

Kazakhstan Temir Zholy Finance B.V.
Rotterdam

Annual accounts 2014

February 11, 2015

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Kazakhstan Temir Zholy Finance B.V.
Rotterdam

Annual accounts 2014

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Management Board's report

The management herewith presents to the shareholder the annual accounts of Kazakhstan Temir Zholy Finance B.V. (hereinafter "the Company") for the year 2014.

General

The Company is a limited liability company incorporated under the laws of the Netherlands.

Due to the fact that the majority of the operations consist of US dollar transactions, the Company has adopted the US dollar as its functional currency effective January 1, 2006. As per August 6, 2012, the Company is wholly owned by JSC Kaztemirtrans, Republic of Kazakhstan. The ultimate parent company is JSC National Company Kazakhstan Temir Zholy (a state owned company), Republic of Kazakhstan.

The principal activity of the Company is to act as a finance company. The Company raises funds by issuing bonds in the international capital markets and lends on to group companies.

Furthermore, the Company will do promotional activities for the Company itself as well as for group companies.

On December 12, 2014 the articles of association have been fully updated and amended in order to reflect the capital reduction amongst others.

Overview of activities for the year

With effective date April 29, 2014 the 2042 bonds have been substituted to JSC National Company Kazakhstan Temir Zholy. The loans granted to group companies have been set off against the liability to the latter company. As a result of this transaction the remaining amounts of capitalized issue costs and deferred income are fully depreciated.

With effective date October 7, 2014 the 2020 bonds have been substituted to JSC National Company Kazakhstan Temir Zholy. The loans granted to group companies have been set off against the liability to the latter company. As a result of this transaction the remaining amounts of capitalized issue costs and deferred income are fully amortized.

During 2014, the Company did not employ personnel.

The shareholder's equity of the Company as at December 31, 2014 amounts to USD 3,515,058 (2013: USD 10,178,951).

On May 1, 2014 Mr. K. Almagambetov resigned as Managing Director and was replaced by the new Managing Director Mr E. Akhmurzin.

On December 12, 2014 the Shareholder with the Board decided to reduce the Company's share capital by decreasing the nominal value of the shares from EUR 100 to EUR 1. This resulted into a repayment of capital in the amount of USD 6,174,006 (EUR 4,967,820).

Risk management

Reference is made to note 5 Financial Instruments on page 15 through page 16 of the annual accounts.

Results

The loss for the year 2014 amounts to USD 784,478 (2013: USD 1,902,489 profit). The decrease of the net income was mainly due to the decrease of the gross margin which is a direct result of the substitution of the bond issues 2020 and 2042 up to an amount of USD 1,800,000,000.

In addition the Company suffered a loss on foreign exchanges for an amount of USD 1,203,400 (2013: USD 375,013 profit).

Furthermore the substitution of the 2020 and 2042 bond issues and the set off of the corresponding loans granted to group companies as well as the write off of the discount and cost on various bond issues, resulted into a substitution result amounting to a loss of USD 167,011.

Kazakhstan Temir Zholy Finance B.V.
Rotterdam

Future outlook

No investments are expected to take place in the near future.

The management is of the opinion that the present level of activities will be maintained in the near future and no changes in financing or number of employees are expected.

No circumstances are expected which will affect future income and profitability. Also no activities in the field of research and development are expected in the near future.

Board of Directors

The directors are aware of the legislation of Article 2:166 and 2:276 of the Dutch Civil Code ("DCC"). This legislation became effective as per January 1, 2013 and includes specific guidelines for the composition of board of directors. As of December 31, 2014 the minimum levels of 30% male or female directors have been achieved. For future appointments of director's board members all relevant aspect will be taken into consideration. Such aspects include, but are not limited to, the aforementioned articles of the DCC, other applicable guidelines and legislation, availability of appropriate candidates based on charter and internal quality guidelines. This to ensure an appropriate level of experience and expertise is available in the respective boards.

Rotterdam February 11, 2015

Board of Managing Directors:



Intertrust (Netherlands) B.V.

Mr. W.G. Rieff



Mr. E. Akhmurzin



Mrs. S. Nurbayeva

Kazakhstan Temir Zholy Finance B.V.
Rotterdam

Financial statements

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Statement of profit or loss for the year 2014

	Note	2014 USD	2013 USD
Continuing operations:			
Interest income gross		92,896,871	164,948,612
Non-refundable withholding tax		(6,806,828)	(16,256,015)
Interest income net	6	86,090,043	148,692,597
Interest expense	7	(85,138,429)	(146,893,753)
Gross margin		951,614	1,798,844
Foreign exchange result	8	(1,203,400)	375,013
Other income	9	-	22,713
Substitution result	10	(167,002)	-
General and administrative expenses	11	(242,234)	(206,333)
Result before taxation		(661,022)	1,990,237
Income tax	12	(92,649)	(87,748)
Dividend withholding tax		(30,807)	-
Result for the year		(784,478)	1,902,489

The accompanying notes are an integral part of these financial statements.

