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JOINT STOCK COMPANY KAZTEMIRTRANS

Independent auditors' review report

**Interim Condensed Consolidated
Financial statements (unaudited)**

for the Six Months Ended 30 June 2014

JOINT STOCK COMPANY KAZTEMIRTRANS

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JOINT STOCK COMPANY KAZTEMIRTRANS

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

Management of JSC Kaztemirtrans (the "Company") is responsible for the preparation of the interim condensed consolidated financial statements of the Company and its subsidiaries (jointly the "Group") that present fairly the consolidated financial position of the Group as at 30 June 2014, and the consolidated financial results of its operations, cash flows and changes in equity for the six months then ended, in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34").

In preparing the interim condensed 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 IAS 34 are insufficient to enable users of information to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- making an assessment of the Group's ability to continue as a going concern.

Management of the Group 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 interim condensed consolidated financial statements of the Group comply with IAS 34;
- maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Kazakhstan and IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

This interim condensed consolidated financial statements for the six months ended 30 June 2014 were approved by management of JSC Kaztemirtrans on 6 August 2014.

On behalf of Management of the Group:



E.M. Akhmeruzin
**Acting President/
Vice-President of Economics and Finance**

6 August 2014
Astana, Republic of Kazakhstan





M. N. Uzenbayev
Chief Accountant

6 August 2014

INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholder and Board of Directors of JSC Kaztemirtrans:

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of JSC Kaztemirtrans and its subsidiaries (collectively – the “Group”) as at 30 June 2014, and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six months period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Emphasis of matter

As described in Note 23 to the interim condensed consolidated financial statements, 52% of the Group's trade accounts receivable is due from related parties, primarily from JSC National Company Kazakhstan Temir Zholy and its subsidiaries. Our conclusion is not qualified in respect of this matter.

DELOITTE, LLP

6 August 2014
Almaty

JOINT STOCK COMPANY KAZTEMIRTRANS

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014 (in thousands of tenge)

	Notes	30 June 2014 (unaudited)	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	4	398,761,186	403,711,130
Intangible assets		700,734	809,328
Investments in joint ventures		1,271,971	240,511
Other non-current assets	5	15,838,952	16,185,518
Loans given	6	138,973,128	140,589,843
		555,545,971	561,536,330
Total non-current assets			
Current assets			
Inventories		4,518,308	3,887,412
Trade accounts receivable	7	4,059,314	4,591,833
Other financial assets	8	13,562,476	12,517,759
Prepaid income tax		747,632	1,176,680
Other taxes prepaid		4,787,416	6,236,620
Other current assets		1,189,761	2,144,589
Current portion of long-term loans given	6	2,083,369	1,464,234
Cash and cash equivalents	9	3,522,869	6,443,068
		34,471,145	38,462,195
Non-current assets classified as held for sale		118,876	152,763
		34,590,021	38,614,958
Total current assets		34,590,021	38,614,958
Total assets		590,135,992	600,151,288
EQUITY AND LIABILITIES			
Equity			
Share capital	10	67,726,866	62,297,106
Additionally paid in capital	10	-	5,429,760
Retained earnings		19,946,562	59,620,101
Equity attributable to owner of the Parent		87,673,428	127,346,967
Non-controlling interests		(6,798)	135,026
Total equity		87,666,630	127,481,993


JOINT STOCK COMPANY KAZTEMIRTRANS

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014 (CONTINUED) (in thousands of tenge)

	Notes	30 June 2014 (unaudited)	31 December 2013
Non-current liabilities			
Employee benefit obligations		222,793	222,793
Long-term loans	11	271,350,733	87,061,235
Debt securities issued	12	192,071,932	338,063,638
Finance lease liabilities		290,136	290,314
Deferred income tax liabilities		14,787,929	20,850,034
Total non-current liabilities		478,723,523	446,488,014
Current liabilities			
Current portion of debt securities issued	12	2,557,702	1,866,159
Current portion of finance lease liabilities		44,695	79,743
Current portion of long-term loans	11	8,508,530	7,275,036
Current portion of employee benefit obligations		14,396	14,396
Trade accounts payable	13	7,376,540	11,084,757
Taxes payable and obligatory payments to the budget		773,180	1,073,291
Other current liabilities		4,470,796	4,787,899
Total current liabilities		23,745,839	26,181,281
Total equity and liabilities		590,135,992	600,151,288

The notes on pages 9-24 form an integral part of these interim condensed consolidated financial statements.

