

# Deloitte



ҚАЗТЕМИРТРАНС

**JOINT STOCK COMPANY KAZTEMIRTRANS**

**Consolidated Financial Statements**  
for the year ended December 31, 2014

# JOINT STOCK COMPANY KAZTEMIRTRANS

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**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES  
FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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Management of the Group is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of Joint Stock Company Kaztemirtrans (the "Company") and its subsidiaries (jointly referred to as the "Group") as at December 31, 2014, and consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("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 IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and consolidated financial performance;
- 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 Kazakhstani 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.

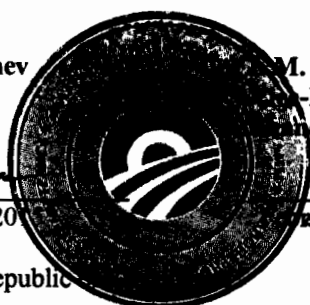
The consolidated financial statements of the Group for the year ended December 31, 2014 were approved by management of Joint Stock Company Kaztemirtrans on February 24, 2015.

**E. T. Zhakishev**  
President



February 24, 2015

Astana, the Republic of Kazakhstan



**M. Akhmurzin**  
Vice-President of economics and  
finance



February 24, 2015

**M.N. Uzenbayev**  
Chief accountant



February 24, 2015

## INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of Joint Stock Company Kaztemirtrans

We have audited the accompanying consolidated financial statements of Joint Stock Company Kaztemirtrans (the "Company") and its subsidiaries (jointly – the "Group") which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2014, 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, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's 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 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 auditor's 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 system relevant to the 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 Group'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, 2014, and its consolidated financial performance and its consolidated cash flows for the year 2014 in accordance with International Financial Reporting Standards.

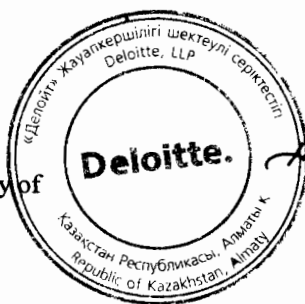
### *Emphasis of matter*

As described in Note 9 to the consolidated financial statements, 84.5% of the Group's trade accounts receivable as at December 31, 2014 were due from related parties. Our opinion is not qualified in respect of this matter.

Olga Belonogova  
Engagement Partner  
Chartered Accountant  
Oregon State, USA  
License No.10687  
dated December 2, 2003

Daulat Kuatbekov  
Qualified auditor  
Qualification certificate No.0000523,  
dated February 15, 2002  
Republic of Kazakhstan

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



Nurlan Bekenov  
General Director  
Deloitte, LLP

February 24, 2015  
Almaty, the Republic of Kazakhstan

# JOINT STOCK COMPANY KAZTEMIRTRANS

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2014 (in thousands of Kazakhstani tenge)

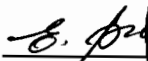
	Notes	December 31, 2014	December 31, 2013
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	4	390,597,266	403,711,130
Intangible assets		500,758	809,328
Investments in joint ventures	5	3,024,081	240,511
Other non-current assets	6	16,005,924	16,185,518
Loans given	7	63,582,145	140,589,843
<b>Total non-current assets</b>		<b>473,710,174</b>	<b>561,536,330</b>
<b>CURRENT ASSETS</b>			
Inventories	8	5,148,354	3,887,412
Trade accounts receivable	9	12,006,899	4,591,833
Other financial assets	10	6,709,168	12,517,759
Income tax prepaid		698,987	1,176,680
Other taxes recoverable	11	5,759,078	6,236,620
Other current assets	12	1,240,868	2,144,589
Current portion of long-term loans given	7	629,498	1,464,234
Cash and cash equivalents	13	2,062,138	6,443,068
		<b>34,254,990</b>	<b>38,462,195</b>
Assets classified as held for sale	14	8,188,576	152,763
<b>Total current assets</b>		<b>42,443,566</b>	<b>38,614,958</b>
<b>TOTAL ASSETS</b>		<b>516,153,740</b>	<b>600,151,288</b>
<b>EQUITY</b>			
Share capital	15	67,726,866	62,297,106
Additional paid-in capital	15	-	5,429,760
Retained earnings		23,786,384	59,620,101
Equity attributable to the shareholder of the Parent		91,513,250	127,346,967
Non-controlling interests		158,719	135,026
<b>TOTAL EQUITY</b>		<b>91,671,969</b>	<b>127,481,993</b>
<b>NON-CURRENT LIABILITIES</b>			
Employee benefit obligations	16	153,659	222,793
Long-term loans	18	317,353,163	87,061,235
Debt securities issued	19	63,582,145	338,063,638
Finance lease liabilities	20	219,852	290,314
Deferred income tax liabilities	17	13,709,695	20,850,034
<b>Total non-current liabilities</b>		<b>395,018,514</b>	<b>446,488,014</b>

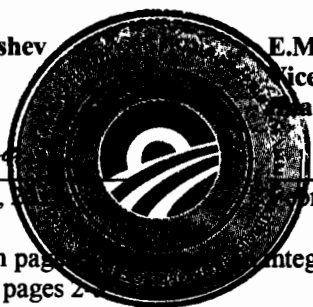
# JOINT STOCK COMPANY KAZTEMIRTRANS

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)


	Notes	December 31, 2014	December 31, 2013
<b>CURRENT LIABILITIES</b>			
Current portion of debt securities issued	19	624,237	1,866,159
Current portion of finance lease liabilities	20	79,743	79,743
Current portion of long-term loans	18	7,923,057	7,275,036
Current portion of employee benefit obligations	16	13,525	14,396
Trade accounts payable	21	8,475,003	11,084,757
Taxes payable and obligatory payments to budget	22	903,670	1,073,291
Other current liabilities	23	5,530,489	4,787,899
		23,549,724	26,181,281
Liabilities directly associated with the assets classified as held for sale	14	5,913,533	-
<b>Total current liabilities</b>		<b>29,463,257</b>	<b>26,181,281</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>516,153,740</b>	<b>600,151,288</b>

E. T. Zhakishev  
President

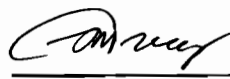
  
February 24, 2015



E.M. Akhmurzin  
Vice-President of economics and  
finance

  
February 24, 2015

M.N. Uzenbayev  
Chief accountant

  
February 24, 2015

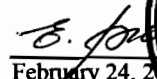
The notes on pages 2-4 are an integral part of the consolidated financial statements. The Independent Auditor's Report is on pages 2-4.

# JOINT STOCK COMPANY KAZTEMIRTRANS

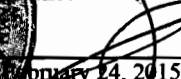
## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2014 (in thousands of Kazakhstani tenge)

	Notes	2014	2013
<b>Continuing operations</b>			
Revenue from services provided	24	106,688,851	107,512,436
Cost of services provided	25	(84,473,314)	(73,044,165)
<b>Gross profit</b>		<b>22,215,537</b>	<b>34,468,271</b>
General and administrative expenses	26	(7,928,816)	(10,055,453)
Finance income	27	10,552,962	11,248,904
Finance costs	28	(29,891,866)	(28,279,394)
Foreign exchange loss	29	(40,504,914)	(4,310,730)
Share of profit from revaluation of contribution in joint venture	5	898,862	-
Share of profit of joint venture	5	1,554,212	150,511
Gain from disposal of subsidiaries	31	420,326	-
Other income	30	811,069	766,004
<b>(Loss)/profit before income tax</b>		<b>(41,872,628)</b>	<b>3,988,113</b>
Corporate income tax benefit/(expense)	17	7,127,200	(1,298,898)
<b>(Loss)/profit for the year from continuing operations</b>		<b>(34,745,428)</b>	<b>2,689,215</b>
<b>Discontinued operations</b>			
Loss for the year from discontinued operations	14	(748,297)	(619,218)
<b>(Loss)/profit for the year</b>		<b>(35,493,725)</b>	<b>2,069,997</b>
<b>Other comprehensive loss:</b>			
<i>Other comprehensive income/(loss) that will not be reclassified subsequently to profit or loss:</i>			
Actuarial remeasurement of employee benefit obligations	16	(5,139)	(77,113)
<b>Other comprehensive loss for the year</b>		<b>(5,139)</b>	<b>(77,113)</b>
<b>Total comprehensive (loss)/income for the year</b>		<b>(35,498,864)</b>	<b>1,992,884</b>
<b>(Loss)/profit for the year attributable to:</b>			
Shareholder of the Parent		(35,515,504)	2,087,162
Non-controlling interests		21,779	(17,165)
		<b>(35,493,725)</b>	<b>2,069,997</b>
<b>Total comprehensive (loss)/ income attributable to:</b>			
Shareholder of the Parent		(35,520,643)	2,018,867
Non-controlling interests		21,779	(25,983)
		<b>(35,498,864)</b>	<b>1,992,884</b>
(Loss)/earnings per share from continuing and discontinued operations, tenge	32	(570)	34
(Loss)/earnings per share from continuing operations, tenge	32	(558)	43

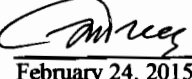
E. T. Zhakishev  
President

  
February 24, 2015

E. M. Akhmurzin  
Vice-President of economics and  
finance

  
February 24, 2015

M.N. Uzenbayev  
Chief accountant

  
February 24, 2015

The notes on pages 2-3 are an integral part of the consolidated financial statements. The Independent Auditor's Report is on pages 2-3.



# JOINT STOCK COMPANY KAZTEMIRTRANS

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2014 (in thousands of Kazakhstani tenge)

	Notes	2014	2013
<b>Cash flows from operating activities:</b>			
(Loss)/profit before income tax from continuing operations		<b>(41,872,628)</b>	<b>3,988,113</b>
Loss before income tax from discontinued operations	14	<b>(729,951)</b>	<b>(630,187)</b>
Adjustments for:			
Depreciation and amortization		22,272,651	20,756,601
Finance costs	28, 14	30,170,754	28,620,362
Finance income	27, 14	(10,561,461)	(11,250,657)
Allowance for doubtful debts	9, 12, 26	662,663	242,126
Employee benefit costs	16	(25,113)	39,726
Gain from disposal of subsidiaries	31	(420,326)	-
Share of profit from revaluation of contribution in joint venture	5	(898,862)	-
Share of profit of joint venture	5	(1,554,212)	(150,511)
Foreign exchange loss		40,784,107	4,370,262
<b>Operating profit before working capital changes:</b>		<b>37,827,622</b>	<b>45,985,835</b>
(Increase)/decrease in trade accounts receivable		(7,942,729)	8,708,431
(Increase)/decrease in inventories		(1,585,684)	640,584
Decrease/(increase) in other current assets		828,180	(601,333)
Increase/(decrease) in trade accounts payable		927,126	(17,272,752)
Increase in taxes payable and obligatory payments to budget		3,869,964	5,715,670
Increase in other current liabilities		868,974	1,556,316
Decrease in employee benefit obligations	16	(13,568)	(97,114)
<b>Cash generated from operations</b>		<b>34,779,885</b>	<b>44,635,637</b>
Interest paid		(28,189,393)	(33,695,106)
Income tax paid		(2,753,572)	(2,315,565)
<b>Net cash flows generated by operating activities</b>		<b>3,836,920</b>	<b>8,624,966</b>
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment and advances paid for the purchase of non-current assets		(19,901,401)	(29,135,140)
Deposits placed		(22,242,490)	(16,832,155)
Deposits withdrawn		30,385,656	22,255,195
Interest received		10,354,238	9,992,839
Loans given to the Parent and its subsidiaries		-	(24,085,311)
Repayment of loans given to the Parent and its subsidiaries		-	24,259,819
Net cash inflow on disposal of subsidiaries	31	1,365,431	-
Net cash inflow on acquisition of subsidiary		11,363	-
Purchase of investments in joint venture		-	(90,000)
Dividends received from joint venture	5	106,777	-
Proceeds from disposal of property, plant and equipment		201,800	438,470
Purchase of intangible assets		(51,744)	(1,841)
<b>Net cash flows generated from/(used in) investing activities</b>		<b>229,630</b>	<b>(13,198,124)</b>

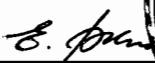
# JOINT STOCK COMPANY KAZTEMIRTRANS

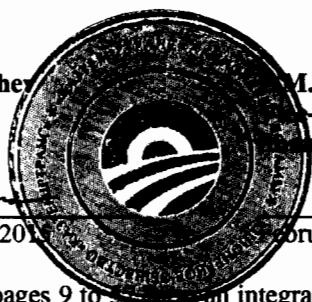
## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

	Notes	2014	2013
<b>Cash flows from financing activities:</b>			
Proceeds from long-term loans		-	493,378
Repayment of long-term loans		(8,011,491)	(6,965,016)
Dividends paid	15	(313,074)	(2,159,371)
Finance lease payments		(70,095)	(830,964)
<b>Net cash flows used in financing activities</b>		<b>(8,394,660)</b>	<b>(9,461,973)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(4,328,110)</b>	<b>(14,035,131)</b>
Cash and cash equivalents at the beginning of the year	13	6,443,068	20,493,190
Effect of exchange rate change on cash and cash equivalents, denominated in foreign currencies		(7,550)	(14,991)
<b>Cash and cash equivalents at the end of the year</b>	13	<b>2,107,408</b>	<b>6,443,068</b>
<b>Non-cash transactions:</b>			
Offset of receivables against services rendered to and provided by the Parent		26,005,840	16,519,535
Contribution of property, plant and equipment to share capital by the Parent	15	-	5,429,760

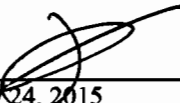
During 2014, the Group transferred liabilities on debt securities issued of 1,800,000,000 US Dollars, premium of 51,773,477 US Dollars and interest payable of 23,604,243 US Dollars (327,482,000 thousand tenge, 9,424,127 thousand tenge and 4,296,390 thousand tenge, correspondingly, as at the date of transfer) (Note 19) to JSC NC KTZh. The Group recognized a loan payable to JSC NC KTZh of 1,290,000,000 US Dollars, the discount of 6,239,407 US Dollars and interest payable of 20,499,009 US Dollars (234,742,000 thousand tenge, 1,135,367 thousand tenge and 3,731,207 thousand tenge, correspondingly, as at the transfer date) (Note 18) and made offset of loans given to JSC NC KTZh of 568,441,409 US Dollars and interest accrued of 2,756,381 US Dollars (103,377,505 thousand tenge and 501,704 thousand tenge, correspondingly, as at the transfer date) (Note 7).

