5)	7.20%	-	1,080,000	3,300,000	76,440,000	-	80,820,000
JSC NWF Samruk-Kazyna (Loan 6)	2.00%	488,503	-	607,550	4,860,400	91,132,500	97,088,953
JSC NWF Samruk-Kazyna (Loan 7)	0.75%	-	-	13,425	167,223	2,213,268	2,393,916
JSC ATF Bank (Loan 1)	9.93-15.00%	148,397	293,333	356,667	-	-	798,397
JSC ATF Bank (Loan 2)	8.48%	-	50,715	260,888	1,057,925	-	1,368,728
JSC ATF Bank (Loan 3)	8.84%	-	-	500,959	1,729,474	-	2,230,433
Notes payable	5.48%	-	-	82,534	189,344	-	271,878
JSC Halyk Bank of Kazakhstan (Loan 1)	11.00%	24,697	4,482	87,936	213,639	-	329,854
JSC Halyk Bank of Kazakhstan (Loan 2)	8.00-12.00%	442,143	849,963	3,071,856	8,894,024	272,816	13,530,802
JSC Citibank Kazakhstan	3.31%	-	4,540,079	-	-	-	4,540,079
JSC SB HSBC Bank Kazakhstan	6-month LIBOR + 3%	-	-	379,399	5,866,906	6,461,376	12,707,681
JSC Sberbank (Loan 2)	9.00-10.5%	18,187	51,016	229,574	3,436,249	-	3,735,026
JSC Sberbank (Loan 3)	9.70%	765,810	1,378,690	312,458	1,406,799	-	3,863,757
JSC Alfa bank	9.00%	507,413	1,091,228	1,167,999	1,435,350	-	4,201,990
Other loans	8.50%	1,318	2,508	938,125	-	-	941,951
Debt securities	6.38-7.00%	5,473,935	-	16,184,487	135,621,882	588,172,211	745,452,515
Finance lease	8.50-18.25%	-	-	1,351,102	5,168,999	1,868,529	8,388,630
		85,398,509	14,173,893	96,162,980	319,536,966	762,006,003	1,277,278,351

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

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(in thousands of tenge unless otherwise stated)

The following table reflects expected maturities of Group's financial assets. The table was prepared based on undiscounted contractual terms of financial assets, including interest received on these assets, except when the Company expects the cash flow in a different period.

	Interest rate	Less than 1 month	1-3 months	3 months – 1 year	Greater than 1 year	Indefinite settlement term	Total
2013							
<i>Interest bearing:</i>							
Short-term deposits	9.19%	36,589,147	2,574,623	-	-	-	39,163,770
Interest on short-term deposits	9.19%	95,510	16,137	-	-	-	111,647
Other financial assets	4.55%	-	3,675,149	32,839,623	1,920,024	-	38,434,796
Interest on other financial assets	4.55%	-	27,086	1,044,300	151,060	-	1,222,446
Cash and cash equivalents	0.2-7%	41,135,147	-	-	-	-	41,135,147
<i>Non-interest bearing:</i>							
Cash and cash equivalents	-	5,493,817	-	-	-	-	5,493,817
Restricted cash	-	-	-	1,170,375	-	-	1,170,375
Trade accounts receivable	-	7,632,390	105,905	368,854	-	4,658,654	12,765,803
Loans given	-	-	-	4,000,000	-	-	4,000,000
		<u>90,946,011</u>	<u>6,398,900</u>	<u>39,423,152</u>	<u>2,071,084</u>	<u>4,658,654</u>	<u>143,497,801</u>
2012 (restated)							
<i>Interest bearing:</i>							
Short-term deposits	0.20%	1,091,018	-	-	-	-	1,091,018
Interest on short-term deposits	0.20%	48	-	-	-	-	48
Other financial assets	4.51%	2,000,000	2,303,729	43,970,969	1,874,213	-	50,148,911
Interest on other financial assets	4.51%	33,222	20,709	1,300,788	99,489	-	1,454,208
Cash and cash equivalents	0.5-5.5%	52,285,742	-	-	-	-	52,285,742
<i>Non-interest bearing:</i>							
Cash and cash equivalents	-	16,329,669	-	-	-	-	16,329,669
Restricted cash	-	-	-	1,178,134	-	-	1,178,134
Trade accounts receivable	-	4,991,920	177,282	2,614,911	-	5,445,246	13,229,359
		<u>76,731,619</u>	<u>2,501,720</u>	<u>49,064,802</u>	<u>1,973,702</u>	<u>5,445,246</u>	<u>135,717,089</u>

Fair values of financial instruments

Fair value is defined as the amount at which an instrument could be exchanged in a current transaction between knowledgeable willing parties according to arm's length conditions, other than in a forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is needed to arrive at a fair value, based on current economic conditions and the specific risks attributable to the instrument.

