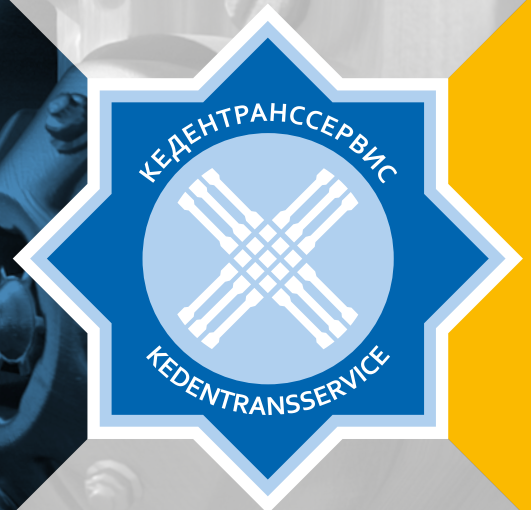


Kedentransservice  
Joint-Stock Company

# ANNUAL REPORT



2015









*Kazakhstan should revive its historical role and become the largest business transit hub of the Central Asian region, which represents a bridge between Europe and Asia.*

*N. Nazarbayev*





# ANNUAL REPORT



We present you our report for 2015, which was full of key events for our Company. By the end of 2015, Kedentransservice JSC (hereinafter – the Company) was recognized as a successful company in the field of transport services, which was evidenced by the award in the category “Transport Services” given by the Association of National Freight Forwarders of the Republic of Kazakhstan with the support of the Transport Committee of the Ministry of Investment and Development of the Republic of Kazakhstan and the National Company Kazakhstan Temir Zholy JSC. The award in the form of a diploma and a medal was presented to the Company’s representatives at the conference of the Association of National Freight Forwarders of the Republic of Kazakhstan, which gathers annually all key participants of the transport and logistics services market.

In addition to the award in the category “Transport Services”, the management of Kedentransservice JSC was also awarded an honorary diploma by the Minister of Investment and Development of the Republic of Kazakhstan “For the Irreproachable Work and Contribution to the Development and Prosperity of the Republic of Kazakhstan”.

According to the results of an independent analysis carried out by the editorial staff of a business analytical magazine “National Business”, the President of Kedentransservice JSC E. Iskakov became one of the top 10 most effective leaders of Kazakhstan (7-th position).

The Report of Kedentransservice Joint-Stock Company for 2015 (from January 1 to December 31, 2015) includes the results of Kedentransservice JSC and its subsidiaries and affiliates.

The data presented in the Annual Report for 2015 has been audited at the internal level, reviewed by the Audit Committee and the Personnel and Remuneration Committee of the Board of Directors.





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# MESSAGE OF THE PRESIDENT OF KEDENTRANSSERVICE JSC

## DEAR COLLEAGUES, PARTNERS AND SHAREHOLDERS!



This year Kedentransservice JSC celebrates the results of five-year effective partnership within the framework of the Agreement No. 80 dated March 17, 2011 signed between the National Company Kazakhstan Temir Zholy JSC and TransContainer PLC (hereinafter – the Agreement), which involves the implementation of a number of measures for the development of integrated logistics in the Republic of Kazakhstan on the basis of Kedentransservice JSC, including the establishment of a universal transport and logistics company.

Prior to the project implementation on the basis of Kedentransservice JSC the 1520 area did not have such a structure, which would have sufficient

resources and capacities to provide integrated logistics in the direction of China – Europe – China.

At the time of acquisition of 67% shares of the domestic terminal operator by TransContainer PLC, Kedentransservice JSC had a sufficient competence in the terminal business, however, its priority objectives in the field of provision of comprehensive logistics services were: obtaining modern technologies for comprehensive logistics and creation of an integrated service of companies, which, of course, required performing a lot of work.