E. T. Zhakishev  
President


  
February 24, 2015



M. Akhmurzin  
President of economics and  
finance

  
February 24, 2015

M.N. Uzenbayev  
Chief accountant

  
February 24, 2015

The notes on pages 9 to 13 are an integral part of the consolidated financial statements. The Independent Auditor's Report is on pages 2-3.

**JOINT STOCK COMPANY KAZTEMIRTRANS**

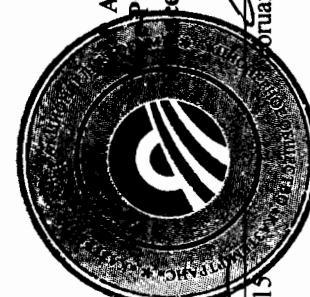
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2014**  
*(in thousands of Kazakhstani tenge)*

	Notes	Share capital	Additional paid-in capital	Retained earnings	Total equity attributable to the shareholder of the Parent	Non-controlling interests	Total equity
At January 1, 2013		61,851,793	445,313	59,760,605	122,057,711	161,009	122,218,720
Profit for the year		-	-	2,087,162	2,087,162	(17,165)	2,069,997
Other comprehensive loss for the year		-	-	(68,295)	(68,295)	(8,818)	(77,113)
Total comprehensive income		-	-	(2,018,867)	(2,018,867)	(25,983)	1,992,884
Transfer due to legal registration of shares issue	15	445,313	(445,313)	-	-	-	-
Contribution into share capital		-	5,429,760	-	5,429,760	-	5,429,760
Dividends paid	15	-	-	(2,159,371)	(2,159,371)	-	(2,159,371)
At December 31, 2013		62,297,106	5,429,760	59,620,101	127,346,967	135,026	127,481,993
Loss for the year		-	-	(35,515,504)	(35,515,504)	21,779	(35,493,725)
Other comprehensive loss		-	-	(5,139)	(5,139)	-	(5,139)
Total comprehensive loss for the year		-	-	(35,520,643)	(35,520,643)	21,779	(35,498,864)
Transfer due to legal registration of shares issue		5,429,760	(5,429,760)	-	-	-	-
Dividends paid	15	-	-	(313,074)	(313,074)	-	(313,074)
Acquisition of subsidiary	34	-	-	-	-	1,914	1,914
At December 31, 2014		67,726,866	-	23,786,384	91,513,250	158,719	91,671,969

E. T. Zhakishev  
President

Akhmurzin  
President of economics and  
finance

M.N. Uzenbayev  
Chief accountant



February 24, 2015

February 24, 2015

February 24, 2015

The notes on pages 9 to 57ss form an integral part of the consolidated financial statements. The Independent Auditor's Report is on pages 2-3.

# JOINT STOCK COMPANY KAZTEMIRTRANS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (in thousands of Kazakhstani tenge)

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### 1. GENERAL INFORMATION

Joint Stock Company Kaztemirtrans (the “Company”) was organized according to the decision of the Board of Directors of JSC National Company Kazakhstan Temir Zholy, the sole shareholder of the Company (the “Parent” or JSC NC KTZh). The Company was registered on October 21, 2003, however the capital was paid by several contributions starting from November 14, 2003 (the “Inception date”) and the Company started its operations since that date.

The Company’s principal activity is carriages operator services, rent of carriages and rendering of carriages operator services, and providing of transportation and forwarding services in the Republic of Kazakhstan and outside it. The Company is the owner of the fleet of cargo carriages of the Republic of Kazakhstan.

The Company is defined as dominating (monopolistic) on the market of the following services: operator services of platforms, operator services of carriages, rent of railway carriages and operates according to the Law of the Republic of Kazakhstan “On competition and the Regulation of Monopolistic Activities”.

In accordance with complex privatization plan for 2014-2016 approved by the Decree of the Government of the Republic of Kazakhstan No.280 dated March 31, 2014 JSC NC KTZh plans to sale 49% share in the Company.

According to the Action Plan for the reorganization of JSC National Company Kazakhstan Temir Zholy and the implementation of preparatory activities for 2014-2020 approved by the Committee on the development of JSC National Company Kazakhstan Temir Zholy №ІІКРopр/05-01/5 dated August 29, 2014, for a full and independent exercise of the functions of the national freight carrier will be formed JSC KTZh - Freight on the basis of JSC Locomotive and by merging 51% of shares of JSC Kaztemirtrans. The implementation term of the activity is from September 2014 till July 2015. Currently, no actions are taken to implement the Plan.

The consolidated financial statements include the results of the operations of Joint Stock Company Kaztemirtrans and its subsidiaries as listed in Note 34. The Company and its subsidiaries are together referred to as the “Group”.

The average number of the Group’s employees in 2014 were 1,956 people (2013: 2,606 people).

The registered office of the Company is: 10, Kunayev Street, 010000, Astana, the Republic of Kazakhstan.

The consolidated financial statements were authorized for issue by management of the Company represented by the President, Vice-President of economics and finance, and Chief accountant on February 24, 2015.

### 2. DESCRIPTION OF ENVIRONMENT

#### *Operational Environment*

Emerging markets, including Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market, which decreased significantly during 2014. Management is unable to reliably estimate the effects of any further price fluctuations on the Group’s financial position.

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

(in thousands of Kazakhstani tenge)

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#### 3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

##### Standards and interpretations adopted in the current period

In the current year, the Group adopted for the first time a number of new and revised IFRS considered obligatory from January 1, 2014:

- Amendments to IFRS 10, IFRS 12 and IAS 27 - *Investment Entities*;
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*;
- Amendments to IAS 36 *Impairment of assets - Recoverable Amount Disclosures for Non-Financial Assets*;
- Amendments to IAS 39 *Financial Instruments: recognition and measurement - Novation of Derivatives and Continuation of Hedge Accounting*;
- IFRIC 21 *Levies*.

##### *Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities*

The amendments to IFRS 10 introduce an exception from the requirement to consolidate subsidiaries for an investment entity. Instead, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss. The exception does not apply to subsidiaries of investment entities that provide services that relate to the investment entity's investment activities.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

*Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.*

These amendments do not have any effect on the financial statements as the Company is not an investment entity.

##### *Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities*

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'. There is no significant effect of these amendments on the Group's consolidated financial statements.

##### *Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets*

The amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or cash-generating unit to periods in which an impairment loss has been recognised or reversed. In addition, they expand and clarify the disclosure requirements applicable when recoverable amount has been determined on the basis of fair value less costs of disposal. These amendments affect disclosures only and do not have any impact of these consolidated financial statements.

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

#### *Amendments to IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting*

These amendments allow the continuation of hedge accounting when a derivative is novated to a clearing counterparty and certain conditions are met. There is no effect of these amendments on the consolidated financial statements as the Group does not apply hedge accounting.

#### *IFRIC 21 Levies*

The interpretation is applicable to all payments imposed by governments under legislation, other than income taxes that are within the scope of IAS 12 and fines and penalties for breaches of legislation. The interpretation clarifies that a liability to pay a levy should only be recognised when an obligating event has occurred and provides guidance on how to determine whether a liability should be recognised progressively over specific period or in full at a specific date. The same principles should be applied in interim financial statements. There was no effect of the interpretation on these consolidated financial statements.

#### **Standards and interpretations issued but not yet in force:**

The Group has not applied the following new and revised IFRS and IFRIC (issued but not yet in force):

	<b>Valid for reporting periods starting from and after</b>
<i>IFRS 9 Financial Instruments</i>	January, 1 2018
<i>IFRS 14 Regulatory Deferral Accounts</i>	January, 1 2016
<i>IFRS 15 Revenue from Contracts with Customers</i>	January, 1 2017
Adjustments to IAS 16 <i>Property, Plant and Equipment</i> and IAS 38 <i>Intangible Assets</i> , regarding clarifications to admissible depreciation and amortisation methods	January, 1 2016
Adjustments to IFRS as part of <i>IFRS Improvements 2010–2012 and IFRS Improvements 2011–2013</i>	July, 1 2014
Adjustments to IFRS as part of <i>IFRS Improvements September 2014</i>	January, 1 2016

During 2014, certain IFRS have been revised and new standards issued that have not yet become effective. The most significant future change is expected from IFRS 9 and IFRS 15.

#### *IFRS 9 Financial Instruments*

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014, IASB issued a finalised version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements for financial assets. IFRS 9 is aiming at replacing IAS 39 Financial Instruments: Recognition and Measurement.

The standard is effective from January 1, 2018 with early application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

The management of the Group anticipates that the application of IFRS 9 in the future may have an impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

The Group did not early adopt any standard, amendment or interpretation that has been issued and is not yet effective.

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

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#### *IFRS 15 Revenue from Contracts with Customers*

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective. The standard is effective for annual periods beginning on or after January 1, 2017.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- identify the contract with the customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contracts;
- recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

The management of the Group anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

The Group did not early adopt any other standard, amendment or interpretation that has been issued and is not yet effective.

#### **Significant accounting judgments and estimates**

The preparation of the consolidated financial statements in conformity with IFRS requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of information on contingent assets and liabilities as at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Besides the fact that these estimations are based on historical knowledge and other significant factors, events or actions can be formed in such a way that actual outcomes could differ from these 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.

#### *Capitalization of expenses*

The Group performs capital repairs which extend useful lives of carriages only once during the useful life of the carriage based on major technical inspections for faults. Expenditures on major technical inspections are capitalized into the cost of such carriages and are proportionally depreciated over the revised remaining useful life. In case of major technical inspection the useful life is increased for 5-16 years.

#### *Impairment of assets*

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

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

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The assessment of whether there is an indication of impairment is based on a number of factors, such as 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 that indicate any impairment exists.

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 recognised. 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 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.

#### *Depreciation of property, plant and equipment*

Depreciation of property, plant and equipment is computed using the straight-line method over estimated useful lives. The Group establishes useful lives of its assets. The estimates of useful lives, residual values and methods of depreciation are reviewed at each financial year end, 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.

#### *Allowances*

The Group creates allowances for doubtful debts. Significant judgment is used to estimate doubtful debts. In estimating doubtful debts historical and anticipated customer performance are considered. Changes in the economy or specific customer conditions may require adjustments to the allowance for doubtful debts recorded in these consolidated financial statements.

#### **Going concern**

These consolidated financial statements have been prepared in accordance with IFRS on a going concern basis. Currently, the Group and its parent company follow the State program of development and infrastructure integration of the transport system of the Republic of Kazakhstan till 2020 approved by the President decree No.725 dated January 13, 2014. In accordance with the action plan for the reorganization of JSC National Company Kazakhstan Temir Zholy, it is planned to form the national freight carrier (Note 1).

#### **Segment information**

Business segments are the Group's primary format for reporting segment information. For the purpose of these consolidated financial statements one business segment represented by carriage operator services, rental of carriages and providing transport and freight forwarding services is defined as a reportable segment in the Republic of Kazakhstan.

#### **Functional currency and foreign currency transactions presentation**

The consolidated financial statements of the Group are presented in the currency of the economic environment in which the separate companies operate (its functional currency). For the purposes of these consolidated financial statements the financial results of activities and financial position of the Group are expressed in Kazakhstani Tenge ("tenge"), which is the functional currency of the Company and its subsidiaries and presentation currency for these consolidated financial statements.

Tenge is not a fully convertible currency outside the Republic of Kazakhstan. Transactions in foreign currencies are recorded at the market rate prevailing at the date of the transaction using market rates, quoted by Kazakhstan Stock Exchange ("KASE"). For foreign currencies which are not quoted by KASE, the exchange rates are calculated by the National Bank of the Republic of Kazakhstan using the cross-rates to the US Dollars in accordance with the quotations received from REUTERS.



## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

Monetary assets and liabilities, denominated in foreign currencies, are translated at the exchange rate prevailing at the reporting date of the consolidated statement of financial position. All differences arising from the change in exchange rates subsequent to the date of a transaction are 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 the tenge at the following dates:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
US Dollars	182.35	153.61
Euro	221.97	211.17
Russian Ruble	3.17	4.69

The following table summarizes the foreign currency weighted average exchange rates for tenge for the years ended December 31:

	<u>2014</u>	<u>2013</u>
US Dollars	179.19	152.13
Euro	238.10	202.09
Russian Ruble	4.76	4.78

#### *Basis of preparation of the financial statements*

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.

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 financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, 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.

#### **Principles of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries listed in Note 34.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The purchase method of accounting is used for acquired businesses. All intercompany transactions, balances, and unrealized gains and losses on transactions between Group companies have been eliminated.

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

(in thousands of Kazakhstani tenge)

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#### **Recognition of financial instruments**

The Group recognizes financial assets and liabilities in its consolidated statement of financial position when, and only 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

The Group has the following financial assets: cash and cash equivalents, trade accounts receivable, loans given, other accounts receivable and other financial assets.

Financial assets are classified into the following specified categories: financial assets “at fair value through profit or loss”, “held-to-maturity” investments, “available-for-sale” 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.

#### *Cash and cash equivalents*

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

#### *Trade accounts receivable*

Trade accounts receivable are recognized and carried in the consolidated statement of financial position at the original invoice amount less an allowance for any doubtful debts. An estimate of allowance for doubtful debts is made when collection of the full amount is no longer probable. The allowance for doubtful debts is reviewed periodically, and as adjustments become necessary, they are reported as expense in the period in which they become known. Bad debts are written-off when identified against an allowance previously accrued.

#### *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 have joint control of the arrangement have rights to the net assets of the joint 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.

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

(in thousands of Kazakhstani tenge)

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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.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

#### *Loans given and other accounts receivable*

Loans given and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate method. Income and expenses, arising upon derecognition of an asset in the consolidated financial statements and upon impairment and accrual of amortization, are recognized in the consolidated statement of profit or loss and other comprehensive income.

#### *Other financial assets*

Other financial assets are non-derivative financial assets including deposits with fixed or determinable payments that are not quoted in an active market, with original maturity more than three months. Such assets are carried at amortized cost using the effective interest rate method less any impairment.