On behalf of Management of the Group:


E.M. Akhmurzin
Acting President/
Vice-President of Economics and Finance

6 August 2014
Astana, Republic of Kazakhstan




M. N. Uzenbayev
Chief Accountant

6 August 2014


JOINT STOCK COMPANY KAZTEMIRTRANS

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2014 (in thousands of tenge)

	Notes	6 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2013 (unaudited)
Revenue from services	14	52,429,092	46,593,215
Cost of sales	15	(43,735,972)	(30,039,573)
Gross profit		8,693,120	16,553,642
General and administrative expenses	16	(4,672,290)	(4,033,314)
Finance income	17	6,087,546	5,512,290
Finance costs	18	(15,648,084)	(14,169,110)
Foreign exchange loss		(41,954,362)	(1,457,331)
Share of profits of joint ventures		1,031,460	-
Other income		604,693	211,359
(Loss)/profit before income tax		(45,857,917)	2,617,536
Corporate income tax benefit/(expense)	19	6,040,640	(1,749,644)
(Loss)/profit and total comprehensive (loss)/income for the period		(39,817,277)	867,892
(Loss)/profit and total comprehensive (loss)/income for the period attributable to:			
Shareholder of the Parent		(39,673,539)	1,104,072
Non-controlling interests		(143,738)	(236,180)
		(39,817,277)	867,892
(Loss)/earnings per share (in tenge)	20	(637)	18

The notes on pages 9-24 form an integral part of these interim condensed consolidated financial statements.

On behalf of Management of the Group


E.M. Akhmurzin
Acting President/
Vice-President of Economics and Finance




M. N. Uzenbayev
Chief Accountant

6 August 2014
Astana, Republic of Kazakhstan

6 August 2014

FOR THE SIX MONTHS ENDED 30 JUNE 2014
(in thousands of tenge)

	Notes	6 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2013 (unaudited)
Cash flows from operating activities:			
(Loss)/profit before income tax		(45,857,917)	2,617,536
Adjustments for:			
Depreciation and amortization		10,728,736	9,953,258
Finance costs	18	15,648,084	14,169,110
Finance income	17	(6,087,546)	(5,512,290)
Accrual of allowance for doubtful debts	16	260,193	3,922
Share of profits of joint ventures		(1,031,460)	-
(Gain)/loss on disposal of property, plant, and equipment		(160,828)	114,541
Foreign exchange loss		41,954,362	1,457,331
Operating profit before working capital changes		15,453,624	22,803,408
Change in trade accounts receivable		354,182	(683,275)
Change in inventories		(597,539)	285,292
Change in other current assets		954,828	(418,043)
Change in trade accounts payable		(1,819,732)	862,498
Change in other taxes payable		3,118,169	2,385,129
Change in other current liabilities		(615,300)	1,026,783
Cash generated from operations		16,848,232	26,261,792
Interest paid		(14,372,644)	(14,132,744)
Income tax paid		(1,212,879)	(1,139,128)
Net cash flows from operating activities		1,262,709	10,989,920

JOINT STOCK COMPANY KAZTEMIRTRANS

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2014 (in thousands of tenge)