Statement of financial position as at December 31, 2014

(Before appropriation of current year's result)

	Note	12.31.2014 USD	12.31.2013 USD
Assets			
Non-current assets			
Long-term loans to group companies	13	348,681,900	2,199,742,368
Current assets			
Receivables on group companies	14	3,488,186	14,215,591
Other receivables and prepaid expenses	15	-	1,911,250
Cash and cash equivalents	16	3,711,840	10,058,739
Total current assets		7,200,026	26,185,580
Total assets		<u>355,881,926</u>	<u>2,225,927,948</u>
Shareholder's equity and liabilities			
Capital and reserves			
Share capital		60,984	6,909,786
Translation reserve		(1,596)	(970,983)
Retained earnings		4,240,148	2,337,659
Result for the year		(784,478)	1,902,489
Total equity		<u>3,515,058</u>	<u>10,178,951</u>
Non-current liabilities			
Long-term borrowings	17	348,685,111	2,199,605,784
Current liabilities			
Accrued interest	18	3,423,288	14,059,932
Current tax liability	19	134,373	87,499
Other liabilities and accrued expenses	20	124,096	1,995,782
Total current liabilities		<u>3,681,757</u>	<u>16,143,213</u>
Total equity and liabilities		<u>355,881,926</u>	<u>2,225,927,948</u>

The accompanying notes are an integral part of these financial statements.

Statement of changes in equity for the year ended December 31, 2014

	Share capital	Translation reserve	Retained earnings	Profit for the year	Total
	USD	USD	USD	USD	USD
January 1, 2013	6,611,215	(672,412)	1,297,774	1,039,885	8,276,462
Appropriation of profit	-	-	1,039,885	(1,039,885)	-
Translation adjustment	298,571	(298,571)	-	-	-
Profit for the year	-	-	-	1,902,489	1,902,489
January 1, 2014	6,909,786	(970,983)	2,337,659	1,902,489	10,178,951
Appropriation of profit	-	-	1,902,489	(1,902,489)	-
Translation adjustment	(674,796)	674,796	-	-	-
Repayment capital	(6,174,006)	294,591	-	-	(5,879,415)
Profit for the year	-	-	-	(784,478)	(784,478)
December 31, 2014	60,984	(1,596)	4,240,148	(784,478)	3,515,058

On December 12, 2014 the Shareholder with the Board decided to reduce the Company's share capital by decreasing the nominal value of the shares from EUR 100 to EUR 1. This resulted into a repayment of capital in the amount of USD 6,174,006 (EUR 4,967,820).

The authorized share capital of the Company amounts to EUR 250,900 and is divided into 250,900 common shares of EUR 1 each. Issued and paid in are 50,180 shares. In the financial statements, the issued and fully paid-in capital of EUR 50,180 is translated into US dollars using the year-end exchange rate of EUR 1 = USD 1.21530 (2013: EUR 1 = USD 1.37700).

Statement of cash flows for the year ended December 31, 2014

	2014	2013
	USD	USD
Cash flows from operating activities:		
Interest received	70,176,746	148,296,784
Interest paid	(69,125,000)	(183,771,307)
Income tax refund	(72,045)	-
General and administrative expenses paid	(286,471)	(271,265)
Payment for debt issue costs	52,920	33,069
	746,150	(35,712,719)
Cash flows from investing activities:		
Long-term loans provided to group companies	-	(159,262,783)
Repayments long-term borrowings from group companies	-	160,084,157
	-	821,374
Cash flows from financing activities:		
Repayment of capital	(6,174,007)	-
	(6,174,007)	-
Net cash received from operating and investing activities	(5,427,857)	(34,891,345)
Net change in cash and cash equivalents	(5,427,857)	(34,891,345)
Foreign exchange fluctuations	(919,042)	377,600
Cash and cash equivalents at the beginning of the year	10,058,739	44,572,484
Cash and cash equivalents at the end of the year	3,711,840	10,058,739

The accompanying notes are an integral part of these financial statements.

Notes to the financial statements

1. General

Kazakhstan Temir Zholy Finance B.V. ("the Company") was incorporated on September 11, 2001 and has its statutory seat in Rotterdam. The registered address of the Company is Prins Bernhardplein 200, 1097 JB Amsterdam.