#### *Impairment of financial assets*

Financial assets, except for assets stated at fair value through profit or loss are measured for indication of impairment at each reporting date. The 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 a change in expected future cash flows on the investment. For financial assets stated at amortized cost the amount of impairment represents the difference between the carrying value of an asset and present value of the expected future cash flows discounted at initially 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, when the carrying value is decreased by use of the allowance for doubtful debts. When trade accounts receivable are not collectible, they are written off against the allowance for doubtful debts. Subsequent recoveries of amounts previously written off are credited against the allowance for doubtful debts. Changes in the carrying value of the allowance for doubtful debts are recognized in the consolidated statement of profit or loss and other comprehensive income.

Except for equity instruments classified as available for sale, 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 the consolidated statement of profit or loss and other comprehensive income for the period 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*

The Group has following financial liabilities: trade and other accounts payables, interest bearing loans and borrowings.

#### *Trade and other accounts payable*

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

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

(in thousands of Kazakhstani tenge)

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#### *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.

#### **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 of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in 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 part of financial liability) is derecognized when it is discharged, in case when the obligation under the liability executed, cancelled or expired.

#### **Inventories**

Inventory largely comprises items that are used in the process of economical activities for supporting use of the carriages, finished goods (cargo carriages) production and not for the trading purposes.

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

#### **Non-current assets and disposal groups held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered 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.

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

(in thousands of Kazakhstani tenge)

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 after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with IAS 39 unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method.

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

#### **Property, plant and equipment**

Property, plant and equipment are initially recorded at cost or deemed cost, net of accumulated depreciation and impairment losses.

The cost of purchased property, plant and equipment is the 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 the 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, financing costs that are directly attributable to the project, and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalized as soon as an asset is ready for its intended use.

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 the consolidated statement of profit or loss and other comprehensive income in the year when the asset is derecognized.

Carrying value of asset, useful life and methods are revised and adjusted, in case of need, at the end of each financial year.

#### *Subsequent expenditures*

Subsequent expenditures on an item of property, plant and equipment are capitalized to the extent that the flow of the future economic benefits is probable and these expenditures can be reliably measured in accordance with Group's accounting policy.

All other subsequent expenditures, such as repair and maintenance expenditures are charged to expenses when incurred.

#### *Depreciation*

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows, as applied to current and comparative years (in years):

Buildings and constructions	20-45
Machinery and equipment	6-15
Transport	15-32
Other	4-10

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

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#### *Impairment of property, plant and equipment*

The carrying amounts of property, plant and equipment are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. Where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. Recoverable amount is greater of the net selling price and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

#### **Borrowing costs**

Borrowing costs that are directly attributable to acquisition, construction and production of qualifying assets, are added to the value of these assets until the assets are mainly ready for intended use or sale. Investment income from a temporary investment of certain loans, expected to be used on qualifying assets, is deducted from borrowing costs on loans, which are allowed for capitalization. All other borrowing costs are recognized in the profit and losses for the period when they arise.

Borrowing costs also include the exchange differences arising from loans in foreign currencies to the extent in 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 through profit or loss.

#### **Employee benefits**

##### *Defined benefit scheme*

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 within non funded plan:

- one-time retirement grant;
- annual financial support to pensioners;
- free train passenger tickets;
- funeral aid; and
- material 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 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.

The Group presents service cost (including current service cost, past service cost) and net interest expense or income in profit or loss in the line item “employee benefit expenses”. Curtailment gains and losses are accounted for as past service costs. The Group presents the ‘Remeasurement’ component in other comprehensive income.

#### **Equity**

##### *Share capital*

Ordinary shares are classified as equity. External 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. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

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#### *Dividends*

Dividends are recognized as a liability and deducted from the equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed in the consolidated financial statements 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.

#### **Recognition of revenue and expenses**

##### *Recognition of revenue*

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured as a fair value of remuneration received or receivable.

##### *Revenue from carriage operator services*

Revenue from carriage operator services is recognized at the moment of transfer of carriage to customer.

Prepayments received from customers for the transportation services, which were not provided, are recorded as advance received from customers at the moment of its receipt. Prepayment is transferred to revenue account and revenue from services is recorded as services are being rendered.

##### *Revenue from rent of carriages*

Revenue from rent of carriages is recognized based on actual number of days of cargo carriages rent.

##### *Recognition of expenses*

Expenses are recognized as incurred and are reported in the consolidated financial statements in the period to which they relate.

#### **Taxes**

##### *Current income 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 as at the date of consolidated statement of financial position.

##### *Deferred income tax*

Deferred income tax is provided, using the liability method, on all temporary differences at the date of consolidated statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. 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 in the consolidated statement of financial position if the temporary differences arise from goodwill or from initial recognition of other assets and liabilities in a transaction (except transactions on business combinations) 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.

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

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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 date of consolidated statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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 date of consolidated statement of financial position.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off 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 rewards incidental to 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 lease*

The Group recognizes finance leases as assets and liabilities in consolidated statement of financial position at amounts equal at the commencement of the lease term to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. 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 it; 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 less than that period. If the period of lease is less than the amortization period of similar fixed assets, the leased asset is amortized based on the lease period.

#### **Provisions**

Provisions are recognized in the consolidated financial statements when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

#### **Subsequent events**

Post-year-end events that provide additional information about the Group's consolidated financial position at the reporting date (adjusting events) are recorded in the consolidated financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.



## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

#### Changes in classification affecting comparative information

In accordance with the Government Privatization plan for 2014-2016 approved by the Decree of the Government of the Republic of Kazakhstan No.280 dated March 31, 2014, the Group plans to dispose 69.94% share in Kazakhstan Carriage Construction Company LLP.

The Group recognized the results of operations of this subsidiary, which represents a major line of business, as discontinued operations and, accordingly, restated the comparative amounts for the year ended December 31, 2013.

2013	As previously reported	Discontinued operations	Restated
Revenue from services provided	107,578,306	(65,870)	107,512,436
<b>Total revenue</b>	<b>107,578,306</b>	<b>(65,870)</b>	<b>107,512,436</b>
Cost of services provided	(73,109,136)	64,971	(73,044,165)
<b>Gross profit (loss)</b>	<b>34,467,170</b>	<b>(899)</b>	<b>34,468,271</b>
General and administrative expenses	(10,354,860)	299,407	(10,055,453)
Finance income	11,250,657	(1,753)	11,248,904
Finance costs	28,620,362	340,968	(28,279,394)
Foreign exchange loss	(4,370,262)	59,532	(4,310,730)
Other income and expenses	833,072	(67,068)	766,004
<b>Profit before income tax</b>	<b>3,357,926</b>	<b>630,187</b>	<b>3,988,113</b>
Corporate income tax expense	(1,287,929)	(10,969)	(1,298,898)
<b>Profit for the year from continuing operations</b>	<b>2,069,997</b>	<b>619,218</b>	<b>2,689,215</b>
<b>Loss for the year from discontinued operations</b>	<b>-</b>	<b>(619,218)</b>	<b>(619,218)</b>

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

#### 4. PROPERTY, PLANT AND EQUIPMENT

The movement in property, plant and equipment for the year ended December 31, 2014 was as follows:

	Land	Buildings and constructions	Machinery and equipment	Railway transport	Other transport	Other	Construction in progress	Total
<b>Historical cost:</b>								
At January 1, 2014	46,760	10,771,763	7,493,700	467,812,762	353,425	267,418	2,786,231	489,532,059
Additions	-	48,307	66,117	-	45,847	3,011	16,963,552	17,126,834
Internal transfer	-	120,046	1,563,887	11,837,639	15,600	3,692	(13,540,864)	-
Sale of subsidiaries (Note 31)	-	(550,074)	(313,769)	-	(74,169)	(13,198)	(8,410)	(959,620)
Contribution into share capital of joint venture (Note 5)	-	-	-	(1,898,617)	-	-	-	(1,898,617)
Transfer to non-current assets classified as held for sale (Note 14)	(7,916)	(3,602,653)	(4,187,572)	(4,779,322)	(23,122)	(80,348)	(180,737)	(12,861,670)
Disposals	-	(4,087)	(29,632)	(798,094)	(3,811)	(682)	-	(836,306)
At December 31, 2014	38,844	6,783,302	4,592,731	472,174,368	313,770	179,893	6,019,772	490,102,680
<b>Accumulated depreciation and impairment:</b>								
At January 1, 2014	-	(738,454)	(2,022,510)	(82,798,932)	(149,720)	(111,313)	-	(85,820,929)
Depreciation charge for the year	-	(243,253)	(844,910)	(20,811,211)	(32,449)	(25,332)	-	(21,957,155)
Sale of subsidiaries (Note 31)	-	47,564	113,987	-	27,975	4,328	-	193,854
Contribution into share capital of joint venture (Note 5)	-	-	-	1,461,344	-	-	-	1,461,344
Transfer to non-current assets classified as held for sale (Note 14)	-	122,583	1,140,259	4,536,394	1,339	25,781	-	5,826,356
Disposals	-	1,650	25,468	760,433	2,983	582	-	791,116
At December 31, 2014	-	(809,910)	(1,587,706)	(96,851,972)	(149,872)	(105,954)	-	(99,505,414)
<b>Net book value at December 31, 2014</b>	<b>38,844</b>	<b>5,973,392</b>	<b>3,005,025</b>	<b>375,322,396</b>	<b>163,898</b>	<b>73,939</b>	<b>6,019,772</b>	<b>390,597,266</b>

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

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

	Land	Buildings and constructions	Machinery and equipment	Railway transport	Other transport	Other	Construction in progress	Total
<b>Historical cost:</b>								
At January 1, 2013	46,760	10,354,055	7,235,918	440,601,150	330,264	253,698	2,435,868	461,257,713
Additions	-	51,156	147,961	-	4,883	6,444	28,964,921	29,175,365
Internal transfer	-	366,552	318,602	27,792,432	19,835	8,583	(28,506,004)	-
Contributions into share capital (Note 15)	-	-	-	5,429,760	-	-	-	5,429,760
Transfer to non-current assets classified as held for sale	-	-	-	(4,594,048)	-	-	-	(4,594,048)
Transfer to intangible assets	-	-	(153,028)	-	-	-	(108,554)	(261,582)
Disposals	-	-	(55,753)	(1,416,532)	(1,557)	(1,307)	-	(1,475,149)
At December 31, 2013	46,760	10,771,763	7,493,700	467,812,762	353,425	267,418	2,786,231	489,532,059
<b>Accumulated depreciation and impairment:</b>								
At January 1, 2013	-	(540,011)	(1,329,039)	(68,470,067)	(119,128)	(87,488)	-	(70,545,733)
Depreciation charge for the year	-	(233,677)	(766,879)	(19,559,955)	(32,716)	(24,781)	-	(20,618,008)
Transfer to non-current assets classified as held for sale	-	-	-	4,479,585	-	-	-	4,479,585
Transfer to intangible assets	-	-	22,220	-	-	-	-	22,220
Disposals	-	35,234	51,188	751,505	2,124	956	-	841,007
At December 31, 2013	-	(738,454)	(2,022,510)	(82,798,932)	(149,720)	(111,313)	-	(85,820,929)
Net book value at								
December 31, 2013	46,760	10,033,309	5,471,190	385,013,830	203,705	156,105	2,786,231	403,711,130

During the year ended December 31, 2014, the Group purchased 1,319 cargo carriages on 11,837,639 thousands tenge (2013: 1,704 cargo carriages on 23,879,116 thousand tenge).

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

As at December 31, 2014, carrying value of property, plant and equipment, under finance lease agreement comprised 2,799,644 thousands tenge (2013: 2,921,907 thousands tenge) (Note 20).

As at December 31, 2014 major spare parts in the amount of 187,846 thousand tenge were included in construction in progress (2013: 695,382 thousand tenge).

As at December 31, 2014 and 2013, cost of fully depreciated property, plant and equipment amounted to 4,714,837 thousands tenge and 5,039,904 thousand tenge, respectively.

#### 5. INVESTMENTS IN JOINT VENTURES

Investments in joint ventures comprised of the following as at December 31:

	<u>2014</u>	<u>2013</u>
The cost of investments at January 1	240,511	-
Purchase of share in joint venture	-	90,000
Gain from investments in joint venture	1,554,212	150,511
Contribution of property, plant and equipment into share capital of joint venture made by the Group	437,273	-
Dividends	(106,777)	-
Share of profit from revaluation of property, plant and equipment contributed to the share capital of joint venture	898,862	-
	<u>3,024,081</u>	<u>240,511</u>
The cost of investments at December 31	3,024,081	240,511

Information about associates and joint ventures of the Group as at December 31, 2014 is as follows:

Name	Country of residence	Share	Voting Share	Nature of activity
Roskazzheldortrans LLC	Russian Federation	50%	50%	Freight dispatching to foreign markets
JSC Astyk Trans	Republic of Kazakhstan	50%	50%	Transportation of grain

As at December 31, 2014 and 2013, the Group, jointly with Severstal-Participation LLC, owned 50% of share of Roskazzheldortrans LLC. As at December 31, 2014 and 2013, the entity was not operational and the investment cost equal to nil.

Joint venture JSC Astyk Trans was established under the charter agreement dated August 8, 2013. Founders of JSC Astyk Trans are JSC Kaztemirtrans with share of 50% and CJSC Rusagrotrans with share of 50%.

As at December 31, 2014 the Group in accordance with the decision of Board of Directors of JSC Kaztemirtrans No.18 dated November 20, 2014 and the decision of extraordinary meeting of Board of Directors of JSC Astyk Trans (the minutes No.4 dated October 10, 2014) contributed 1,007 wagons with the fair value of 2,234,996 thousand tenge as at the date of transfer to JSC Astyk Trans. The book value of these assets on the same date was 437,273 thousand tenge. The Group recognized the gain from revaluation of the carriages in the amount of 898,862 thousand tenge, only to the extent of unrelated Group' interests in joint venture in accordance with IAS 28 *Investments in Associates and Joint Ventures*.