	Share capital	Additionally paid in capital	Retained earnings	Total equity attributable to owner of the Parent	Non-controlling interests	Total Equity
As at 1 January 2013	61,851,793	445,313	59,760,605	122,057,711	161,009	122,218,720
Profit and total comprehensive income for the period	-	-	1,104,072	1,104,072	(236,180)	867,892
Contribution to share capital (Note 10)	-	5,429,760	-	5,429,760	-	5,429,760
As at 30 June 2013 (unaudited)	61,851,793	5,875,073	60,864,677	128,591,543	(75,171)	128,516,372
As at 1 January 2014	62,297,106	5,429,760	59,620,101	127,346,967	135,026	127,481,993
Loss and total comprehensive loss for the period	-	-	(39,673,539)	(39,673,539)	(143,738)	(39,817,277)
Other	-	-	-	-	1,914	1,914
Transfer due to legal registration of shares issue (Note 10)	5,429,760	(5,429,760)	-	-	-	-
As at 30 June 2014 (unaudited)	67,726,866	-	19,946,562	87,673,428	(6,798)	87,666,630

The notes on pages 9-24 form an integral part of these interim condensed consolidated financial statements.

On behalf of Management of the Group:


E.M. Akhmurzin
Acting President/
Vice-President of Economics and Finance

6 August 2014
Astana, Republic of Kazakhstan




M. N. Uzenbayev
Chief Accountant

6 August 2014

JOINT STOCK COMPANY KAZTEMIRTRANS

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (CONTINUED)

(in thousands of tenge, unless otherwise stated)

11. BORROWINGS

As at 30 June 2014 and 31 December 2013 borrowings, including accrued interest, were as follows:

	<u>Maturity date</u>	<u>Interest rate</u>	<u>30 June 2014 (unaudited)</u>	<u>31 December 2013</u>
Long-term loans:				
European Bank of Reconstruction and Development ("EBRD"):				
Loan 1 (a)	13 April 2020	6 months LIBOR+3.25%	7,311,038	6,629,806
Loan 2 (b)	10 November 2018	3 months LIBOR+2.95%	26,347,159	24,504,777
JSC NWF Samruk Kazyna (c)	15 September 2017	7.2%	60,000,000	60,000,000
JSC ATF Bank:				
Loan 1 (d)	20 September 2017	KAZPRIME+ 6.5%	1,724,110	1,296,682
Loan 2 (e)	4 December 2017	6 months LIBOR+8.37%	857,142	1,003,654
JSC Development Bank of Kazakhstan ("DBK") (f)	8 March 2015	8%	326,065	489,097
JSC National Company Kazakhstan Temir Zholy				
Loan 1 (g)	10 July 2042	6.95%	146,176,655	-
Loan 2 (g)	10 July 2042	6.95%	36,702,000	-
Interest payable			415,094	412,255
			279,859,263	94,336,271
Less: current portion			(8,508,530)	(7,275,036)
			271,350,733	87,061,235

- (a) On 29 March 2010 the Group and the European Bank of Reconstruction and Development signed a loan agreement for the amount of 50,000 thousand US Dollars for 10 years. Interest is payable semi-annually on 13 April and 13 October. Principal amount is payable by equal installments semi-annually starting from 13 April 2013 till 13 April 2020. The loan is guaranteed by the JSC NC KTZh.
- (b) On 1 December 2010 the Group and the European Bank of Reconstruction and Development signed a loan agreement for the amount of 200,000 thousand US Dollars for 8 years, repayment of which starts on 10 May 2013. The interest on the loan is payable each quarter on 10 February, 10 May, 10 August and 10 November, respectively. Payments on the principal are made by equal installments semi-annually starting on 10 May 2013 till 10 November 2018. The loan is guaranteed by the JSC NC KTZh.
- (c) On 13 April 2011 a loan agreement was signed between the Company and JSC NWF Samruk-Kazyna amounting to 60,000,000 thousand tenge for the acquisition of freight wagons. The term of the loan is until 15 September 2017. Interest is payable quarterly on 15 March, 15 June, 15 September and 15 December. The payment of the principal is made at the maturity of the loan. The guarantor was JSC NC KTZh.
- (d) Under the terms of the credit line agreement #K295-2010 dated 20 September 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 purchase of equipment and construction assembling works in Taman LLP with interest rate 8.48% per annum and maturity on 20 September 2017. Interest is payable semi-annually in March and September. Payments of the principal amount are made by equal installments once a year starting from 5 January 2012 until 20 September 2017.
- (e) Under the terms of the credit line agreement #K299-2010 dated 3 December 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 purchase of equipment and construction-assembling works in Taman LLP with interest rate 8.84% per annum and maturity on 4 December 2017. Interest is payable semi-annually in January and June.