Transfer of technology was carried out through the establishment of project offices and implementation of the schedule of activities aimed to integrate the business of the National Company Kazakhstan Temir Zholy JSC TransContainer PLC and Kedentransservice JSC within the framework of working groups in the field of corporate development, economy and finance, production activities, marketing, customer service and tariffs. Active work in these areas has allowed forming unified principles and approaches to the management of the Company and provision of services.

Taking into account the association of participants of the container market of Kazakhstan and Russia, the next step was to introduce a unified “IRS-Transportation” information and settlement system integrated with information systems of the National Company Kazakhstan Temir Zholy JSC and TransContainer PLC. It should be noted that “IRS-Transportation” is currently used as a basis for automation of business processes, sale of integrated freight forwarding services and handling of the rolling stock, as well as for operation of the car fleet, maintenance and repair of the rolling stock.

The combination of two shareholders on the basis of Kedentransservice JSC has allowed the



Company to achieve significant results. First of all, the Company has developed new services, such as: rolling stock handling for transportation of high-capacity containers; provision of car operator services; cargo consolidation; freight forwarding in cars and containers.

In addition, the combination has allowed providing a full range of services, such as: loading and unloading operations; auto services; services of cargo and container storage at the Company's own terminals.

Inclusion of Kedentransservice JSC in the composition of shareholders of TransContainer PLC has provided the Company access to technology and customer base of RZD OJSC as well as allowed transferring the Company all the transportation services of TransContainer PLC in the territory of Kazakhstan and Central Asia. Accordingly, the regulations for business processes and provision of comprehensive transport and logistics services have been transferred to the Company. As part of the expansion of the Company's business geography, representative offices have been opened in China (Urumqi) and Uzbekistan (Tashkent).

Summarizing the five-year effective partnership within the framework of the Agreement, it is possible to say with certainty that the results show a strong and sustainable growth. Thus, as an example I would like to report that:

- At the end of 2015, we had a steady growth of all financial and economic indicators as compared to the level of 2011: net profit – 4 times, EBITDA – 2.8 times.

Expansion of the competence of Kedentransservice JSC in the field of handling and logistics operations as well as increase in the volume of services provided a "snowballing" growth of revenue; thereby over 5 years the scope of business has increased 4.5 times.

- In 2015 as compared to 2011, the average number of the Company's employees increased by 5.6%; the average wage in that period increased by 92% and amounted to 180.35 thous. tenge.
- Following the results of 2015, payments to various budgets of the Republic of Kazakhstan increased 2.2 times as compared to 2011 and amounted to 2.5 bln tenge. Payments of corporate income tax for that period increased 5.1 times and amounted to 1.47 bln tenge.
- In the interest of fair competition and support of domestic producers, including for the purpose of increasing the level of local content the procurements of goods, works and services are carried out by the Company on the basis of the Procurement Rules of Samruk-Kazyna SWF JSC through the information e-procurement system.

Today, we can state that due to joint efforts, as a result of the project implementation Kedentransservice JSC has transformed from the terminal operator into the transport and logistics company providing a wide range of services, which results in increase in a share of revenue from handling and freight forwarding operations.

Of course, all of our achievements are, first of all, the merit of the team of our Company. We exert efforts so that all of our employees could share the success of the Company, be aware of their involvement in the corporate values and proud that they are part of our large and professional team.

Over 5 years, the Company has formed a healthy corporate culture that is characterized by great flexibility, the ability of mobilization for the purpose of high achievements, involvement and emotional commitment to the common goal and results, high level of responsibility and mutual respect.

Perhaps, this is one of the most significant results achieved over five years of our activities.

**Sincerely yours,**  
**EDIL ISKAKOV**  
**President of KEDENTRANSSERVICE JSC**



1

ABOUT THE  
COMPANY



## 1.1. GENERAL INFORMATION

The main activities of the Company include transshipment of cargo imported from China at Dostyk and Altynkol stations, cargo handling at terminals located in all regions and major cities

### Today, Kedentransservice JSC is:

1. The largest service-logistic company of the Republic of Kazakhstan;
2. A full complex of transport and logistics services;
3. A leading company in the field of transshipment of goods imported from the PRC at the border crossing of Dostyk station;
4. A wide customer base;
5. Financial stability.