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

The summarized financial information related to JSC Astyk Trans as at December 31, comprise:

	<b>December 31, 2014</b>	<b>December 31 2013</b>
Current assets, including	5,699,863	3,449,973
<i>Cash and cash equivalents</i>	198,016	2,554,278
Non-current assets	<u>2,633,252</u>	<u>22,838</u>
Total assets	8,333,115	3,472,811
Current liabilities	<u>2,284,954</u>	<u>2,991,789</u>
Total liabilities	<u>2,284,954</u>	<u>2,991,789</u>
Total net assets	<u>6,048,161</u>	<u>481,022</u>
Ownership percentage	50.00	50.00
Net assets of joint venture attributable to the Group	<u>3,024,081</u>	<u>240,511</u>
Carrying value of investments as at December 31, 2014	<u>3,024,081</u>	<u>240,511</u>
Revenue	9,296,040	452,818
Depreciation and amortization	(103,527)	(1,653)
Finance income	177,650	-
Corporate income tax expense	(747,640)	(75,256)
Profit for the year and total comprehensive income	<u>3,108,424</u>	<u>301,022</u>
The share of Group in the total comprehensive income of joint venture	<u>1,554,212</u>	<u>150,511</u>

#### 6. OTHER NON-CURRENT ASSETS

Other non-current assets comprised of the following as at December 31:

	<b>2014</b>	<b>2013</b>
Non-current value added tax recoverable	14,454,400	15,638,332
Advances paid to suppliers	1,653,834	649,496
Allowance for doubtful debts	<u>(102,310)</u>	<u>(102,310)</u>
	<u>16,005,924</u>	<u>16,185,518</u>

As at December 31, 2014, Group reclassified value added tax in the amount of 14,454,400 thousand tenge, to other non-current assets, which will be recoverable in terms more than twelve months (2013: 15,638,332 thousand tenge).

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

#### 7. LOANS GIVEN

Loans given, including interest comprised of the following as at December 31:

	Maturity	Interest rate, per annum %	2014 US Dollars	2014 thousand tenge	2013 US Dollars	2013 thousand tenge
JSC National Company Kazakhstan Temir Zholy						
Tranche 2	May 11, 2016	7.8433%	324,000,000	59,081,400	324,000,000	49,769,640
Tranche 3	October 6, 2020	7.1678%	-	-	160,000,000	24,577,600
Tranche 4	July 10, 2042	6.2755%	-	-	158,441,409	24,338,185
JSC Locomotive						
Tranche 2	May 11, 2016	7.8433%	26,000,000	4,741,100	26,000,000	3,993,860
Tranche 3	October 6, 2020	7.1678%	-	-	250,000,000	38,402,500
Tranche 4	July 10, 2042	6.2755%	-	-	-	-
Including/(less):						
Discount			(1,318,097)	(240,355)	(3,202,538)	(491,942)
Accrued interest			3,452,140	629,498	9,532,153	1,464,234
Total loans given			352,134,043	64,211,643	924,771,024	142,054,077
Less: Current portion			(3,452,140)	(629,498)	(9,532,153)	(1,464,234)
			<u>348,681,903</u>	<u>63,582,145</u>	<u>915,238,871</u>	<u>140,589,843</u>

On May, 2006 Kazakhstan Temir Zholy Finance B.V. (the "Issuer"), a subsidiary of the Company, issued Eurobonds and granted long-term loans (Tranche 2) to JSC NC KTZh and its subsidiary, JSC Locomotive. These loans were given less cost for the issuance of the Eurobonds totaling to 0.325% of loan amount. The interest rate consists of coupon rate on Eurobonds, non-resident withholding income tax rate, and the margin set according to the legislation of the Kingdom of Netherlands. Interest is payable semi annually on May 11 and November 11.

On October 6, 2010 Issuer issued Eurobonds for 10 years (Tranche 3), which were granted to JSC NC KTZh and its subsidiary, JSC Locomotive. These loans were given less cost for the issuance of the Eurobonds totaling to 0.0035% of loan amount. The interest rate consists of coupon rate on Eurobonds, non-resident withholding income tax rate, and the margin set according to the legislation of the Kingdom of Netherlands. Interest is payable semi annually on April 6 and October 6.

On November 8, 2012 Issuer issued Eurobonds in the amount of 300,000 thousand US Dollars with the maturity of 30 years (Tranche 4) in the framework of which have been granted long-term loans to the subsidiary of JSC NC KTZh, JSC Locomotive. The interest rate consists of coupon rate on Eurobonds, non-resident withholding income tax rate, and the margin set according to the legislation of the Kingdom of Netherlands. Interest is payable semi annually on May 8 and November 8.

During 2014 the Company, its subsidiary Kazakhstan Temir Zholy Finance BV and JSC NC KTZh concluded an addendum to the intragroup loan agreement on the replacement of the initial lender of Kazakhstan Temirzholy Finance BV to JSC NC KTZh, according to which an offset was made on the loans given under tranche No.4 and No.3 in the total amount of 568,441,409 US Dollars and interest accrued of 2,756,381 US Dollars (103,377,505 thousand tenge and 501,704 thousand tenge, correspondingly, as at the transfer date) (Notes 18 and 19).

For the year ended December 31, 2014 finance income from interest amounted to 9,591,154 thousand tenge (2013: 10,314,603 thousand tenge) (Note 27).

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

#### 8. INVENTORIES

Inventories comprised of the following as at December 31:

	<u>2014</u>	<u>2013</u>
Spare parts	4,572,470	2,241,155
Materials and supplies	181,034	968,781
Metal scrap	180,903	215,116
Construction materials	14,131	101,865
Fuel	15,069	13,516
Other	184,747	346,979
	<u>5,148,354</u>	<u>3,887,412</u>

As at December 31, 2014 and 2013 inventories included scrap metals, received as a result of carriages repair and carriages dismantlement.

#### 9. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable comprised of the following as at December 31:

	<u>2014</u>	<u>2013</u>
Trade accounts receivable from related parties (Note 36)	10,613,122	472,466
Trade accounts receivable from third parties	1,940,216	4,270,077
	12,553,338	4,742,543
Less: Allowance for doubtful debts	(546,439)	(150,710)
	<u>12,006,899</u>	<u>4,591,833</u>

As at December 31, 2014, trade accounts receivable from carriage operator services were 1,080,353 thousand tenge (2013: 2,410,724 thousand tenge). Trade accounts receivable from services rendered to related parties consisted of 84.5% (2013: 10%) from total trade accounts receivable of the Group. As at December 31, 2014 and 2013 trade accounts receivable primarily includes receivables from customers based in the Republic of Kazakhstan.

Age of receivables as at December 31 is presented as follows:

	<u>2014</u>	<u>2013</u>
Less than 60 days	11,603,925	4,325,087
60-90 days	259,583	228,445
91-120 days	143,391	38,301
Total	<u>12,006,899</u>	<u>4,591,833</u>

Age of impaired trade receivables as at December 31 is presented as follows:

	<u>2014</u>	<u>2013</u>
60-90 days	-	-
91-120 days	-	63,726
121+ days	546,439	86,984
Total	<u>546,439</u>	<u>150,710</u>

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

As at December 31 the Group's trade account receivables was denominated in the following currencies:

	<u>2014</u>	<u>2013</u>
Tenge	11,898,593	4,375,066
US Dollars	48,294	156,744
Russian Rubles	60,012	60,023
	<u>12,006,899</u>	<u>4,591,833</u>

The movement of the allowance for doubtful debts for the years ended 31 December comprised the following:

	<u>2014</u>	<u>2013</u>
Allowance for doubtful debts at the beginning of the year	(150,710)	(60,918)
Accrued for the year	(432,435)	(108,130)
Written-off during the year against previously created allowance	36,706	18,338
Allowance for doubtful debts at the end of the year	<u>(546,439)</u>	<u>(150,710)</u>

#### 10. OTHER FINANCIAL ASSETS

As at December 31, other financial assets included bank deposits with maturity date more than three months, but less than 1 year:

	<u>2014</u>		<u>2013</u>	
	<u>Interest rate</u>	<u>thousand tenge</u>	<u>Interest rate</u>	<u>thousand tenge</u>
JSC Eurasian Bank	5%	4,011,700	4.5%	3,367,130
JSC Tsesnabank	4.5%	2,188,200	4.2%	7,373,280
JSC Kazkommertsbank	4%	364,700	-	-
JSC Bank CenterCredit	7.6%	50,000	-	-
JSC Kazinvestbank	-	-	4.5%	1,766,516
		<u>6,614,600</u>		<u>12,506,926</u>
Interest receivable		<u>94,568</u>		<u>10,833</u>
		<u>6,709,168</u>		<u>12,517,759</u>

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

	<u>2014</u>	<u>2013</u>
US Dollars	6,659,168	12,517,759
Tenge	50,000	-
	<u>6,709,168</u>	<u>12,517,759</u>



## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

#### 11. OTHER TAXES RECOVERABLE

As at December 31 other taxes recoverable comprised of the following:

	<u>2014</u>	<u>2013</u>
Value added tax recoverable	5,757,175	6,235,083
Taxes recoverable other than income tax	1,903	1,537
	<u>5,759,078</u>	<u>6,236,620</u>

#### 12. OTHER CURRENT ASSETS

Other current assets comprised of the following as at December 31:

	<u>2014</u>	<u>2013</u>
Other accounts receivable	998,408	677,537
Advances given to suppliers	367,435	303,687
Advances given to related parties (Note 36)	279,472	1,262,474
Claim	39,563	138,879
Prepaid expenses	35,631	42,540
	1,720,589	2,425,117
Less: Allowance for doubtful debts	<u>(479,721)</u>	<u>(280,528)</u>
	<u>1,240,868</u>	<u>2,144,589</u>

As at December 31, 2014 and 2013, other current assets were denominated in tenge.

The movement of the allowance for doubtful debts for the years ended 31 December comprised the following:

	<u>2014</u>	<u>2013</u>
Allowance for doubtful debts at the beginning of the year	(280,528)	(297,513)
Accrued for the year	(230,228)	(133,996)
Written-off during the year against previously created allowance	31,035	150,981
Allowance for doubtful debts at the end of the year	<u>(479,721)</u>	<u>(280,528)</u>

#### 13. CASH AND CASH EQUIVALENTS

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

	<u>2014</u>	<u>2013</u>
Cash in bank accounts	1,907,140	6,366,263
Short-term deposits	154,998	76,805
	2,062,138	6,443,068
Cash included in the assets classified as held for sale	45,270	-
	<u>2,107,408</u>	<u>6,443,068</u>

Short-term deposits as at December 31, 2014, represent deposits with maturity up to three months with interest rates from 3.51% per annum (2013: from 0.05% to 0.27% per annum).

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

As at December 31 cash and cash equivalents were denominated in the following currencies:

	<u>2014</u>	<u>2013</u>
Cash on bank accounts in US Dollars	971,009	255,890
Cash on bank accounts in tenge	438,961	4,499,596
Cash on bank accounts in Euro	343,836	1,390,145
Short-term deposits in US Dollars	154,998	76,805
Cash in Russian ruble	153,334	220,632
	<u>2,062,138</u>	<u>6,443,068</u>

#### 14. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
69.94% share in Kazakhstan carriage construction company LLP	7,965,397	-
Carriage wagons held for sale	223,179	152,763
	<u>8,188,576</u>	<u>152,763</u>

In accordance with the Government Privatization plan for 2014-2016 approved by the Decree of the Government of the Republic of Kazakhstan No.280 dated March 31, 2014, the Group plans to dispose 69.94% share in Kazakhstan Carriage Construction Company LLP ("KVK") and expects that the transaction will be completed till December 31, 2015. The Group and the buyer Kamkor Wagon LLP concluded a sale contract as at December 31, 2014, however, as at this date the ownership had not been transferred to the buyer. Management expects that the fair value less costs to sell of this share will be higher than the net carrying amount of related assets and liabilities. Therefore, no impairment loss was recognised on reclassification of the assets and liabilities as held for sale nor as at 31 December 2014. The major classes of assets and liabilities of the disposal group at the end of the reporting period are as follows:

	<u>December 31, 2014</u>
Property, plant and equipment	6,792,387
Intangible assets	197,463
Other long-term assets	100,340
Inventories	263,176
Trade accounts receivable	5,851
Current tax assets	549,790
Cash and cash equivalents	45,270
Other non-current assets	11,120
Assets of KVK LLP classified as held for sale	<u>7,965,397</u>
Trade accounts payable	3,541,103
Current tax liabilities	19,037
Employee benefits	36,463
Current financial liabilities	855,528
Other current liabilities	176,225
Non-current financial liabilities	1,285,177
Liabilities of KVK LLP associated with the assets held for sale	<u>5,913,533</u>
<b>Net assets classified held for sale</b>	<u>2,051,864</u>

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

The combined results of the discontinued operations included in the profit for the year are presented below. The comparative information on profit and cash flows from discontinued operations were restated considering the classification of this activity as discontinued.

#### *Loss from discontinued operations*

	<b>2014</b>	<b>2013</b>
Revenue from services provided	357,795	65,870
Cost of services provided	(343,991)	(64,971)
General and administrative expenses	(268,126)	(299,407)
Finance income	8,499	1,753
Finance costs	(278,888)	(340,968)
Foreign exchange loss	(279,193)	(59,532)
Other income	73,953	67,068
Loss before income tax	(729,951)	(630,187)
Corporate income tax (expense)/benefit	(18,346)	10,969
	(748,297)	(619,218)
Loss for the year from discontinued operations (attributable to the Shareholders of the Company)	<u>(523,359)</u>	<u>(433,081)</u>

The cash flow information from discontinued operations for the year ended December 31:

	<b>2014</b>	<b>2013</b>
Net cash flows generated by operating activities	865,186	1,340,598
Net cash flows used in investing activities	(88,691)	(73,944)
Net cash flows used in financing activity	(966,422)	(1,050,207)
Net cash (outflow)/inflow	<u>(189,927)</u>	<u>216,447</u>

## 15. EQUITY

The Company's share capital as at December 31, 2014 and 2013 was represented as follows:

	<b>Number of shares authorized for issue</b>	<b>Issued, number of shares</b>	<b>Par value, in tenge</b>	<b>Share capital, in thousands of tenge</b>
At December 31, 2014	123,000,000	62,303,295	-	67,726,866
Shares paid	-	760	1,000	760
Shares paid	-	5,429	1,000,000	5,429,000
At December 31, 2013	123,000,000	62,297,106	1,000	62,297,106
Shares paid	-	445,313	1,000	445,313
At December 31, 2012	123,000,000	61,851,793	1,000	61,851,793

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

According to the decision of the Parent, the Group's share capital was formed by the issue of shares. These issues were contributed by property, plant and equipment represented mainly by cargo carriages contributed to the Group's share capital during 2005 and 2004 and in the period from the Inception date to December 31, 2003.