JOINT STOCK COMPANY KAZTEMIRTRANS

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (CONTINUED)

(in thousands of tenge, unless otherwise stated)

Payments of the principal amount are made by equal installments semi-annually starting from 5 January 2012 until 4 December 2017.

- (f) Under the terms of the credit line agreement #KI217-S/10 dated 26 February 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 8 March 2015. Interest is payable semi-annually in March and September. Payments of the principal amount are made by equal installments semi-annually starting from 8 March 2012 till 8 March 2015.
- (g) Following the replacement of initial issuer Kazakhstan Temir Zholy Finance BV to JSC NC KTZh on debt securities issued under tranches #4 and #5 (Note 12) on 29 April 2014 the Company, its subsidiary Kazakhstan Temir Zholy Finance BV and JSC NC KTZh concluded an addendum to the initial intragroup loan agreement on the replacement of the initial lender of Kazakhstan Temirzholy Finance BV to JSC NC KTZh on the loans received in the total amount of 1,000,000,000 US Dollars, the discount of 4,740,638 US Dollars and interest payable of 20,397,708 US Dollars (182,020,000 thousand tenge, 862,891 thousand tenge and 3,712,791 thousand tenge, correspondingly, as at the transfer date). The annual interest rates are 6.95%. The interest on loan 1 is payable semi-annually on 8 January and 8 July. The interest on loan 2 is payable semi-annually on 6 May and 6 November. These loans are denominated in tenge and subject to indexation of principal amount in accordance with US Dollar 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.

12. DEBT SECURITIES ISSUED

As at 30 June 2014 and 31 December 2013 debt securities issued comprised of the following:

	Maturity date	Interest rate, per annum, %	30 June 2014 (unaudited)	31 December 2013
Eurobonds issued at price of				
98.292% – Tranche 2	11 May 2016	7.00%	64,228,500	53,763,500
99.643% – Tranche 3	6 October 2020	6.375%	128,457,000	107,527,000
99.538% – Tranche 4	10 July 2042	6.95%	-	122,888,000
119.755% – Tranche 5	10 July 2042	6.95%	-	46,083,000
			192,685,500	330,261,500
Including/(less):				
(Discount)/premium on debt securities issued			(613,568)	7,802,138
Accrued interest on debt securities issued			2,557,702	1,866,159
Total debt securities issued			194,629,634	339,929,797
Less: Current portion of debt securities issued			(2,557,702)	(1,866,159)
			192,071,932	338,063,638

On 11 May 2006 Kazakhstan Temir Zholy Finance B.V. (the "Issuer") issued two tranches of Eurobonds for the total of 800,000 thousand US Dollars that circulate outside the United States in accordance with Resolution S of the 1933 US Securities Act. The issue of Eurobonds was guaranteed by JSC NC KTZh and its subsidiaries: the Group and JSC Locomotive (collectively – "Guarantors"). The interest on Eurobonds is payable semi-annually on 11 May and 11 November.

11 May 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

JOINT STOCK COMPANY KAZTEMIRTRANS

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (CONTINUED)

(in thousands of tenge, unless otherwise stated)

JSC NC KTZh in the amount 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 11 May 2011.

On 6 October 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 6 October 2020. Interest is payable semiannually on 6 April and 6 October.