**Rolling stock handling** – 4,824 fitting platforms (daily average). Including:

- 1) on lease – 4,527 units (including: Kaztemirtras – 3,836 units; Kaztransservice – 453 units; LDZ – 178 units; Eastcomtrans – 58 units; TransContainer – 2 units);
- 2) KDTs – 297 units.

## 1.2. MISSION. GOALS

The Company's mission is defined as "High-quality and most effective provision of clients' needs for integrated transport and logistics services".

The main strategic goal of the Company is to increase capitalization due to the growth of the range of business and enhancement of business efficiency.

The target business model of development chosen by the Company – a universal integrated logistics company – involves the provision of the entire range of logistics services in the field of container, bulk and general cargo, including heavy and oversized cargo.

The core of the Company's business will include forwarding and integrated logistics services in the territory of the entire Eurasian continent. According

of Kazakhstan, forwarding services, rolling stock handling, freight rolling stock handling and provision of locomotives for rent.

**Provision of locomotives for rent** – main-line locomotive is rented by Yakutia Railway SC OJSC.

Terminal cargo handling:

- 1) 18 terminals;
- 2) 80 k of own approach lines;
- 3) 90 units of loading/unloading machinery.

**Cargo transshipment at Dostyk and Altynkol stations:**

- 1) 8 transshipping sites on long-term lease;
- 2) 1 own transshipping site;
- 3) 42 units of loading/unloading machinery.

to the analysis of key service requests, exactly these directions are the most promising for the Company.

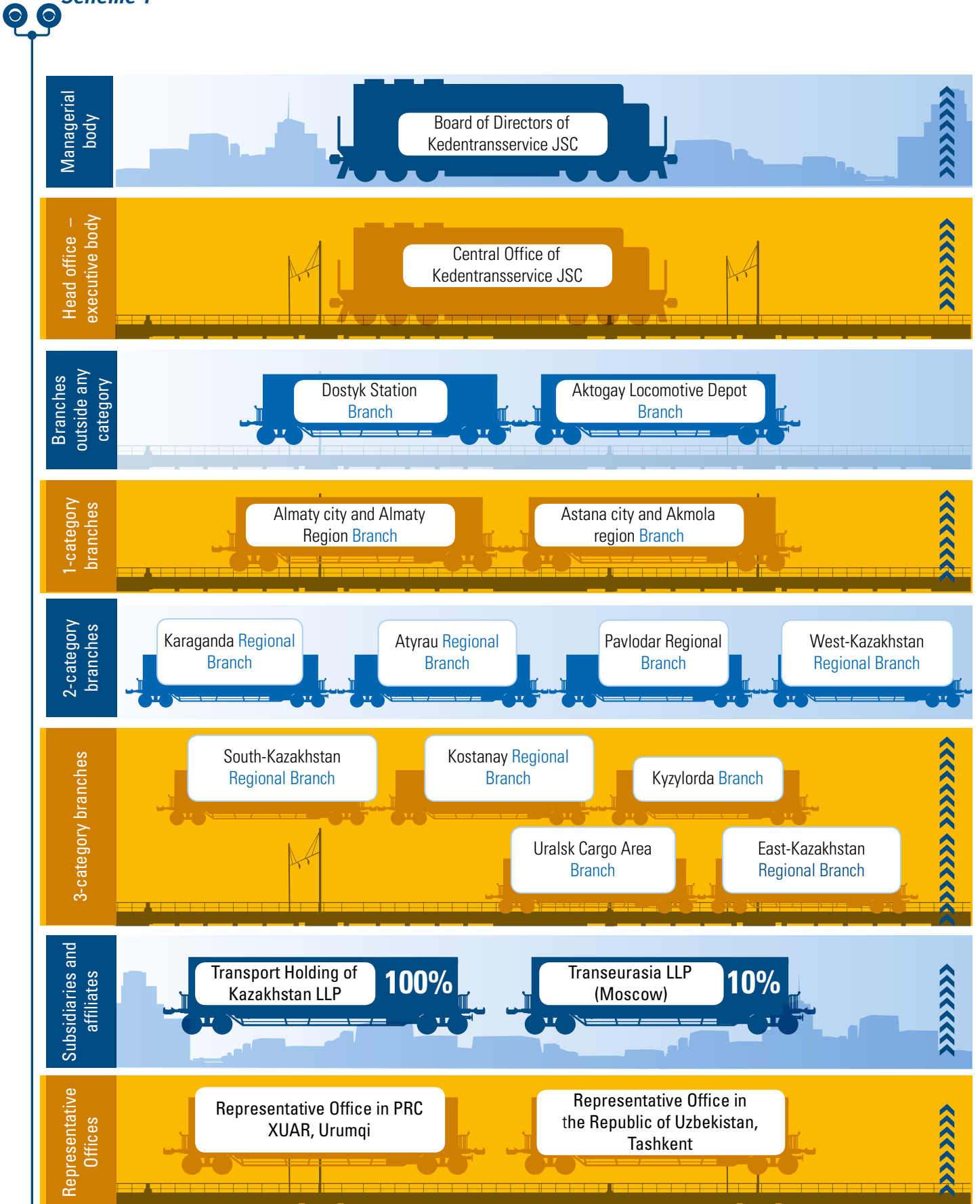
Warehouse and terminal businesses of the Company still remain in the portfolio. The development of these directions meets the current market needs: in conditions of the growing demand in the logistics services market of Kazakhstan there is an acute shortage of quality storage facilities, which leads to a rise in rental rates.