Since August 6, 2012 the Company is wholly owned by JSC Kaztemirtrans, Republic of Kazakhstan. The ultimate parent company is JSC National Company Kazakhstan Temir Zholy (a state owned company, hereafter also referred to as "the Group"), Republic of Kazakhstan.

The principal activity of the Company is to act as a finance company. The Company raises funds by issuing bonds in the international capital markets and lends on to group companies.

Furthermore, the Company will do promotional activities for the Company itself as well as for group companies.

On May 1, 2014 Mr. K. Almagambetov resigned as Managing Director and was replaced by the new Managing Director Mr E. Akhmurzin.

On December 12, 2014 the articles of association have been fully updated and amended in order to reflect the capital reduction amongst others.

2. Reporting currency

Due to the fact that the majority of the operations consist of US dollar transactions, the Company has adopted the US dollar as its functional and reporting currency effective January 1, 2006.

3. Summary of significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with IFRS as adopted by the EU and also in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements have been prepared under the historical cost convention.

The financial statements are presented in US dollars, which is the Company's functional and presentation currency.

Application of new and revised International Financial Reporting Standards (IFRSs)

In the current year, the Company has applied a number of new and revised IFRSs issued by the International Account Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after January 1, 2014.

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

The Company has applied the amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities for the first time in the current year. The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. 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 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.

As the Company is not an investment entity (assessed based on the criteria set out in IFRS 10 as at January 1, 2014), the application of the amendments has had no impact on the disclosures or the amounts recognised in the Company's financial statements.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The Company has applied the amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities for the first time in the current year. 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'.

As the Company does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Company's financial statements.

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

The Company has applied the amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets for the first time in the current year. The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

The application of these amendments has had no material impact on the disclosures in the Company's financial statements.

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The Company has applied the amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting for the first time in the current year. The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

The amendments have been applied retrospectively. As the Company does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the Company's financial statements.

IFRIC 21 Levies

The Company has applied IFRIC 21 Levies for the first time in the current year. IFRIC 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

IFRIC 21 has been applied retrospectively. The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Company's financial statements.

New and revised IFRSs in issue but not yet effective

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments ⁵
IFRS 15	Revenue from Contracts with Customers ⁴
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations ³
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ³
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants ³
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions ¹
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle ²
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle ¹

1 Effective for annual periods beginning on or after July 1, 2014 with earlier application permitted.

2 Effective for annual periods beginning on or after July 1, 2014 with limited exceptions. Earlier application is permitted.

3 Effective for annual periods beginning on or after January 1, 2016 with earlier application permitted.

4 Effective for annual periods beginning on or after January 1, 2017 with earlier application permitted.

5 Effective for annual periods beginning on or after January 1, 2018 with earlier application permitted.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at the rate of exchange ruling at the balance sheet date. Foreign currency transactions have been translated into US dollars at the exchange rate in effect at the time of transaction. Resulting foreign currency gains and losses are included in the statement of profit or loss.

Financial assets

The Company has the following financial assets: loans, receivables and cash and bank balances. The Company's loans to group companies are classified as long-term loans. These loans are non-derivative financial assets with fixed payments that are not quoted in an active market, whose recoverability is based solely on the credit risk of the related company and where the Company has no intention of trading the loan. Loans are measured at amortized cost using the effective interest method less any impairment. Interest income is recognized by applying the effective interest rate. The discount and commission costs are amortized over the term of the bond in accordance with the effective interest method.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Financial instruments

The Company recognizes financial assets and liabilities in its statement of financial position when, and only when, it becomes a party to the contractual provisions of the instruments. Financial assets and liabilities are recognized using settlement date accounting.

Financial assets and liabilities are initially recognized at cost, which is the fair value of the consideration given or received, respectively, including any transaction costs incurred. Any gain or loss at initial recognition is recognized in the current period's statement of profit or loss and other comprehensive income.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortized cost using the effective interest method. Gains and losses are recognized in the statement of profit or loss and other comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Interest bearing loans and borrowings are subsequently measured at amortized costs using the effective interest method. Gains and losses are recognized in the statement of profit or loss and other comprehensive income when the liabilities are derecognized, as well as through the amortization process.

Other receivables

Other receivables are recognized and carried at original amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection on the full amount is no longer probable. Bad debts are written-off when the period for allowed claims has expired.

Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits, short-term and highly liquid investments with original maturity of not more than three months readily convertible to known amount of cash and subject to insignificant risk of change in value.