On 6 October 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 in the amount of 240,000,000 US Dollars, JSC Kaztemirtrans in the amount of 210,000,000 US Dollars and JSC Locomotive is 250,000,000 US Dollars.

Shares were reallocated based on additional agreement #563-AO dated 15 December 2010, and JSC NC KTZh is 160,000,000 US Dollars, JSC Kaztemirtrans is 290,000,000 US Dollars and JSC Locomotive is 250,000,000 US Dollars.

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

On 8 November 2012 the Issuer issued Eurobonds in the amount of 300,000,000 US Dollars with maturity date on 10 July 2042. Interest is payable semiannually on 8 May and 8 November. In connection with this issue of Eurobonds an intergroup loan agreement was signed on 8 November 2012 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 159,263,783 US Dollars. The effective interest rate of this tranche is 5.578% per annum. On 11 March 2013 JSC Locomotive settled its debt of 159,263,783 US Dollars before Kazakhstan Temir Zholy Finance B.V. These funds were provided as a loan facility to JSC NC KTZh to Kazakhstan Temir Zholy Finance B.V.

On 23 April 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 #4 of 800,000,000 US Dollar and #5 of 300,000,000 US Dollars. On 29 April 2014, due to change of the issuer these liabilities for total amount of 1,100,000,000 US Dollars, the premium of 53,221,234 US Dollars and accrued interest of 23,359,722 US Dollars (200,222,000 thousand tenge, 9,687,329 thousand tenge and 4,251,937 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.

JOINT STOCK COMPANY KAZTEMIRTRANS

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (CONTINUED) (in thousands of tenge, unless otherwise stated)

13. TRADE ACCOUNTS PAYABLE

Trade accounts payable comprised the following as at 30 June 2014 and 31 December 2013:

	30 June 2014 (unaudited)	31 December 2013
Accounts payable to third parties	4,647,694	9,169,354
Accounts payable to related parties	2,728,846	1,915,403
	7,376,540	11,084,757

14. REVENUE FROM SERVICES

	6 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2013 (unaudited)
Revenue from carriage operator services	44,748,359	22,973,666
Revenue from rent of carriages	4,027,007	17,164,751
Revenue from cargo and expedition operations	1,758,836	4,388,224
Revenue from repair of carriages	517,283	681,643
Fines and penalties	135,279	155,661
Other revenue from sales	1,242,328	1,229,270
	52,429,092	46,593,215

15. COST OF SALES

The cost of sales was as follows for the six months ended 30 June 2014 and 2013:

	6 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2013 (unaudited)
Railway tariff	19,347,290	8,506,216
Depreciation and amortization	10,559,343	9,787,411
Repairs of cargo wagons, units, details	6,376,360	3,346,177
Materials and supplies	3,565,265	2,232,127
Personnel costs, including short-term provisions	922,429	763,148
Security	132,262	171,337
Other services	2,833,023	5,233,157
	43,735,972	30,039,573

During the six months ended 30 June 2014 railway tariff costs increased significantly due to the the payments for cargo carriages idle time on railway stations (carriage surplus) and payments for cargo carriage empty run associated with the changing main activity from rent to operating of cargo carriages.

JOINT STOCK COMPANY KAZTEMIRTRANS

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (CONTINUED) (in thousands of tenge, unless otherwise stated)

16. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were as follows for the six months ended 30 June 2014 and 2013:

	6 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2013 (unaudited)
Taxes	2,841,904	2,323,684
Personnel costs, including short-term provisions	892,859	1,007,431
Allowances for doubtful debts	260,193	3,922
Depreciation and amortization	169,393	165,847
Operating lease	81,453	83,858
Professional services (consulting, audit, legal)	37,910	34,043
Other services	388,578	414,529
	<u>4,672,290</u>	<u>4,033,314</u>

17. FINANCE INCOME

Finance income was as follows for the six months ended 30 June 2014 and 2013:

	6 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2013 (unaudited)
Interest income on loans	5,552,891	5,033,471
Interest income on short-term investments and deposits	357,028	230,334
Amortization of the premium on long-term debt securities issued	101,679	89,148
Interest income on cash balances	75,948	159,337
	<u>6,087,546</u>	<u>5,512,290</u>

18. FINANCE COSTS

Finance costs were as follows for the six months ended 30 June 2014 and 2013:

	6 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2013 (unaudited)
Interest expense on debt securities	12,694,423	11,029,190
Interest expense on borrowings	2,183,645	2,160,000
Interest expense on bank loans	723,765	878,133
Interest expense on financial lease	46,251	101,787
	<u>15,648,084</u>	<u>14,169,110</u>

JOINT STOCK COMPANY KAZTEMIRTRANS

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (CONTINUED) (in thousands of tenge, unless otherwise stated)

19. CORPORATE INCOME TAX (BENEFIT)/EXPENSE

During the six months period ended 30 June 2014 the deferred income tax liability decreased mostly due to temporary differences for the carry forward of unused tax losses for the six months 2014 that mainly arose due to foreign exchange loss.

Income tax (benefit)/expenses comprised the following for the six month period ended 30 June 2014 and 2013:

	6 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2013 (unaudited)
Current income tax expenses	21,465	174,295
Deferred income tax (benefit)/expenses	(6,062,105)	1,575,349
	<u>(6,040,640)</u>	<u>1,749,644</u>

20. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share are calculated based on the weighted average number of ordinary shares outstanding during the six months ended 30 June 2014 and 2013. Basic and diluted per share data are the same, as there is no material dilution.

	6 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2013 (unaudited)
(Loss)/profit attributable to the shareholders of the Parent for the six month (thousand tenge)	(39,673,539)	1,104,072
Weighted average number of ordinary shares for the purpose of basic earning per share	62,303,295	61,851,793
(Loss)/earnings per common share (tenge)	<u>(637)</u>	<u>18</u>

21. COMMITMENTS AND CONTINGENCIES

Contractual commitments

As at 30 June 2014 the Group had contractual commitments amounting to 25,388,802 thousand tenge (31 December 2013: 39,992,322 thousand tenge). These commitments include obligations to purchase property, plant and equipment.

Contingencies

Legal claims

The Group is subject to various legal proceedings relating to its business activities, such as claims for compensation of property damage. The Group does not believe that such pending or potential claims, either individually or collectively, could have a material adverse effect on its consolidated financial position or consolidated results of financial and economic activities.

Kazakhstan taxation contingencies

Kazakhstan legislative acts and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and national tax authorities are quite usual. The current regime of penalties and interest related to reported and discovered

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

Management of the Group believes that it paid or accrued all applicable taxes. In unclear cases, the Group accrued tax liabilities based on reasonable estimates of management. The Group's policy involves the formation of provisions in the reporting period in which there is a possibility of losses, the amount of which can be determined with reasonable accuracy.

Due to the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued as at 30 June 2014. It is not practicable to determine the amount of any unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome.

Insurance

The Group is obliged to provide insurance of the employer's liability for damage to life and health of workers, as well as insurance of the liability of vehicle owners.

As at 30 June 2014 and 31 December 2013, the Group did not have insurance coverage for a major part of fixed assets in the event of termination of financial and business operations and liability for damage to property of third parties or the environment caused by accidents at the facilities of the Group or in connection with its activities.

Guarantees

11 May 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 11 May 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.

6 October 2010, the Issuer issued Eurobonds totaling 700,000 thousand US dollars, 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.

10 July 2012, the Issuer issued Eurobonds totaling 800,000,000 US dollars, 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 23 April 2014, the Company, its subsidiary Kazakhstan Temir Zholy Finance BV, JSC NC KTZh and JSC Locomotive concluded supplemental trust deed agreement on replacing the initial issuer Kazakhstan Temir Zholy Finance BV to JSC NC KTZh.