In May 2013 the Parent made an additional contribution to the share capital in the amount of 5,429,760 thousand tenge by property, plant and equipment. In 2014, the legal registration of this contribution was made.

On July 17, 2014 the Group declared dividends on common shares of 313,074 thousand tenge for the year ended December 31, 2013. On August 21, 2013 the Group declared dividends on common shares for the year ended December 31, 2012 in the amount of 2,159,371 thousand tenge.

#### 16. EMPLOYEE BENEFIT OBLIGATIONS

##### State contribution scheme

The Group pays social tax according to the legislation of the Republic of Kazakhstan. Social tax and payroll are expensed as incurred. Social tax expenses in 2014 and 2013 amounted to 414,267 thousand tenge and 381,236 thousand tenge, respectively (Notes 25 and 26).

The Group also withholds and contributes 10% from salaries of its employees as the employees' contribution to the cumulative pension fund.

##### Defined benefits scheme

Post-retirement benefit obligations under this scheme are payable in accordance with the Labor Union Agreement concluded between the Group and its employees for 2012-2014.

Total obligation for the Group's Defined Benefit Scheme comprised the following as at December 31:

	<u>2014</u>	<u>2013</u>
Present value of short-term defined benefit scheme	13,525	14,396
Present value of long-term defined benefit scheme	153,659	222,793
	<u>167,184</u>	<u>237,189</u>

The reconciliation of the present value of the defined benefit obligation with specified payments is as follows for the years ended December 31:

	<u>2014</u>	<u>2013</u>
Total obligation at January 1	237,189	217,464
Actuarial gain	(25,342)	(39,726)
Current service cost	12,972	-
Interest cost	14,897	-
Actuarial remeasurement recognized in other comprehensive income	5,139	77,113
Past service cost	(734)	-
Gain from disposal	(26,906)	-
Benefit paid during the year	(13,568)	(17,662)
Transfer to liabilities of discontinued group, classified as held for sale (Note 14)	(36,463)	-
Total obligation at December 31	<u>167,184</u>	<u>237,189</u>

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

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:

	<u>2014</u>	<u>2013</u>
Discount rate	6.70%	6.30%
The expected rate of future annual material assistance increases	4.50%	4.70%
The expected rate of future annual minimum salary increases	4.50%	4.70%
The expected rate of future annual railway ticket price increases	7.50%	7.70%

The defined benefit scheme is unfunded.

#### 17. INCOME TAX FROM CONTINUING OPERATIONS

The income tax rate in the Republic of Kazakhstan, where the Group operates, was 20% in 2014 and 2013.

Income tax expenses comprised the following for the years ended December 31:

	<u>2014</u>	<u>2013</u>
Current income tax expenses	33,756	29,519
Deferred income tax (benefit)/expenses	<u>(7,160,956)</u>	<u>1,269,379</u>
	<u>(7,127,200)</u>	<u>1,298,898</u>

Reconciliation of income tax expenses applicable to profit before income tax at the statutory income tax rate to income tax expenses for the years ended December 31 is as follows:

	<u>2014</u>	<u>2013</u>
<b>(Loss)/profit before income tax</b>	(41,872,628)	3,988,113
Statutory tax rate	20%	20%
<b>Theoretical tax (benefit)/expenses at the statutory tax rate</b>	(8,374,526)	797,623
Charities and social events	13,156	24,662
Employee benefit recovery	(7,717)	(6,474)
Non-deductible expenses on accrual of allowance	46,957	71,715
Adjustments of prior year income tax	158,211	-
Effect of unused tax losses	543,368	62,316
Other	493,351	349,056
Income tax (benefit)/expense	<u>(7,127,200)</u>	<u>1,298,898</u>

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 as assets and liabilities and the amounts reported in the consolidated financial statements, were as follows as at December 31:

	<u>2014</u>	<u>2013</u>
<b>Deferred tax assets:</b>		
Unused vacation reserves	32,377	45,059
Trade accounts receivable	110,938	30,142
Taxes payable	5,307	9,212
Tax losses carried forward	31,007,479	18,751,878
Interest payable	527,753	296,248
	<u>31,683,854</u>	<u>19,132,539</u>
<b>Deferred tax liabilities:</b>		
Property, plant and equipment and intangible assets	<u>(45,393,549)</u>	<u>(39,982,573)</u>
Total deferred income tax liabilities, net	<u>(13,709,695)</u>	<u>(20,850,034)</u>

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

Movement in temporary differences during the year:

	<u>2014</u>	<u>2013</u>
As at January 1	20,850,034	19,591,624
Recognised in profit or loss of discontinued operations and for disposal of subsidiaries	20,617	(10,969)
Recognised in profit or loss of continuing operations	<u>(7,160,956)</u>	<u>1,269,379</u>
As at December 31	<u>13,709,695</u>	<u>20,850,034</u>

## 18. LONG-TERM LOANS

As at December 31, long-term loans including interest comprised of the following:

	Maturity date	Interest rate	<u>2014</u>	<u>2013</u>
<b>Long-term loans:</b>				
<b>European Bank of Development and Reconstruction ("EBRD"):</b>				
Loan 1	April 13, 2020	6 months LIBOR+3.25%	6,659,422	6,629,806
Loan 2	November 10, 2018	3 months LIBOR+2.95%	23,271,642	24,504,777
<b>JSC NWF Samruk Kazyna</b>	September 15, 2017	7.2%	60,000,000	60,000,000
<b>JSC ATF bank:</b>				
Loan 1	September 20, 2017	KAZPRIME+ 6.5%	-	1,296,682
Loan 2	December 4, 2017	6 months LIBOR+8.37%	-	1,003,654
<b>JSC Development Bank of Kazakhstan ("DBK")</b>				
<b>JSC NC KTZh</b>	March 8, 2015	8%	-	489,097
Loan 1	June 10, 2042	6.95%	145,252,439	-
Loan 2	July 10, 2042	5.578%	36,470,000	-
Loan 3	October 6, 2020	6.375%	52,776,699	-
Interest payable			<u>846,018</u>	<u>412,255</u>
			325,276,220	94,336,271
Less: current portion			<u>(7,923,057)</u>	<u>(7,275,036)</u>
			<u>317,353,163</u>	<u>87,061,235</u>

As at December 31, 2014 and 2013, the information on maturities was as follows:

During:	<u>2014</u>	<u>2013</u>
1 to 2 years	7,028,714	5,679,780
2 to 3 years	67,028,714	7,556,688
3 to 4 years	7,028,714	66,536,718
4 to 5 years	1,210,804	5,750,784
More than 5 years	<u>235,056,217</u>	<u>1,537,265</u>
<b>Total</b>	<u>317,353,163</u>	<u>87,061,235</u>

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

As at December 31, 2014 and 2013, long term loans of the Group were denominated in the following currencies:

	<u>2014</u>	<u>2013</u>
Tenge	60,192,000	61,592,213
US Dollars	<u>265,084,220</u>	<u>32,744,058</u>
	<u>325,276,220</u>	<u>94,336,271</u>

On March 29, 2010, the Group and EBRD signed Loan agreement for the amount of 50,000,000 US Dollars for 10 years. Interest is payable semiannually on April 13 and October 13. Principal amount is payable by equal installments semiannually starting on April 13, 2013 till April 13, 2020. The Loan is guaranteed by the JSC NC KTZh.

On December 1, 2010, the Group and EBRD signed Loan agreement for the amount of 200,000,000 US Dollars for 8 years. In accordance with agreement, the Company is provided with 2 Tranches with the following terms: tranche 1 is in tenge, not more than 100,000,000 US Dollars, tranche 2 in the amount of not more than 100,000,000 US Dollars. Interest is payable quarterly on February 10, May 10, August 10 and November 10. Principal amount is payable by equal installments semiannually starting on May 10, 2013 till November 10, 2018. The Loan is guaranteed by the JSC NC KTZh. As at December 31, 2014 Group was in compliance with all conditions of loan agreement with EBRD.

On April 13, 2011, the Group and JSC NWF Samruk Kazyna signed Loan agreement for the amount of 60,000,000 thousand tenge for the purchase of carriages. Maturity date of the loan is September 15, 2017. Interest is payable quarterly on March 15, June 15, September 15 and December 15, starting from June 15, 2011. Principal amount is payable at the end of the loan term. The Loan is guaranteed by the JSC NC KTZh.

Under the terms of the credit line agreement No.K295-2010 dated September 20, 2010 the Group represented by Kazakhstan Carriage Construction Company LLP borrowed a long-term loan from JSC ATF Bank amounting to 1,500,000 thousand tenge for the construction of a factory for the carriages production with maturity on September 20, 2017. Interest is payable semi-annually in March and September. Payments of the principal amount are made by equal installments once a year starting on January 5, 2012 and until September 20, 2017. The annual effective interest rate is 8.7% at the date of loan agreement.

Under the terms of the credit line agreement No.K299-2010 dated December 3, 2010 the Group represented by Kazakhstan Carriage Construction Company LLP borrowed a long-term loan from JSC ATF Bank amounting to 16,000,000 thousand tenge for the construction of a factory for the carriages production with maturity on December 4, 2017. Interest was payable semi-annually in January and June. Payments of the principal amount are made by equal installments semi-annually starting on January 5, 2012 and until December 4, 2017. The annual effective interest rate was 9% at the date of loan agreement.

Under the terms of the credit line agreement No.KI217-S/10 dated February 26, 2010 the Group represented by Kazakhstan Carriage Construction Company LLP borrowed a long-term loan from JSC Development Bank of Kazakhstan amounting to 1,400,000 thousand tenge for construction of cargo wagon assembly facility with interest rate 8.24% per annum and maturity on March 8, 2015. Interest is payable semi-annually in March and September. Payments of the principal amount are made by equal installments semi-annually starting from March 8, 2012 till March 8, 2015.

These loans from JSC ATF Bank and JSC Development bank of Kazakhstan in the total amount of 2,140,705 thousand tenge were classified as liabilities associated with the assets held for sale (Note 14). The loans are secured by the Group's property, plant and equipment with the initial cost of 7,477,783 thousand tenge (2013: 7,477,783 thousand tenge).

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

In conjunction with the replacement of initial issuer Kazakhstan Temir Zholy Finance BV to JSC NC KTZh on debt securities issued under tranches No.3, No.4 and No.5 (Note 19) during 2014 the Company, its subsidiary Kazakhstan Temir Zholy Finance BV and JSC NC KTZh concluded an addendum to the initial intragroup loan agreement on replacement of the initial lender of Kazakhstan Temirzholy Finance BV to JSC NC KTZh on the loans received in the total amount of 1,290,000,000 US Dollars, the discount of 6,239,407 US Dollars and interest payable of 20,499,009 US Dollars (234,742,000 thousand tenge, 1,135,367 thousand tenge and 3,731,207 thousand tenge, correspondingly, as at the dates of transfer). The annual interest rate is 6.95%. The interest on loan 1 is payable semi-annually on January 8 and July 8. The interest on loan 2 is payable semi-annually on May 6 and November 6. The annual interest rate is 5.578%. The interest on loan 3 is payable semi-annually on April 4 and October 4. The annual interest rate is 6.375%.

The loans are denominated in tenge and subject to indexation of principal amount in accordance with US Dollars exchange rate of National Bank of the Republic of Kazakhstan as at each payment date and quarterly as at reporting dates for the purpose of liabilities accounting.

#### 19. DEBT SECURITIES ISSUED

As at December 31 debt securities issued comprised of the following:

	Maturity date	Interest rate, per annum %	2014	2013
Eurobonds issued at price of				
98.292%-Tranche 2	May 11, 2016	7%	63,822,500	53,763,500
99.643%-Tranche 3	October 6, 2020	6.375%	-	107,527,000
99.538%-Tranche 4	July 10, 2042	6.95%	-	122,888,000
119.755%-Tranche 5	July 10, 2042	6.95%	-	46,083,000
			63,822,500	330,261,500
Including:				
(Discount)/premium on debt securities issued			(240,355)	7,802,138
Accrued interest on debt securities issued			624,237	1,866,159
Total debt securities issued			64,206,382	339,929,797
Less: Current interest payable			(624,237)	(1,866,159)
			63,582,145	338,063,638

On May 11, 2006, the Issuer issued 2 tranches of Eurobonds totaling 800,000,000 US Dollars, which circulate outside the United States of America under the Resolution "S" under the United States Securities Act of 1933. This Eurobond issue is guaranteed by JSC NC KTZh and its subsidiaries: the Group and JSC Locomotive (further jointly "Guarantors"). Interest is payable semiannually on May 11 and November 11.

On May 11, 2006 intergroup loan agreement was concluded between Kazakhstan Temir Zholy Finance B.V., JSC NC KTZh, JSC Kaztemirtrans and JSC Locomotive within the bounds of Eurobond issue, where JSC NC KTZh, JSC Kaztemirtrans and JSC Locomotive are solidary guarantors. Share of JSC NC KTZh consists of 356,823,945 US Dollars, JSC Kaztemirtrans is 212,174,792 US Dollars and JSC Locomotive is 231,001,263 US Dollars. Issuer repaid Tranche 1 in amount of 450,000,000 US Dollars on May 11, 2011.

On October 6, 2010 the Issuer issued Eurobonds under format Rule 144A/Regulation S under the United States Securities Act totaling 700,000,000 US Dollars with maturity till October 6, 2020. Interest is payable semiannually on April 6 and October 6.

On October 6, 2010 intergroup loan agreement was concluded between Kazakhstan Temir Zholy Finance B.V., JSC NC KTZh, JSC Kaztemirtrans and JSC Locomotive within the bounds of Eurobond issue, where JSC NC KTZh, JSC Kaztemirtrans and JSC Locomotive are solidary guarantors. Share of JSC NC KTZh



## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

consists of 240,000,000 US Dollars, JSC Kaztemirtrans is 210,000,000 US Dollars and JSC Locomotive is 250,000,000 US Dollars.

Shares were reallocated based on additional agreement No.563-AO dated December 15, 2010, JSC NC KTZh consists of 160,000,000 US Dollars, JSC Kaztemirtrans is 290,000,000 US Dollars and JSC Locomotive is 250,000,000 US Dollars.