Statement of cash flows

The statement of cash flows is presented using the direct method.

The decrease of loan to group companies and borrowings in note 13 and 17 is a non-cash movement as result of the substitution and therefore not presented in the cash flow statement.

Loans and borrowings

Loans and borrowings are initially recognized at cost, being the fair value of the consideration received, net of transaction costs incurred.

After initial recognition, loans and borrowings are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issuance costs and any discount or premium on settlement.

Depending on the maturity date of the contract, the loans and borrowings are classified as current or non-current.

Liabilities and accrued expenses

Liabilities and other amounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

Revenue recognition

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate method, which is the rate that exactly discounts estimated future risk receipts through the expected life of the financial asset to that asset's net carrying amount.

The effective interest rate method calculates the amortized cost of a financial asset or liability and allocates the interest income or interest expense over the relevant period.

Expenses recognition

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

Corporate income tax

Corporate income tax is calculated at the applicable rate based on income reported in these financial statements, taking into account permanent differences between profit calculated according to the statement of profit or loss and other comprehensive income and profit calculated for taxation purposes. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilized and deferred tax assets realized.

4. Significant accounting judgments and estimates and key sources of estimation uncertainty

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent liabilities. Actual results may differ from management's estimates made at the time of preparing these financial statements. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

Management is not aware of any key sources of estimation uncertainty.

5. Financial instruments

The Company's principal financial instruments comprise of loans granted, borrowings and bank balances. During the year, the Company did not undertake trading in financial instruments.

Currency risk

Most of the Company's cash inflows and outflows, as well as receivable and payable balances are denominated in US dollars.

The currency risk exposure is limited to the funding of the Company (the shares of the Company have been issued and paid in euros) and the cash on bank accounts (EUR accounts).

Given the size and the nature of the currency risk the Company has decided not to use foreign exchange or forward contracts to manage its exposure to changes in foreign exchange rates.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The interest rate risk for the Company is limited due to the fact that the principle activity is to obtain funding to finance group companies. Funding raised is lent out to group companies on a 1-to-1 base. Terms of funding obtained are mirrored by the terms of the loans given to group companies. The only distinction is the fixed margin between the interest on the amounts borrowed and the interest on the amounts that have been lent out.

Furthermore, the Company actively monitors changes in interest rates in the currencies in which its cash, investments and borrowings are denominated.

Given the size and nature of the interest rate risk, the Company has decided not to hedge the interest rate risk exposure.

Credit risk

Financial instruments, which potentially subject the Company to credit risk, consist primarily of loans receivable. While the Company may be subject to losses up to the contract value of the instruments in the event of non-performance by its counterparts, it does not expect such losses to occur. No collateral is required by the Company to support financial instruments subject to credit risk. Cash is placed in financial institutions, which are considered at the time of deposit to have minimal risk of default.

JSC National Company Kazakhstan Temir Zholy, JSC Kaztemirtrans and JSC Lokomotiv have unconditionally and irrevocably guaranteed the due and punctual payment of all amounts at any time becoming due and payable in respect of the Notes.

As the shareholder's equity of these group companies as per December 31, 2014 is higher than the amount of the loans receivable, there is no indication that the loans given to the group companies will be impaired in the near future or that the loans receivable will not be received.

Liquidity risk management

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with its financial liabilities.

Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

As funding of the Company is solely used to finance group companies, the terms of loans taken are mirrored by the terms of loans given to group companies. As such, when loans taken are due, loans given to group companies are due as well. Furthermore, the interest due dates for loans taken and loans given are equal while the Company earns a fixed spread.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	Weighted average effective interest rate	Less than 1 year	1-5 years	5+ years	Total
	%	USD	USD	USD	USD
December 31, 2014:					
Fixed interest rate instruments	7.0000	24,500,000	362,250,000	-	386,750,000
		<u>24,500,000</u>	<u>362,250,000</u>	<u>-</u>	<u>386,750,000</u>
December 31, 2013:					
Fixed interest rate instruments	7.0000	24,500,000	411,250,000	-	435,750,000
Fixed interest rate instruments	6.3750	44,625,000	223,125,000	789,250,000	1,057,000,000
Fixed interest rate instruments	6.9500	76,450,000	382,250,000	2,934,800,000	3,393,500,000
		<u>145,575,000</u>	<u>1,016,625,000</u>	<u>3,724,050,000</u>	<u>4,886,250,000</u>

Fair values

The fair values of financial instruments, consisting of cash, receivables, payables and obligations under debt instruments, are considered to be equal to their carrying values.