8 November 2012, the Issuer issued Eurobonds totaling 300,000,000 US dollars, 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 23 April 2014, the Company, its subsidiary Kazakhstan Temir Zholy Finance BV, JSC NC KTZh and

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JSC Locomotive concluded supplemental trust deed agreement on replacing the initial issuer Kazakhstan Temir Zholy Finance BV to JSC NC KTZh.

25 May 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, HSBC Bank plc., JSC SB HSBC Bank Kazakhstan, China Development Bank Corporation, The Hong-Kong and Shanghai Banking Corporation for the amount of 73,095,000 US dollars. Guarantee period is 10 years.

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.

26 February 2010 bank loan agreement was signed by JSC Development Bank of Kazakhstan and Kazakhstan Carriage Construction Company LLP (further -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. 23 May 2013 the KVK 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.

On 3 December 2010 an agreement was signed by JSC ATF Bank and KVK LLP to open non-renewable credit line for the amount of 2,428,091 thousand tenge with 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.

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

22. FAIR VALUE

The fair values of financial assets and financial liabilities are determined as described in the Group's annual consolidated financial statements for 2013.

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.

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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 fair value represents the present value of estimated future cash flows discounted using market rates effective as at the end of the reporting year.

Debt securities

The fair value of debt securities was as follows:

Tranche #	Maturity date	30 June 2014	31 December, 2013
#2	11 May 2016	70,306,282	59,230,173
#3	6 October 2020	144,850,374	117,490,452
#4	10 July 2042	-	122,317,800
#5	10 July 2042	-	45,869,175
		215,156,656	344,907,600

The fair value hierarchy of debt securities is Level 1. During the six months ended 30 June 2014, as described in Note 12, because of the replacement of the initial issuer of debt securities issued Kazakhstan Temir Zholy Finance BV to JSC NC KTZh of tranche #4 (800,000,000 US Dollars) and #5 (300,000,000 US Dollars) on 29 April 2014 the Group transferred its debt securities issued liabilities totaling 1,100,000,000 US Dollars to JSC NC KTZh and recognized the loan received from JSC NC KTZh in the amount of 182,878,655 thousand tenge (Note 11). As a result, there was a reclassification of financial instruments in the fair value hierarchy from the first level to the second level.

Loans

Management of the Group believes that the carrying value of loans given and loans received approximates their fair value.

23. RELATED PARTY TRANSACTIONS

As at 30 June 2014 and 31 December 2013 amounts due to related parties and amounts due from related parties (including commercial state-controlled entities) were represented as follows:

Name of company	Due from related parties		Due to related parties	
	30 June 2014 (unaudited)	31 December 2013	30 June 2014 (unaudited)	31 December 2013
JSC NC Kazakhstan Temir Zholy	1,860,167	259,575	572,939	550,519
JSC Kaztransservice	148,106	78,709	-	-
JSC NC Kazakhstan Engineering	-	-	-	69,297
JSC Kedentransservice	-	127,535	-	-
Repair corporation Kamkor LLP	65,063	-	2,077,352	1,215,452
JSC DBK Leasing	-	-	334,831	370,057
JSC Militarized Railway Guard	-	-	47,901	60,025
JSC Transtelecom	-	-	20,716	12,642
JSC Temirzholsu	-	-	4,096	3,081
Other	53,861	6,647	5,842	4,387
	2,127,197	472,466	3,063,677	2,285,460

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Advances paid to and by related parties were represented as follows:

Name of company	Advances paid to related parties		Advances received from related parties	
	30 June 2014 (unaudited)	31 December 2013	30 June 2014 (unaudited)	31 December 2013
	JSC NC Kazakhstan Temir Zholy	3,636	1,245,257	-
JSC Bagatyr Komir	-	-	-	589,005
JSC NC Kazakhstan Engineering	11,629	11,921	-	-
JSC Kedentransservice	-	-	743,334	-
JSC Kazpost	6,167	-	-	-
Other related parties	1,900	5,296	733	-
	23,332	1,262,474	744,067	589,005