On July 10, 2012 the Issuer issued Eurobonds in the amount of 800,000,000 US Dollars with the maturity date as July 10, 2042. Interest is payable semiannually on January 10 and July 10. On July 10, 2012 intergroup loan agreement was concluded between Kazakhstan Temir Zholy Finance B.V. and JSC Kaztemirtrans to the amount of 800,000,000 US Dollars.

On November 8, 2012 the Issuer issued Eurobonds in the amount of 300,000,000 US Dollars with the maturity date as July 10, 2042. Interest is payable semiannually on May 8 and November 8. On November 8, 2012 intergroup loan agreement was concluded between Kazakhstan Temir Zholy Finance B.V., JSC NC KTZh, JSC Kaztemirtrans and JSC Locomotive within the bounds of Eurobond issue, where JSC NC KTZh, JSC Kaztemirtrans and JSC Locomotive are solidary guarantors. The share of JSC Kaztemirtrans is 200,000,000 US Dollars and JSC Locomotive is 159,262,783 US Dollars. The effective interest rate of this tranche is 5.578% per annum.

During 2014 the Company, its subsidiary Kazakhstan Temir Zholy Finance BV, JSC NC KTZh and JSC Locomotive concluded the supplemental trust deed agreement on replacing the initial issuer Kazakhstan Temir Zholy Finance BV to JSC NC KTZh as a main borrower on the Eurobonds tranches No.4 of 800,000,000 US Dollars, No.5 of 300,000,000 US Dollars and No.3 of 700,000,000 US Dollars. Due to change of the issuer these liabilities for total amount of 1,800,000,000 US Dollars, the premium of 51,773,477 US Dollars and interest payable of 23,604,243 US Dollars (327,482,000 thousand tenge, 9,424,127 thousand tenge and 4,296,390 thousand tenge, correspondingly, as at the date of transfer) were transferred to JSC NC KTZh. JSC Kaztemirtrans and JSC Locomotive are solidary guarantors of debt securities issued.

The Eurobonds contain covenants that place certain limitations on the Group including, but not limited to limitation on change of business and disposal of property and limitations on merger and consolidation with other legal entities. In the case of any payment default, or any default as defined by the Eurobond issue conditions, investors are entitled to require repayment of Eurobonds.

## 20. FINANCE LEASE LIABILITIES

As at December 31, the Group's liabilities under finance lease comprised of the following:

	2014		2013	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
<b>Amounts payable under finance lease</b>				
Within 1 year	98,001	79,743	98,001	79,743
From 2 to 5 years inclusive	267,685	219,852	381,295	290,314
	365,686	299,595	479,296	370,057
Less: Future finance costs	(66,091)	-	(109,239)	-
Present value of lease liabilities	299,595	299,595	370,057	370,057
Less: Current portion of finance lease liability		(79,743)		(79,743)
Non-current portion of finance lease liability		219,852		290,314

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

On December 11, 2008, the Group concluded the agreement with JSC BRK-Leasing on finance lease of 340 cargo carriages for its subsidiary JSC Center of Transportation Services. Interest rate is 10.50% per annum. In 2008 the Group received 190 cisterns on 1,028,838 thousand tenge. In 2009 the Group received remaining 150 carriages on 808,557 thousand tenge, fair value of which was 1,446,354 thousand tenge. Effective interest rate is 10.77% per annum. Agreement was guaranteed by the Parent Company, the guarantee is to be effective during the whole period of lease liability repayment.

As at December 31, 2014, the carrying value of property, plant and equipment, under finance lease agreement amount to 2,799,644 thousand tenge (2013: 2,921,907 thousand tenge) (Note 4).

#### 21. TRADE ACCOUNTS PAYABLE

Trade accounts payable comprised the following as at December 31:

	<u>2014</u>	<u>2013</u>
Accounts payable to related parties (Note 36)	2,197,048	1,915,403
Accounts payable to third parties	6,277,955	9,169,354
	<u>8,475,003</u>	<u>11,084,757</u>

As at December 31, 2014 and 2013 trade accounts payable of the Group were mainly represented by accounts payable for property, plant and equipment, inventory and the services for repairs of carriages and wheel pairs.

As at December 31, 2014 and 2013 trade accounts payable were denominated in the following currencies:

	<u>2014</u>	<u>2013</u>
Tenge	7,973,108	10,990,949
Russian Ruble	339,300	527
Euro	155,538	85,566
US Dollars	7,057	7,715
	<u>8,475,003</u>	<u>11,084,757</u>

#### 22. TAXES PAYABLE AND OBLIGATORY PAYMENTS TO BUDGET

As at December 31, taxes payable and obligatory payments to budget comprised of the following:

	<u>2014</u>	<u>2013</u>
Withholding tax on non-residents	426,309	688,338
Value added tax payable	395,860	248,864
Pension contribution	28,566	48,619
Personal income tax	22,453	38,462
Social tax	16,120	28,889
Social contribution	13,379	18,615
Other	983	1,504
	<u>903,670</u>	<u>1,073,291</u>

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

#### 23. OTHER CURRENT LIABILITIES

Other current liabilities comprised of the following as at December 31:

	<u>2014</u>	<u>2013</u>
Advances received for carriage operator services	2,037,758	2,468,466
Advances received for carriage rent services	1,071,743	32,365
Advances received for freight services	971,210	690,366
Advances received for sales of scrap metal	697,991	917,135
Unused vacation reserve	161,886	225,296
Tender participant's guarantees	58,134	72,296
Payables to employees	40,716	116,459
Other liabilities	491,051	265,516
	<u>5,530,489</u>	<u>4,787,899</u>

As at December 31, 2014 and 2013, other current liabilities were denominated in tenge.

#### 24. REVENUE FROM SERVICES PROVIDED

Revenue from services provided for the years ended December 31, comprised of the following:

	<u>2014</u>	<u>2013</u>
Revenue from carriage operator services	81,549,160	72,560,694
Revenue from rent of carriages	18,089,135	22,875,084
Revenue from cargo and expedition operations	2,015,142	8,547,944
Revenue from repair of carriages	1,225,950	1,073,724
Fines received	172,276	346,066
Other revenue from sales	3,637,188	2,108,924
	<u>106,688,851</u>	<u>107,512,436</u>

96% of revenue from carriage operator services for the year ended December 31, 2014 were generated from customers – residents of the Republic of Kazakhstan (2013: 93%).

#### 25. COST OF SERVICES PROVIDED

Cost of services provided for the years ended December 31, comprised of the following:

	<u>2014</u>	<u>2013</u>
Railway tariff	37,631,219	36,688,790
Depreciation and amortization	21,463,172	19,848,299
Cargo carriages and spare parts repair expenses	12,613,948	6,436,914
Materials and supplies	7,147,169	5,414,442
Personnel costs, including short-term provisions	1,890,767	1,650,547
Security expenses	268,267	325,870
Other	3,458,772	2,679,303
	<u>84,473,314</u>	<u>73,044,165</u>

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

#### 28. FINANCE COSTS

Finance costs for the years ended December 31, comprised of the following:

	<u>2014</u>	<u>2013</u>
Finance costs on debt securities	15,431,439	22,346,946
Finance costs on long term loans	14,371,395	5,613,071
Finance costs on financial lease	89,032	319,377
	<u>29,891,866</u>	<u>28,279,394</u>

#### 29. FOREIGN EXCHANGE LOSS

On February 11, 2014, the National Bank of the Republic of Kazakhstan took the decision to temporarily reduce its intervention in setting the tenge exchange rate. As a result, the official exchange rate of tenge to U.S. Dollar fell to KZT 184.5 per U.S. Dollar as at February 13, 2014, i.e. by approximately 19%. The foreign exchange loss for 2014 mainly incurred due to debts securities issued and loans of the Group, as the major part were denominated in foreign currency (Notes 18 and 19).

#### 30. OTHER INCOME

For the years ended December 31, other income included:

	<u>2014</u>	<u>2013</u>
Income from disposal of scrap metal and spare parts	283,288	41,459
Income from disposal of property, plant and equipment	201,800	339,805
Income from materials recognition resulted from other long term assets liquidation	166,552	14,454
Penalties on non-fulfillment of contracts	141,964	343,041
Other	17,465	27,245
	<u>811,069</u>	<u>766,004</u>

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

#### 31. DISPOSAL OF SUBSIDIARIES

In 2014 the Group sold to a third party a 100% interest in subsidiaries Kazykurt Yug LLP and Yertys Service LLP, that are not components of discontinued operations. As a result of the sale, the Group lost control over Kazykurt Yug LLP and Yertys service LLP.

	Yertys Service LLP	Kazykurt Yug LLP	Total
Property, plant and equipment	362,519	403,247	765,766
Intangible assets	696	499	1,195
Deferred tax assets	-	3,754	3,754
<b>Total non-current assets</b>	<b>363,215</b>	<b>407,500</b>	<b>770,715</b>
Inventories	50,613	16,687	67,300
Trade accounts receivable	130,410	127,694	258,104
Other current assets	6,184	23,519	29,703
Cash and cash equivalents	241,521	57,482	299,003
<b>Total current assets</b>	<b>428,728</b>	<b>225,382</b>	<b>654,110</b>
<b>Total assets</b>	<b>791,943</b>	<b>632,882</b>	<b>1,424,825</b>
Deferred tax liabilities	11,629	-	11,629
<b>Total non-current liabilities</b>	<b>11,629</b>	<b>-</b>	<b>11,629</b>
Trade accounts payable	28,158	78,669	106,827
Income tax payable	1,334	1,936	3,270
Other taxes payable	11,383	1,939	13,322
Other current liabilities	26,459	19,210	45,669
<b>Total current liabilities</b>	<b>67,334</b>	<b>101,754</b>	<b>169,088</b>
<b>Total liabilities</b>	<b>78,963</b>	<b>101,754</b>	<b>180,714</b>
<b>Net assets disposed</b>	<b>712,980</b>	<b>531,128</b>	<b>1,244,108</b>

Results of operations of the subsidiaries comprised the following:

	Yertys Service LLP	Kazykurt Yug LLP	Total
Revenue from services provided	886,285	762,206	1,648,491
Cost of services provided	(757,754)	(717,731)	(1,475,485)
General and administrative expenses	(20,595)	(20,035)	(40,630)
Finance income	782	235	1,017
Other expenses	(3,518)	(343)	(3,861)
Corporate income tax (expense)/benefit	2,407	(12,769)	(10,362)
<b>Profit for the period from continuing operations</b>	<b>107,607</b>	<b>11,563</b>	<b>119,170</b>
<b>Profit for the period and total comprehensive income</b>	<b>107,607</b>	<b>11,563</b>	<b>119,170</b>

Gain/(loss) from disposal of subsidiaries:

	Yertys Service LLP	Kazykurt Yug LLP	Total
Consideration received	703,857	960,577	1,664,434
Net assets disposed	(712,980)	(531,128)	(1,244,108)
<b>Gain/(loss) from disposal</b>	<b>(9,123)</b>	<b>429,449</b>	<b>420,326</b>

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

Net cash inflow from disposal of subsidiaries:

	Yertys Service LLP	Kazykurt Yug LLP	Total
Cash consideration	703,857	960,577	1,664,434
Less: cash and cash equivalents disposed	(241,521)	(57,482)	(299,003)
<b>Total</b>	<b>462,336</b>	<b>903,095</b>	<b>1,365,431</b>

### 32. (LOSS)/EARNINGS PER SHARE

The (loss)/earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	2014	2013
(Loss)/profit for the year attributable to the Parent of the Company (thousand tenge)	(35,515,504)	2,087,162
Weighted average number of ordinary shares for the purposes of basic earnings per share	62,303,295	62,270,265
(Loss)/earnings per ordinary share (tenge)	(570)	34
	<b>2014</b>	<b>2013</b>
(Loss)/profit for the year from continuing operations attributable to the Parent of the Company (thousand tenge)	(34,767,207)	2,706,380
Weighted average number of ordinary shares for the purposes of basic earnings per share	62,303,295	62,270,265
(Loss)/earnings per ordinary share (tenge)	(558)	43

### 33. COMMITMENTS AND CONTINGENT LIABILITIES

#### Contractual commitments

As at December 31, 2014, the Group had contractual commitments of 3,233,108 thousands tenge (December 31, 2013: 39,992,322 thousand tenge). These commitments include amounts on acquisition of property, plant and equipment.

#### 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 or consolidated results of operations.

##### Compliance with the legislation

Since the Group has a dominant (monopolist) position in the market of operator services of platforms, operator services of carriages, rent of railway carriages, the Agency on Regulation of National Monopolies monitors tariffs (prices) for these services.

The Group assesses the likelihood of occurrence of material liabilities and accrues provisions in its consolidated financial statements only when it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated.

No provision has been made in these consolidated financial statements for any of the contingent liabilities mentioned above.

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

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#### *Contingent liabilities related to Kazakhstani taxation system*

Different Kazakhstani 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 Kazakhstani laws, decrees and related regulations are severe. Penalties include confiscation of the disputed amounts (for currency law violations), as well as fines of generally 50% of additional accrued tax. Interest is assessed at 22.5%. As a result, penalties and fines can result in amounts that are multiples of any incorrectly reported taxes resulting in an understatement.

The Group believes that it has paid or accrued all taxes that are applicable. Where practice concerning the provision of taxes is unclear, the Group has accrued tax liabilities based on management's best estimate. The Group's policy is to recognize provisions in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

The risk in the application of a reduced rate of withholding tax for non-resident is possible, in the cases, when the final (actual) recipient of the income may be other non-residents of the Republic of Kazakhstan.

Because of the uncertainties associated with the Kazakhstani tax system, the potential amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued as at December 31, 2014. It is not practicable to determine the amount of unasserted claims that may arise, if any, or the likelihood of any unfavorable outcome.

#### **Insurance**

The Group is obliged to insure the employer's responsibility for injuries of employees, and responsibility of the owner of vehicle.

In 2014 and 2013, significant portion of property, plant and equipment of the Group was not insured. The Group did not have insurance coverage for business interruption and liability for damage to third parties' property or environmental damage arising from accidents with the Group's property or relating to the Group's operations.