6. Interest income net

Specification:

	2014 USD	2013 USD
Interest income group companies:		
Interest long-term borrowings	92,834,317	164,861,901
Non-refundable withholding tax	(6,806,828)	(16,256,015)
	<u>86,027,489</u>	<u>148,605,886</u>
Bank interest	62,554	86,711
	<u>86,090,043</u>	<u>148,692,597</u>

The interest income is mainly generated from the provided loans as disclosed in note 13.

7. Interest expense

Specification:

	2014	2013
	USD	USD
Interest long-term borrowings	85,138,429	146,893,753
	<u>85,138,429</u>	<u>146,893,753</u>

8. Foreign exchange result

This item represents mainly the exchange result on the EUR bank account. See also note 16. The exchange rate USD-EUR moved between January 1, 2014 and December 31, 2014 between 0,7262 and 0,7952.

9. Other income

Specification:

	2014	2013
	USD	USD
Financial advisory services JSC Lokomotiv	-	22,713
	<u>-</u>	<u>22,713</u>

10. Substitution result

Specification:

	2014	2013
	USD	USD
Premium on bonds 2042	57,928,732	-
Premium loan 2042	(58,441,409)	-
Discount on issuance of loans granted 800 million	3,490,085	-
Costs on issuance of bonds issued 800 million	(3,475,596)	-
Discount on issuance of loans granted 359 million	1,250,554	-
Costs on issuance of bonds issued 359 million	(1,232,002)	-
Discount on issuance of loans granted 700 million	1,498,768	-
Costs on issuance of bonds issued 700 million	(1,447,657)	-
Loan interest receivable USD 800 million loan	(16,988,889)	-
Loan interest payable bonds USD 800 million facility	16,988,889	-
Loan interest receivable USD 359,4 million loan	(6,109,310)	-
Loan interest payable bonds USD 300 million facility	6,370,833	-
Loan interest receivable USD 700 million loan	(244,521)	-
Loan interest payable bonds USD 700 million facility	244,521	-
	<u>(167,002)</u>	<u>-</u>

11. General and administrative expenses

Specification:

	2014	2013
	USD	USD
Management and administration fees	145,550	86,373
Tax advise fees	28,333	17,049
Audit fees(*)	33,562	35,321
General expenses	8,245	488
Travel expenses	18,803	13,975
Financial advisor fees	4,205	49,833
Other general expenses	1,241	-
Bank charges	2,295	3,294
	<u>242,234</u>	<u>206,333</u>

* Audit fees are solely related to Deloitte Accountants B.V., Amsterdam. No other services are provided by Deloitte Accountants B.V.

	Deloitte Auditors	Other Auditors	Total network
	USD	USD	USD
2014			
Audit of the financial statements	32,322	-	32,322
Other audit engagements	-	-	-
	<u>32,322</u>	<u>-</u>	<u>32,322</u>

	Deloitte Auditors	Other auditors	Total network
	USD	USD	USD
2013			
Audit of the financial statements	35,321	-	35,321
Additional expenses	1,101	-	1,101
Other audit engagements	-	-	-
	<u>36,422</u>	<u>-</u>	<u>36,422</u>

12. Income tax

The Company has concluded Advance Pricing Agreements (APAs) with the Dutch tax authorities concerning the minimum margin required between the proceeds as received from the loans (Notes) and the loans granted to group companies. These APAs were signed in April 2007 and September 2012. The 2014 and 2013 income tax due has been calculated based on the results reported in these financial statements and the APAs as concluded with the Dutch tax authorities. On the income that can be allocated to the Company the double taxation relief is applicable and the income tax payable can be compensated with the paid withholding tax on interest in the Company. The APA which was signed in September 2012 is not in place anymore due to the substitution in 2014.

A taxable income for 2014 was calculated of USD 7,071,318, 25% (2013: USD 18,366,222, 25%). Due to the double taxation relief, the actual amount payable is EUR 85,219 (USD 103,567) (2013: USD 87,499).

The total amount of unused tax credits as per December 31, 2014 amount to USD 53,176,158 (2013: USD 47,938,244).

Due to the negative result of the Company, it is not possible to express the effective tax rate as a percentage. The main cause of the difference between the fiscal and the commercial result is the treatment of the substitution result.