The following methods and assumptions are used by the Group to estimate the fair value of these financial instruments:

Cash and cash equivalents

The carrying value of cash and cash equivalents approximates their fair value due to the short-term maturity of these financial instruments.

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)

(in thousands of tenge unless otherwise stated)

Financial assets and liabilities

For assets and liabilities maturing within twelve months, the carrying value approximates fair value due to the relatively short-term maturity of these financial instruments.

For financial assets and liabilities maturing in over twelve months, the fair value represents the present value of estimated future cash flows discounted at year-end market rates. Average year-end market borrowing rates were as follows as at December 31, 2013 and 2012:

	December 31, 2013 (% per annum)	December 31, 2012 (% per annum)
Tenge		
with maturity from 1 to 5 years	8.5	10.00
with maturity over 5 years	11.3	9.00
Foreign currencies		
with maturity from 1 to 5 years	9.3	10.01
with maturity over 5 years	7.4	8.10

Borrowings

The estimated fair value for loans from banks was made by discounting the scheduled future cash flows of individual loans through the estimated maturity using prevailing market rates as at the respective year-end for debt with a similar maturity and credit-rating profile. The Group's bank loans are mostly provided by international development institutions and foreign banks. As a result, the interest rates attributable to these loans although lower than those obtainable from private commercial institutions in the Republic of Kazakhstan are considered to be the market interest rates for this category of lenders. The fair value of debt securities issued (Eurobonds) has been determined based on market prices at the reporting date.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

As at December 31, 2013 and 2012 the fair value of financial assets and financial liabilities, except for borrowings, was not significantly different from its cost. Cost and fair value of long-term loans and debt securities issued (Eurobonds) as at December 31 is presented as follows:

	December 31, 2013		December 31, 2012 (restated)	
	Carrying amount	Fair value	Carrying amount	Fair value
<i>Financial liabilities</i>				
Borrowings	330,238,182	331,899,338	249,294,940	251,306,266
Debt securities (Eurobonds)	339,929,797	361,915,812	339,276,508	411,822,260

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)***(in thousands of tenge unless otherwise stated)*

	Fair value hierarchy as at December 31, 2013			
	Level 1	Level 2	Level 3	Total
Financial assets	-	-	-	-
Loans and receivables:	-	-	-	-
- loans given 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
Financial liabilities				
Financial liabilities held at amortised cost:				
- debt securities issued	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 lease payables	-	3,864,059	-	3,864,059
Total	361,915,812	329,074,985	6,688,412	697,679,209

The fair values of the financial assets and financial liabilities included in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

For trade accounts receivable and payable, the fair value approximates its carrying value.

JSC NATIONAL COMPANY KAZAKHSTAN TEMIR ZHOLY**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)***(in thousands of tenge unless otherwise stated)***38. EVENTS AFTER THE REPORTING DATE****Government programs**

On February 11, 2014, the National Bank of the Republic of Kazakhstan took the decision to reduce its intervention in setting the KZT exchange rate. As a result, the official exchange rate of KZT to US dollar fell to KZT 184.5 as at February 13, 2014, i.e. by 19%. To prevent the destabilization of the financial market and economy as a whole, the National Bank plans to set an exchange corridor for the KZT against the US dollar at KZT 182-188 per US dollar. The management of the Group believes that it has taken all necessary measures to maintain the economic stability of the Group under these conditions.

Contributions to the share capital

On January 15, 2014 the Group registered the shares of 30,000,000 thousand tenge relating to contributions received from the Shareholder in December 2013 (Note 18). Consequently, in the consolidated statement of changes in equity, the contribution was transferred from additional paid in capital to share capital.

Social facilities of Mangistau oblast for the benefit of the ultimate Shareholder

In February 2014 the Group donated part of the social facilities to the Municipality of Zhanaozen city, built pursuant to a decree of the ultimate Shareholder in the amount of 282,094 thousand tenge (Notes 13, 18 and 26).

Loans

Within the loan agreement dated November 26, 2012 concluded with Export-Import Bank of United States of America, on February 24, 2014 the Group's subsidiary JSC Locomotive entered into locomotives pledge agreement with an agent The Royal Bank of Scotland Plc. The total quantity of the pledged locomotives equals to 22 units with a carrying value of 12,472,236 thousand tenge as at December 31, 2013.