Transactions with related parties (including commercial state-controlled entities) for the six months ended 30 June 2014 and 2013 were as follows:

Name of company	Sales of services		Purchase of services	
	6 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2013 (unaudited)	6 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2013 (unaudited)
	JSC NC Kazakhstan Temir Zholy	1,151,918	14,448,950	18,147,320
Repair corporation Kamkor LLP	346,454	222,283	4,557,521	2,597,182
JSC Kaztransservice	145,507	109,096	-	1,783
JSC Transtelecom	33,954	32,289	103,799	110,943
JSC Locomotive	10,220	11,340	52,518	51,556
JSC Passenger Transportation	14,511	7,817	1,575	1,472
JSC Temirzholsu	26,430	138	23,696	18,741
JSC Militarized Railway Guard	-	-	136,990	170,824
Other	5,308	1,686	1,805	287,752
	1,734,302	14,833,599	23,025,224	14,282,446

The Group has a significant concentration of credit risk. As at 30 June 2014 trade receivables for services rendered to the main customers, part of Group JSC NC KTZh, amounted to 52% (30 June 2013: 66%) of the total trade receivables of the Group.

Services provided by related parties consist mainly of repairs and other costs of providing services.

Services provided to related parties consist mainly of operating of cargo wagons fleet services, carriage rental and forwarding. Sales to related parties and acquisitions from related parties are carried out at market prices. Outstanding balances at the year end are not secured, interest free and payments are made in cash. No guarantees were given or received on any receivables or payables of related parties.

As at 30 June 2014 and 31 December 2013, the Group did not accrue any provisions for doubtful debts relating to amounts receivable from related parties.

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In addition to services related to operating activities, the Group conducted various transactions with related parties associated with investing and financing activities, including the following:

- as at 30 June 2014 and 31 December 2013 the Group's loan of 60,000,000 thousand tenge with interest rate 7.2% per annum was provided by a related party – JSC NWF Samruk-Kazyna;
- as at 30 June 2014 the Group's loan of 182,878,655 thousand tenge with interest rate 6.95% per annum was provided by a related party – JSC NC KTZh (31 December 2013: nil tenge) (Note 11).
- as at 30 June 2014 the Group's loan of 326,065 thousand tenge (31 December 2013: 489,097 thousand tenge) with interest rate 8% per annum was provided by a related party – JSC Development Bank of Kazakhstan.

Compensation to key management personnel of the Group

The key management personnel consists of 11 persons as at 30 June 2014 (as at 30 June 2013: 11 persons). Compensation to key management personnel for the six months ended 30 June 2014 and 2013 is as follows:

	6 months ended 30 June 2014 (unaudited)	6 months ended 30 June 2013 (unaudited)
Salaries	69,433	67,915
Social deductions	791	625
Pension deductions	6,367	5,824
Income tax	6,149	6,090
Social tax	5,838	5,699
Total	88,578	86,153

24. EVENTS AFTER THE REPORTING PERIOD

On 11 July 2014, the Board of Directors made decision to sale 100% share in subsidiaries Ertys-Service LLP, Kazykurt-Yug LLP and 69.94% share in Kazakhstan Carriage Construction Company LLP.

According to the Government Decree #658 dated 14 July 2014, the Program for the development of transport infrastructure in the Republic of Kazakhstan for the period 2010-2014 and the detailed action plan for the implementation of this program ceased to be valid. The Group applies Government Decision #429 *On Amendments to the Decree of the Government of the Republic of Kazakhstan* dated 31 March 2014 #280 *On approval of a comprehensive privatization plan for the period 2014-2016* and the State program for the development and integration of the transport system infrastructure of the Republic of Kazakhstan till 2020.

25. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements for the six months ended 30 June 2014 were approved by management of JSC Kaztemirtrans on 6 August 2014.