13. Loans to group companies

Specification long-term:

	Maturity date	Interest rate per annum	12.31.2014	12.31.2013
		%	USD	USD
Loans granted in 2007	May 11, 2016	7.8433	350,000,000	350,000,000
Loans granted in 2010	Oct 6, 2020	7.1678	-	700,000,000
Loans granted in 2012	July 10, 2042	7.8000	-	800,000,000
Loans granted in 2012	July 10, 2042	6.2756	-	358,441,409
			<u>350,000,000</u>	<u>2,208,441,409</u>
Repayment principal amount			-	-
			<u>350,000,000</u>	<u>2,208,441,409</u>
Less:				
discount on loans granted			<u>(1,318,100)</u>	<u>(8,699,041)</u>
			<u>348,681,900</u>	<u>2,199,742,368</u>

Part of the loans granted in 2012 with a interest rate of 6.2756% was shifted between group companies, therefor the loan to Lokomotiv JSC was repaid as per March 29, 2013 and a new loan was granted to JSC National Company Kazakhstan Temir Zholy as per March 29, 2013.

The price of the issue and the effective interest rate for the loans with a maturity date of May 11, 2016 amounted to 98.292% and 8.0863%, respectively, the price of the issue and the effective interest rate for the loan with a maturity date of October 6, 2020 amounted to 100% and 6.3750%. The price of the issue and the effective interest rate for the loans with a maturity date of July 10, 2042 amounted to 99.443% and 6.9500%.

On April 29, 2014 the loans granted in 2012 have been set off against a payable due to JSC National Company Kazakhstan Temir Zholy as a result of the substitution of the bonds issued with maturity date July 10, 2042.

On October 7, 2014 the loans granted in 2010 have been set off against a payable due to JSC National Company Kazakhstan Temir Zholy as a result of the substitution of the bonds issued with maturity date October 6, 2020.

Fair value

The fair value of the loans is:

	Maturity date	12.31.2014	12.31.2013
		USD	USD
Loans granted in 2007	May 11, 2016	371,472,435	385,818,198
Loans granted in 2010	Oct 6, 2020	-	764,681,855
Loans granted in 2012	July 10, 2042	-	806,366,778
Loans granted in 2012	July 10, 2042	-	301,544,948

The fair value of the loans is calculated using the (i) the discounted cash flows method, (ii) spread calculated from the corresponding loan contract (including margin, but excluding the gross up for withholding taxes) and (iii) discount curve (based on OIS rates) obtained from Bloomberg.

The fair value hierarchy of the loans is Level 2. There were no transfers between the Levels during the year.

Credit risk

The Company's maximum exposure of credit risk relates to loans to group companies and receivables on group companies (note 13 and 14).

14. Receivables on group companies

	12.31.2014 USD	12.31.2013 USD
Interest receivable USD 350,000,000 loans	3,835,712	3,835,712
Interest receivable USD 700,000,000 loans	-	11,959,389
	3,835,712	15,795,101
Less: interest withholding tax	(383,571)	(1,579,510)
Total receivable interest loans	3,452,141	14,215,591
Receivable from JSC National Company Kazakhstan Temir Zholy	36,045	-
	<u>3,488,186</u>	<u>14,215,591</u>

15. Other receivables and prepaid expenses

Loan interest accrued Notes 800,000,000; tranche 3	-	1,390,000
Loan interest accrued Notes 300,000,000; tranche 4	-	521,250
	-	<u>1,911,250</u>

16. Cash and bank balances

	12.31.2014 USD	12.31.2013 USD
ABN AMRO Bank current account EUR	55,700	172,520
ABN AMRO Bank current account USD	979,315	494,893
ABN AMRO short-term deposit	850,000	500,000
ABN AMRO short-term savings account EUR	1,826,825	8,891,326
	<u>3,711,840</u>	<u>10,058,739</u>

The funds maintained in the current and the savings accounts are freely available. The fixed term deposit matures on January 20, 2015.

17. Borrowings

Specification long-term borrowings:

	Maturity date	Interest rate per annum %	12.31.2014 USD	12.31.2013 USD
Notes placed at price:				
98.292% - tranche 1	May 11, 2016	7.000	350,000,000	350,000,000
99.643% - tranche 2	Oct 6, 2020	6.375	-	700,000,000
99.443% - tranche 3	July 10, 2042	6.950	-	800,000,000
120.244% - tranche 4	July 10, 2042	6.950	-	300,000,000
			350,000,000	2,150,000,000
Less:				
Discount on Notes issued			(1,314,889)	(8,604,724)
Premium for tranche 4			-	58,210,508
			<u>348,685,111</u>	<u>2,199,605,784</u>

The total amount can be stated as non-current.

The Company ("the Issuer") issued 4 tranches of Notes totalling USD 2,150,000,000. The issue of the Notes is guaranteed by JSC National Company Kazakhstan Temir Zholy and its subsidiaries JSC Kaztemirtrans and JSC Lokomotiv ("the Guarantors").