#### **Guarantees**

On May 11, 2006, the Issuer issued two tranches of Eurobonds totaling 800,000 thousand US Dollars, which circulate outside of the United States of America in accordance with Regulation S under the United States Securities Act of 1933. On May 11, 2011 the Issuer repaid tranche 1 in the amount of 450,000 thousand US Dollars. Under the trust agreement signed with the Issuer and other participants of the issue of Eurobonds the Parent, the Group and JSC Locomotive provide jointly and individually an unconditional and irrevocable guarantee for timely repayment of the principal and accrued interest on the Eurobonds.

On October 6, 2010, the Issuer issued Eurobonds totaling 700,000 thousand US Dollars (Note 19), in accordance with Rule 144A/Regulation S under the United States Securities Act. Under the trust agreement signed with the Issuer and other participants of the issue of Eurobonds the Parent, the Group and JSC Locomotive provide jointly and individually an unconditional and irrevocable guarantee for timely repayment of the principal and accrued interest on the Eurobonds. Guarantee period is 10 years.

On July 10, 2012, the Issuer issued Eurobonds totaling 800,000,000 US Dollars (Note 19), in accordance with Rule 144A/Regulation S under the United States Securities Act. Under the trust agreement signed with the Issuer and other participants of the issue of Eurobonds the Parent, the Group and JSC Locomotive provide jointly and individually an unconditional and irrevocable guarantee for timely repayment of the principal and accrued interest on the Eurobonds. Guarantee period is 30 years.

On November 8, 2012, the Issuer issued Eurobonds totaling 300,000,000 US Dollars (Note 19), in accordance with Rule 144A/Regulation S under the United States Securities Act. Under the trust agreement signed with the Issuer and other participants of the issue of Eurobonds the Parent, the Group and JSC Locomotive provide jointly and individually an unconditional and irrevocable guarantee for timely repayment of the principal and accrued interest on the Eurobonds. Guarantee period is 30 years.

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

*(in thousands of Kazakhstani tenge)*

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26 November 2012, the Group provided a guarantee jointly with the Parent to the benefit of JSC Locomotive in the framework of the credit agreement concluded between JSC Locomotive and Export-Import Bank of USA for the amount of 424,856,806 US Dollars. Guarantee period is 10 years.

On February 26, 2010 bank loan agreement was signed by JSC Development Bank of Kazakhstan and Kazakhstan Carriage Construction Company LLP (“KVK”) for the amount of 1,450,542 thousand tenge. This loan was secured by pledged equipment and future cash receipts, guarantees of the Company and Repair Corporation Kamkor LLP. On May 23, 2013 the Kazakhstan Carriage Construction Company LLP partially settled payable of 117,574 thousand tenge before maturity and released collateral from pledge and retained guarantees of the Company and Repair Corporation Kamkor LLP. Under these guarantees, the Company guarantees completion of obligation and settlement of payable in full, including principal amount, interest amount and other related costs. As disclosed in Note 14, on December 31, 2014 the Group and the buyer Kamkor Wagon LLP concluded a sale contract of 69.94% share in KVK, however, as at this date the ownership had not been transferred to the buyer. In accordance with this contract, the guarantee liabilities are transferred to the buyer at the date of ownership transfer.

On December 3, 2010 an agreement was signed by JSC ATF Bank and Kazakhstan Carriage Construction Company LLP to open non-renewable credit line of for the amount of 2,428,091 thousand tenge which drawdown option in tenge and in US Dollars. The loan is secured by pledged equipment and future cash receipts, guarantee of the Company of 1,495,000 thousand tenge. As disclosed in Note 14, on December 31, 2014 the Group and the buyer Kamkor Wagon LLP concluded a sale contract of 69.94% share in KVK, however, as at this date the ownership had not been transferred to the buyer. In accordance with this contract, the guarantee liabilities are transferred to the buyer at the date of ownership transfer.

On 20 June 2014 the Company and JSC Locomotive jointly provided a guarantee for the issuer JSC NC KTZh under the issue of debt securities in accordance with Rule 144A/Regulation S under the United States Securities Act, for the amount of 185,000,000 Swiss francs. Under the trust agreement signed with the issuer and other participants of the issue of bonds the Company and JSC Locomotive provide jointly and individually an unconditional and irrevocable guarantee for timely repayment of the principal and accrued interest on the bonds. Guarantee period is 8 years.

On 20 June 2014 the Company and JSC Locomotive jointly provided a guarantee for the issuer JSC NC KTZh under the issue of debt securities in accordance with Rule 144A/Regulation S under the United States Securities Act, for the amount of 100,000,000 Swiss francs. Under the trust agreement signed with the issuer and other participants of the issue of bonds the Company and JSC Locomotive provide jointly and individually an unconditional and irrevocable guarantee for timely repayment of the principal and accrued interest on the bonds. Guarantee period is 5 years.

As at December 31, 2014 and 2013, the Group did not have any liabilities related to those guarantees.



## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

#### 34. SUBSIDIARIES

As at December 31 the subsidiaries of the Group and their activity are presented as follows:

Subsidiary	Nature of activities	Country of residence	Percentage of ownership, %	
			2014	2013
JSC Center of Transportation Services	Organization of forwarding services	Kazakhstan	100.00	100.00
Kazakhstan Temir Zholy Finance B.V.	Financing of the activity of the Parent and its subsidiaries	The Netherlands	100.00	100.00
Kazakhstan Carriage Construction Company LLP	Production of cargo carriages	Kazakhstan	69.94	69.94
Ertys service LLP	Flushing-steaming of carriages, preparation of carriage under the pouring	Kazakhstan	-	100.00
Kazykurt-Yug LLP	Flushing-steaming of carriages, preparation of carriage under the pouring	Kazakhstan	-	100.00
RFL LLC	Transport-logistic services	Russia	90.00	-

In 2014 the Group sold Kazykurt Yug LLP and Yertys Service LLP that were engaged in flushing-steaming of carriages.

In May 2014, the Group acquired 90% interest in Regional Forward Logistics LLP (“RFL LLC”). The acquisition of RFL LLC was made with a purpose of providing high-quality transport-logistic services, market extension and development of freight transportation, as well as for maximizing Group’s revenues as the operator of freight transportation. The Group acquired this company with net assets of 19,138 thousand tenge and non-controlling interest of 1,914 thousand tenge (10% in RFL LLC).

#### 35. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group’s major financial instruments are debt securities issued, loans received, loans given, cash and short-term investments as well as accounts receivable and accounts payable. Applicable risks to the Group’s financial instruments are interest rate risk, foreign currency risk and credit risk. The Group also monitors the market risk and liquidity risk arising on all of its financial instruments.

##### Capital risk management

The Group manages capital risk to ensure that the Group can continue as a going concern maximizing profits for its Parent and optimizing debt to equity ratio.

The Group’s capital structure includes share capital, retained earnings and non-controlling interests as disclosed in the consolidated statement of changes in equity.

##### Summary of significant accounting policies

The significant accounting policies and adopted methods, including criteria of recognition, basis for estimates and the basis for recognition of income and expenses with respect to each class of financial assets, financial liabilities and equity instruments are disclosed in Note 3 to the consolidated financial statements.

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

#### Objectives of financial risk management

Risk management is an essential element of the Group's operations. The Group monitors and manages financial risks relating to the Group's operations through internal reports on risks which describe the exposure to risk by the degree and size of risks. These risks include the market risk (including currency risk, fair value interest rate risk and price risk), liquidity risk and interest rate risk related to cash flow. The description of the Group's risk management policies in relation to those risks follows.

#### Interest rate risk

Interest rate risk is the risk of changes in market interest rates which can result in decrease of returns on investments and increase in cash outflow on borrowings of the Group. The Group limits the interest rate risk by monitoring changes in interest rates in currencies in which cash, investments and borrowings are denominated, and receipt of borrowings with fixed interest rates.

The Group's exposure to the interest rate risk relates mainly to other financial assets, loans given and long-term borrowings (Notes 7, 10, 18 and 19). The average weighted effective interest rates were as follows for the years ended December 31:

	<u>2014</u> <u>(% per annum)</u>	<u>2013</u> <u>(% per annum)</u>
Deposits: Tenge	7.6%	-
Deposits: US Dollars	4-5%	4.2-4.5%
Long-term loans given: US Dollars	7.84%	7.10%
Debt securities issued: US Dollars	7%	6.37-7.00%
Long term loans: US Dollars	3.41%	5.17%
Long term loans: Tenge	5.578%-7.20%	10.10%

#### Interest rate risk, sensitivity analysis

Mainly, changes in interest rates have an impact on credits, loans and debt securities issued, by changing their fair value (liabilities with fixed interest rates), or future cash flows on them (liabilities with floating rates).

The table below presents sensitivity analysis in terms of fluctuation of interest rates on non-derivative instruments as at the reporting date. As for the liabilities with floating interest rates, the analysis was prepared based on the assumption that the amount of outstanding liabilities remained outstanding for the whole year. In preparation of management reports on interest rate risks for the key management of the Group, an assumption is made that the interest rate will be changed by 1% which is in compliance with the management's expectations regarding reasonably possible fluctuations of interest rates.

If interest rates on liabilities were 1% more/less and all other variables remained unchanged, the Group's profit for the year ended December 31, 2014 and retained earnings as at December 31, 2014 would decrease/increase by 298,827 thousand tenge.

#### Currency risk

The Group's short-term and long-term payables are denominated in US Dollars and recognized in tenge. The decrease in the exchange rate of tenge to US Dollars can result in increase of expenses of the Group.

The Group limits foreign currency risk by monitoring changes in exchange rates in the currencies in which its cash, trade accounts receivable, trade accounts payable, loans given, loans received, debt securities issued are denominated.

#### Foreign currency sensitivity analysis

The Group is mainly exposed to change in US Dollars, Russian Ruble and Euro exchange rates.

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

The following table reflects the Group's sensitivity to 20% increase and decrease in the value of tenge with respect to relevant foreign currencies. 20% - is a sensitivity rate used in preparation of internal reports on currency risk for key management and represents the management's evaluation of reasonably possible changes in exchange rates. The sensitivity analysis includes only outstanding monetary positions in foreign currency and adjusts their balance at the end of the period taking into account 20% of change in exchange rates. The sensitivity analysis includes a) debt securities issued, b) loans received, c) loans given, cash, other financial assets. The following table indicates changes in financial assets and liabilities, in case of strengthening of tenge by 20% with respect to the relevant currency. The positive figure indicates the increase in profits for the reporting period and negative indicates the decrease in profits. In case of weakening of tenge by 20% with respect to the relevant currency, there will be an equal and opposite effect on profits.

	Effect of US Dollar		Effect of Russian Ruble		Effect of Euro	
	2014	2013	2014	2013	2014	2013
Financial assets	(14,409,022)	(31,012,255)	(42,669)	(56,131)	(68,767)	(278,029)
Financial liabilities	65,925,980	74,534,876	31,108	17,113	1,411	1,543
Net effect	51,516,958	43,522,621	(11,561)	(39,018)	(67,356)	(276,486)

It mainly relates to risk on Group's cash, trade accounts receivable, loans given, trade accounts payable, long-term loans, and debt securities issued denominated in US Dollars, Euro and Russian Ruble as at the end of the year.

The carrying value of financial assets and financial liabilities denominated in foreign currencies as at December 31 is presented below:

	2014	2013
<i>Financial Assets</i>		
US Dollars	72,045,112	155,061,275
Euro	343,836	1,390,145
Russian Rubles	213,346	280,655
<i>Financial liabilities</i>		
US Dollars	329,629,902	372,674,382
Euro	7,057	7,715
Russian Rubles	155,538	85,566

#### Credit risk

The credit risk arising from counterparties' failure to meet the terms of the agreements with financial instruments of the Group is usually limited to the amounts, if any, by which the amount of liabilities of counterparties exceeds the liabilities of the Group to these counterparties. The Group's policy provides for conduct of operations with financial instruments with a number of solvent counterparties.

The maximum exposure to the credit risk equals the value of each financial asset. The Group believes that the maximum amount of its risk equals the amount of trade accounts receivable (Note 9), loans given (Note 7) and other current assets (Note 12) less allowance for doubtful debts recorded at the reporting date.

The concentration of the credit risk can arise in the case of several debts from one borrower or group of borrowers with similar borrowing terms for which there is a basis to expect that changes in economic terms or other circumstances can equally affect their capacity to meet their obligations.

The Group's policy provides for constant control over transactions to be held with customers who have adequate credit history and that the transactions do not exceed set credit limits.

As at December 31, 2014 the Group, primarily, placed cash on current and deposit accounts of banks with credit rating level not lower than "B" according to the rating system of Standard & Poor's.

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

#### Market risk

The market risk is the risk of possible fluctuations in the value of the financial instrument as a result of changes in market prices. Due to the fact that the Group has a dominating position on the market, the risk of possible fluctuations in the value of the financial instruments is remote.

#### Liquidity risk

The Group's Parent is liable for managing liquidity risk having created a liquidity risk management system for the Group management that meets requirements for managing liquidity and short-term, medium-term and long-term financing. The Group manages the liquidity risk by maintaining adequate reserves, loans and accessible credit lines, monitoring potential and actual cash flows and comparing the maturity dates of financial assets and liabilities.

#### Liquidity risk tables

The following tables reflect contractual terms of the Group for its non-derivative 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 Group will be required to pay. The table includes cash flows both on interest and principal.

	Weighted average effective interest rate	Up to 3 months	3 months – 1 year	1-5 years	Above 5 years	Total
<b>December 31, 2014</b>						
<i>Non-interest bearing:</i>						
Trade accounts payable	-	8,475,003	-	-	-	8,475,003
Other current liabilities	-	589,901	-	-	-	589,901
<i>Interest bearing:</i>						
Long term loans with floating rates	3.20%-3.615%	-	8,570,860	25,892,240	629,077	35,092,177
Long term loans with fixed rates	5.578%-7.20%	-	19,813,856	133,669,616	510,258,756	663,742,228
Debt securities issued with fixed interest rate	7%	-	4,467,575	65,443,797	-	69,911,372
Finance lease liabilities	10.5%	-	79,743	219,852	-	299,595
<b>December 31, 2013</b>						
<i>Non-interest bearing:</i>						
Trade accounts payable	-	10,556,349	-	528,408	-	11,084,757
Other current liabilities	-	454,658	-	-	-	454,658
<i>Interest bearing:</i>						
Long term loans with floating rates	3.19%-3.64%	-	8,376,919	29,466,337	1,636,288	39,479,544
Long term loans with fixed rates	7.20%-8.48%	-	4,320,000	71,694,194	-	76,014,194
Debt securities issued with fixed interest rate	6.375%-7%	-	22,374,827	133,338,239	565,386,049	721,100,015
Finance lease liabilities	10.5%	-	346,896	169,694	-	516,590

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

The following table reflects expected maturities of non-derivative financial assets of the Group. The table was prepared based on undiscounted contractual terms of financial assets, including interest to be received on these assets, except when the Group expects the cash flow in a different period.