During the year there was no default in the payment of interest.

Within the indicated issue the Company received from the investors:

First tranche: Notes in the amount of USD 350,000,000 with maturity on May 11, 2016. The price of the issue and the effective interest rate amounted to 98.292% and 7.8433%, respectively. The interest on Notes of the tranche is accrued at the rate of 7.00% per annum.

Second tranche: Notes in the amount of USD 700,000,000 with maturity on October 6, 2020. The price of the issue and the effective interest rate amounted to 100% and 7.1678%. The interest on Notes of the tranche is accrued at the rate of 6.375% per annum.

On October 7, 2014 these Notes have been substituted to JSC National Company Kazakhstan Temir Zholy.

Third tranche: Notes in the amount of USD 800,000,000 with maturity on July 10, 2042. The price of the issue and the effective interest rate amounted to 100% and 7.8000%. The interest on Notes of the tranche is accrued at the rate of 6.950% per annum.

On April 29, 2014 these Notes have been substituted to JSC National Company Kazakhstan Temir Zholy.

Fourth tranche: Notes in the amount of USD 300,000,000 with maturity on July 10, 2042. The price of the issue and the effective interest rate amounted to 120.244% and 6.2756%. The interest on Notes of the tranche is accrued at the rate of 6.950% per annum. The premium on issue price is disclosed separately as well as the additional premium representing accrued interest for the period July 10, up to the issue date.

On April 29, 2014 these Notes have been substituted to JSC National Company Kazakhstan Temir Zholy.

The fair value of the borrowings is:

	Maturity date	12.31.2014 USD	12.31.2013 USD
Notes placed at price:			
105.000% - tranche 1	May 11, 2016	367,500,000	385,588,000
0% - tranche 2	Oct 6, 2020	-	764,862,000
0% - tranche 3	July 10, 2042	-	796,288,000
0% - tranche 4	July 10, 2042	-	298,608,000

The market values of the Notes are obtained from Bloomberg using the mid CBBT Price as of the valuation date as the pricing source.

The fair value hierarchy of the loans is Level 2. There were no transfers between the Levels during the year.

Market (interest) risk:

The interest is fixed and, therefore, change in market interest will not affect any income or expense.

The interest on Notes, issued in May 2006, is accrued and repayable each half year for the previous period at the maturity dates, which fall on May 11 and November 11 each year.

The interest on Notes, issued in October 2010, is accrued and repayable semi-annually in arrears on April 6 and October 6 in each year.

The interest on Notes, issued in July 2012, is accrued and repayable semi-annually in arrears on January 10 and July 10 in each year.

Under the Terms and Conditions of the issue of Notes, which do not provide for establishing financial ratios, the Issuer, the Guarantors and the subsidiaries of the Guarantors, whose common assets, revenues or income before tax referred to the ultimate parent company represent 10 or more percent of the consolidated gross assets, consolidated revenue or sum of consolidated income before tax ("the significant subsidiaries"), depending on the situation of the ultimate parent company and its subsidiaries, should comply with certain covenants and requirements, such as: absence of collateral, not permitted by the Terms and Conditions of the Notes issue; limitation on change of business and disposal of property; limitations on merger and consolidation with other legal entities.

In addition, the Terms and Conditions of the issue of Notes include default cases: default on interest or principal at the maturity date; Issuer's and Guarantor's non-compliance with any terms and conditions of the Terms and Conditions of the issue of Notes; default of Issuer, Guarantors or their significant subsidiaries on any other financial liability; insolvency or bankruptcy of Issuer, Guarantors or their significant subsidiaries; Government's seizure or compulsory disposal of all Issuer's, Guarantors' or significant subsidiaries' assets or income, or its significant portion.

Under the Terms and Conditions of the issue of Notes in case of a default of the Issuer, Guarantors and their significant subsidiaries on any financial covenant, investors are entitled to require repayment of Notes. Under the terms of the loan agreement, the loan shall be fully repaid in May 2016 (tranche 1). As at December 31, 2014, the Group complied with all requirements of the Terms and Conditions of the issue of Notes.

18. Accrued interest

Specification:

	12.31.2014	12.31.2013
	USD	USD
Loan interest accrued Notes 350,000,000; tranche 1	3,423,288	3,423,288
Loan interest accrued Notes 700,000,000; tranche 2	-	10,636,644
	<u>3,423,288</u>	<u>14,059,932</u>

19. Corporate income tax

This represents the balance of corporate income tax payable for the year 2014 less correction corporate income tax paid previous year.

20. Other liabilities and accrued expenses

Specification:

	12.31.2014	12.31.2013
	USD	USD
Interest pre-received USD 800,000,000 loans	-	1,560,000
Interest pre-received USD 359,400,968 loans	-	563,007
	-	2,123,007
Less: interest withholding tax	-	(212,301)
Total pre-received interest loans	-	1,910,706
Tax advisor fees	57,345	10,736
Audit fees	32,205	35,458
Administration fees	695	84
Other expenses	2,786	3,947
Value added tax	31,065	34,851
	<u>124,096</u>	<u>1,995,782</u>

All these amounts can be qualified as current liabilities.

21. Contingent liabilities and commitments

Contingent liabilities

In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Company and which have not been accrued or disclosed in these financial statements.

22. Related-party transactions

The Company is wholly owned by JSC Kaztemirtrans since August 6, 2012, which holds 100% of its issued and outstanding shares.

During the year, the Company provided loans to the ultimate parent company, JSC National Company Kazakhstan Temir Zholy, and affiliated companies:

	Loan amounts as at 12.31.2014	Interest amounts 2014
	USD	USD
- JSC National Company Kazakhstan Temir Zholy	324,000,000	37,191,280
- JSC Lokomotiv	26,000,000	15,775,987
- JSC Kaztemirtrans	-	38,443,740
	<u>350,000,000</u>	<u>91,411,007</u>

All loans to group companies are provided against an at arm's length mark-up.

In addition to the above, various expenses related to the substitution of the bonds issued with maturity date July 10, 2042 and October 6, 2020, were paid by the Company during the year 2014. During the management board meeting of the Company held at July 8, 2014 and October 9, 2014, it was decided to recharge these expenses amounting to USD 98,000 to the new issuer of the bonds being JSC National Company Kazakhstan Temir Zholy. On December 16, 2014 the Company has received an amount of USD 61,955 as a reimbursement of the substitution expenses. As at December 31, 2014 an amount of USD 36,045 is receivable from JSC National Company Kazakhstan Temir Zholy.

During the year 2014 bonds were substituted with the parent and loans settled. For the details on this event we refer to Note 13.

23. Personnel

The Company has no personnel and hence incurred no wages, salaries or related social security charges during the reporting period, nor during the previous year.

24. Directors

The Board of Managing Directors consists of:

Intertrust (Netherlands) B.V.

Mr. W.G. Rieff

Mr. E. Akhmurzin

Mrs. S. Nurbayeva

The remuneration paid to the Directors was EUR 2,000 (2013: EUR 2,000).

25. Approval of the financial statements

The financial statements were approved by the Board of Managing Directors and authorized for issue on February 11, 2015.

Board of Managing Directors:

Intertrust (Netherlands) B.V.

Mr. W.G. Rieff

Mr. E. Akhmurzin

Mrs. S. Nurbayeva

Other information

Independent auditor's report

The independent auditor's report is recorded on the next page.

Statutory rules concerning appropriation of the profit

According to article 20 of the Company's articles of association, the net profit for the year is at the disposal of the General Meeting.

Book 2 of the Dutch Civil Code prescribes that the General Meeting may resolve on any profit distribution to the extent that the shareholder's equity exceeds the amount of the reserves to be maintained by law and the articles of association of the Company.

The Company may only follow a resolution of the General Meeting to distribute after the management board has given its approval to do this. The management board withholds approval, at the moment of distribution, only if it knows or reasonably should be able to foresee that the Company cannot continue to pay its due debts after the distribution.

Proposed appropriation of the profit for 2014

Management proposes that the result for the year 2014 amounting to USD 784,478 should be transferred to the retained earnings.

Post balance sheet event

There are no significant subsequent events to include.

Independent auditor's report

To: The Shareholders of Kazakhstan Temir Zholy Finance B.V.

Report on the financial statements

We have audited the accompanying financial statements 2014 of Kazakhstan Temir Zholy Finance B.V., Rotterdam, which comprise the statement of financial position as per December 31, 2014, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes, comprising a summary of the significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Management Board's Report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the 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 financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the financial statements

In our opinion, the financial statements give a true and fair view of the financial position of Kazakhstan Temir Zholy Finance B.V. as per December 31, 2014 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether Management Board's Report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that management board report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, February 11, 2015

Deloitte Accountants B.V.

A handwritten signature in black ink, consisting of a large, sweeping loop followed by a horizontal line and some smaller, less distinct strokes below it.

A.A. Osinga