	Weighted average effective interest rate	Up to 3 months	3 months – 1 year	1-5 years	Above 5 years	Total
<b>December 31, 2014</b>						
<i>Non-interest bearing:</i>						
Cash and cash equivalents	-	1,907,140	-	-	-	1,907,140
Trade accounts receivable	-	12,006,899	-	546,439	-	12,553,338
Other current assets	-	1,047,820	-	-	-	1,047,820
<i>Interest bearing:</i>						
Cash and cash equivalents	3.51%	154,998	-	-	-	154,998
Other financial assets	4-5%	-	6,742,454	-	-	6,742,454
Loans given	7.84%	-	5,005,790	65,632,813	-	70,638,603
<b>December 31, 2013</b>						
<i>Non-interest bearing:</i>						
Cash and cash equivalents	-	6,366,263	-	-	-	6,366,263
Trade accounts receivable	-	4,591,833	-	150,710	-	4,742,543
Other current assets	-	816,416	-	-	-	816,416
<i>Interest bearing:</i>						
Cash and cash equivalents	6.61%	76,805	-	-	-	76,805
Other financial assets	4.2-4.5%	-	12,785,798	-	-	12,785,798
Loans given	7.10%	-	10,258,463	47,161,475	173,427,713	230,847,651

#### Fair values of financial instruments

The following methods and assumptions were used by the Group to estimate the fair value of financial instruments:

##### *Cash and cash equivalents*

The carrying value of cash and cash equivalents approximates their fair value due to the short-term nature of maturity of these financial instruments.

##### *Trade and other accounts receivable and payable*

For assets and liabilities with maturity less than twelve months the carrying value approximates fair value due to the short-term nature of maturity of these financial instruments.

For assets and liabilities with maturity longer than twelve months the carrying value represents the current value of estimated future cash flows discounted using market rates effective as at the end of the reporting year.

##### *Loans*

Average market rates on borrowed funds were as follows as at December 31:

	2014 (% per annum)	2013 (% per annum)
Tenge		
with maturity from 1 to 5 years	10.3	8.5
with maturity over 5 years	10.9	11.3
Foreign currencies		
with maturity from 1 to 5 years	8.2	9.3
with maturity over 5 years	9.6	7.4

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

(in thousands of Kazakhstani tenge)

As at December 31 the fair value of debt securities was as follows:

Tranche No.	Maturity date	December 31, 01,013,020	December 31, 344,907,600
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As at December 31 the fair value of loans given was as follows:

Tranche No.	Maturity date	December 31, 2014	December 31, 2013
No.2	May 11, 2016	67,737,999	59,265,533
No.3	October 6, 2020	-	68,799,628
No.5	July 10, 2042	-	20,474,913
		<u>67,737,999</u>	<u>148,540,074</u>

As at December 31 the fair value of loans received from JSC NC KTZh was as follows:

Tranche No.	Maturity date	December 31, 2014	December 31, 2013
No.1	July 11, 2042	144,983,372	-
No.2	July 11, 2042	36,404,000	-
No.3	October 6, 2020	52,609,117	-
		<u>233,996,489</u>	<u>-</u>

Management believes that carrying value of bank loans other than received from JSC NC KTZh approximately equal to fair value.

The fair value hierarchy of debt securities is Level 1; for loans given – Level 2.

During the year ended December 31, 2014, as described in Note 19, because of the replacement of the initial issuer of debt securities issued Kazakhstan Temir Zholy Finance BV to JSC NC KTZh of tranche No.4 (800,000,000 US Dollars), No.5 (300,000,000 US Dollars) and No.3 (700,000,000 US Dollars) the Group transferred its debt securities issued liabilities totaling 1,800,000,000 US Dollars to JSC NC KTZh and recognized the loan received from JSC NC KTZh in the amount of 234,742,000 thousand tenge (Note 18). As a result, there was a reclassification of financial instruments in the fair value hierarchy from the first level to the second level.

### 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 another party or exercise significant influence over this party in making financial or operational decisions. Also parties under common control of the Group are considered to be related. In considering each possible related party relationship, attention is paid to the substance of the relationship, and not merely the legal form.

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.

Due to and from the related parties as at December 31, 2014 and 2013 and transactions with related parties (including profit oriented state-owned entities) for the years then ended are presented as follows:

# JOINT STOCK COMPANY KAZTEMIRTRANS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

### Revenue from related parties

	Nature of transaction	2014	2013
JSC NC Kazakhstan Temir Zholy	Rent out carriages	11,689,618	15,147,007
Repair Corporation Kamkor LLP	Rent out carriages	656,238	681,033
JSC Kaztransservice	Repair services (auxiliary services)	317,959	271,769
JSC NC Kazakhstan Temir Zholy	Auxiliary services	80,384	451,793
JSC Transtelecom	Repair services (auxiliary services)	67,909	61,650
JSC Locomotive	Rent out carriages	60,323	29,335
JSC NC Kazakhstan Temir Zholy	Penalties received	43,229	-
JSC Temir Zhol Su	Repair services (auxiliary services)	42,176	18
JSC Passenger transportation	Rent out carriages	23,046	26,490
Repair Corporation Kamkor LLP	Repair services (auxiliary services), penalties received	9,155	60,289
JSC Locomotive Service Centre	Rent out carriages	4,914	8,668
JSC Almaty carriage repair plant	Rent out carriages	1,910	1,622
JSC Lesozashita	Rent out carriages	3	14
JSC Remlocomotive	Repair services (auxiliary services)	941	848
JSC Passenger transportation	Repair services (auxiliary services)	899	566
JSC Locomotive	Repair services (auxiliary services)	505	29
JSC Centre of transportation services	Penalties received	202	233
JSC NC Kazakhstan Temir Zholy	Penalties received	-	4,886
JSC Locomotive	Other	-	3,455
JSC Transtelecom	Rent of parking	-	2,907
JSC Temirzholsu	Rent out carriages	-	102,720
Repair Corporation Kamkor LLP	Sale of inventory	-	62,767
JSC Vokzalservice	Penalties received	-	114
JSC Locomotive Service Centre	Penalties received	-	48
		<b>12,999,411</b>	<b>16,918,261</b>

### Purchases from related parties

	Nature of transaction	2014	2013
JSC NC Kazakhstan Temir Zholy	Railway tariffs	30,489,292	31,319,365
Repair Corporation Kamkor LLP	Repair services	8,438,984	5,096,747
JSC NC Kazakhstan Temir Zholy	Repair, rent of premises, maintenance	1,053,819	855,390
JSC Militarized Railway Guard Branch of JSC NC Kazakhstan Temir Zholy CAZ	Security services	268,267	325,817
JSC Transtelecom	Building support services	222,634	210,182
Repair Corporation Kamkor LLP	Rent	120,762	112,780
JSC Locomotive	Other	120,162	45,215
JSC Transtelecom	Rent of locomotive traction	95,243	94,859
JSC Temirzholsu	Communication services	93,038	96,508
JSC Kazakhstan Academy of transport and communication	Water, drain	44,704	31,948
JSC Temirzholsu	Rent	25,942	1,324
JSC Passenger transportation	Rent	6,434	6,083
JSC Vokzal Service	Rent	3,149	2,943
JSC Center of Transportation Services	Rent	1,658	1,341
JSC Locomotive service centre	Services	1,330	593
JSC Kaztransservice	Rent	317	286
Repair Corporation Kamkor LLP	Other	-	1,783
Research institute of technology LLP	Sale of inventory	-	62,762
	Rent	-	9,415
		<b>40,985,735</b>	<b>38,275,341</b>

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

#### Trade accounts receivable from related parties (Note 9)

	Nature of transaction	December 31, 2014	December 31, 2013
JSC NC Kazakhstan Temir Zholy CRPP	Operating of carriages	7,475,849	-
Branch JSC NC Kazakhstan Temir Zholy CD	Rent of carriages	2,604,045	2,058
JSC Kedentransservice	Transport-expedition services	160,168	127,535
JSC NC Kazakhstan Temir Zholy CRKP	Construction of building	134,196	-
JSC NC Kazakhstan Temir Zholy	Transport-expedition services	120,714	201,397
JSC Centre of transportation services	Repair of carriages	83,006	-
Repair Corporation Kamkor LLP	Repair	20,196	58,178
Transport research institute	Research documentation	5,625	-
JSC NC Kazakhstan Temir Zholy	Repair od spare parts	4,307	-
JSC Kazakhstan Academy of transport and communications	Research documentation	2,794	-
Bagatyr Komir LLP	Operating of carriages	746	-
JSC Locomotive	Rent out of carriages	566	88
JSC Passenger Transportation	Rent	464	239
JSC Remlocomotive	Repair of carriages	339	-
JSC Kaztransoil	Operating of carriages	107	-
JSC Kaztransservice	Repair of carriages	-	78,709
JSC KTZh Express	Service	-	1,993
JSC Kazmunaigaz	Fuel	-	1,536
JSC NC Kazakhstan Engineering	Service	-	733
		<b>10,613,122</b>	<b>472,466</b>

#### Advances paid to related parties (Note 12)

	Nature of transaction	December 31, 2014	December 31, 2013
JSC NC Kazakhstan Temir Zholy	Transport-expedition services	258,868	1,245,257
JSC NC Kazakhstan Engineering	Spare parts	16,443	11,921
JSC Kazpost	Postal services	2,986	1,895
JSC KazTransGaz	Fuel	1,175	1,105
Samruk Kazyna Contract LLP	Other	-	2,201
JSC NC Kazakhstan Temir Zholy	Transportation services (railway tariffs)	-	75
JSC Kazakhtelecom	Communication services	-	20
		<b>279,472</b>	<b>1,262,474</b>



## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

#### Trade accounts payable and finance lease liabilities to related parties (Notes 20 and 21)

	Nature of transaction	December 31, 2014	December 31, 2013
Repair Corporation Kamkor LLP	Repair of carriages, Rent of premises	1,408,714	1,215,452
JSC NC Kazakhstan Temir Zholy CZhS	Carriage delay payments	592,004	428,160
JSC BRK Leasing	Finance leasing	299,595	370,057
Branch of JSC NC KTZh CRS	Operating of carriages	83,127	122,359
JSC Militarized Railway Guard	Security services	45,407	60,025
JSC Transtelecom	Communication services	30,955	12,642
JSC Kazakhstan Academy of transport and communication	Training	29,054	969
JSC Temirzholsu	Water, drain, rent of premises	6,490	3,081
JSC Passenger Transportation	Other	588	549
JSC Vokzal Servis	Rent	379	383
JSC Center of Transportation Services	Rent	230	114
JSC Almaty carriage repair plant	Operating	100	80
JSC Kazakhstan engineering	Operating	-	69,297
Research institute of transport LLP	Technical documentation	-	1,757
JSC Locomotive Service Center	Rent	-	334
JSC Kazpost	Subscription	-	189
JSC Kazakhtelecom	Communication services	-	12
		<u>2,496,643</u>	<u>2,285,460</u>

#### Advances received from related parties

	Nature of transaction	December 31, 2014	December 31, 2013
JSC Kedentransservice	Rent of carriages	832,397	589,005
JSC Kazmunaigaz onimderi	Transport-expedition service	84,473	-
JSC Intergaz Central Asia	Transport-expedition service	3,546	-
JSC Kazmunaigaz processing and marketing	Operating of carriages	673	-
JSC NAC Kazatomprom	Operating of carriages	10	-
		<u>921,099</u>	<u>589,005</u>

Outstanding balances at year-end are unsecured, interest free, while settlement is made in cash. For the years ended December 31, 2014 and 2013 the Group did not make any allowance for doubtful debts relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

## JOINT STOCK COMPANY KAZTEMIRTRANS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED) (in thousands of Kazakhstani tenge)

Transactions with profit oriented state-owned entities were as follows for the years ended December 31:

	Description of transaction	2014	2013
JSC Kedentransservice	Operating of carriages, Rent out carriages	6,471,555	-
Bogatyr Komir LLP	Operating of carriages, penalties received	3,462,446	3,918,343
JSC NC KazMunaiGaz	Operating of carriages	3,177,843	2,184,056
JSC NC Kazakhstan Engineering	Spare parts supply	940,872	11,543
JSC Kazmunaigaz onimderi	Fuel	48,352	29,701
Samruk Kazyna Contract LLP	Monitoring map, purchase of goods	33,245	18,738
JSC NC KazMunaiGaz	Fuel	13,140	14,033
JSC Kazpost	Subscription, postal service	10,259	11,562
JSC NC Kazakhstan Engineering	Operating of carriages	4,808	8,921
JSC KazTransGaz	Fuel	4,475	3,091
JSC Kazzinc	Reserve	624	-
JSC Kazzinc	Providing carriages	200	-
JSC Kazakhtelecom	Communication services	182	273
JSC BTA Bank	Medical insurance, bank services	-	19,639
JSC Airastana	Operating of carriages	-	5,243
JSC Kaztransoil	Operating of carriages	-	5,063
JSC NAC KazAtomProm (Ulba metallurgical plant)	Rent out carriages	-	3,559
JSC Samruk Energo	Operating of carriages	-	591
JSC Kazmunaigaz onimderi	Operating of carriages	-	23
		<u>14,168,001</u>	<u>6,234,379</u>

#### Remuneration to key management personnel of the Group

The key management personnel consisted of 11 persons as at December 31, 2014 and 2013. Remuneration to key management personnel for the year ended December 31 was as follows:

	2014	2013
Salary	125,561	120,753
Pension deductions	11,070	11,945
Income tax	10,694	10,751
Social tax	11,850	10,344
Social deductions	1,505	1,245
	<u>160,680</u>	<u>155,038</u>