The sustainability of the target business model is ensured through the ownership of transport and logistics assets, synergy between the business areas, long-term attractiveness of the logistics business, and increase in client loyalty due to the complexity and wide geography of services.



### 1.3. ORGANISATIONAL STRUCTURE OF THE COMPANY

Scheme 1





## 1.4. SUBSIDIARIES AND AFFILIATES

Kedentransservice JSC has two subsidiaries (*Table 1*).

**Table 1. Subsidiaries of Kedentransservice JSC**

No.	Subsidiary name	Authorized capital	Participation interest of the Company
1	Transport Holding of Kazakhstan LLP	18,295,876 tenge	100%
2	Transeurasia CJSC	5,000,000 roubles.	10%

### Transport Holding of Kazakhstan LLP

Transport Holding of Kazakhstan LLP (hereinafter – THK LLP) was established by the resolution of the General Meeting of Participants dated January 25, 2005.

The sole participant of THK LLP is Kedentransservice JSC.

In accordance with the Charter, THK LLP carries out the following types of activities:

- services for provision of the approach line for passing the rolling stock, provided that there are no competitive approach lines;
- services for provision of the approach line for manoeuvring operations, loading and unloading and other technological operations of the transportation process, as well as for the rolling stock parking not provided for by the technological operations of the transport process, provided that there are no competitive approach lines.

### Transeurasia Joint-Stock Company

Transeurasia JSC was founded on September 5, 2002 by the following legal entities:

- Association of Freight Forwarders of the Russian Federation holding 250 registered ordinary shares, which is 5% of the authorized capital;
- ETRANS JSC holding 1,750 registered ordinary shares, which is 35% of the authorized capital;
- The Company holding 500 registered ordinary shares, which is 10% of the authorized capital;
- Gazprombank-Invest LLC holding 1,000 registered ordinary shares, which is 20% of the authorized capital;

- Terminal Holding AG JSC holding 1,500 registered ordinary shares, which is 30% of the authorized capital.

Transeurasia JSC carries out the following activities:

- organization of cargo transportation by sea, river, rail, road and air transport;
- provision of freight forwarding services for the Russian and foreign individuals and legal entities.



## 1.5. BRANCHES AND REPRESENTATIVE OFFICES. GEOGRAPHIC REACH

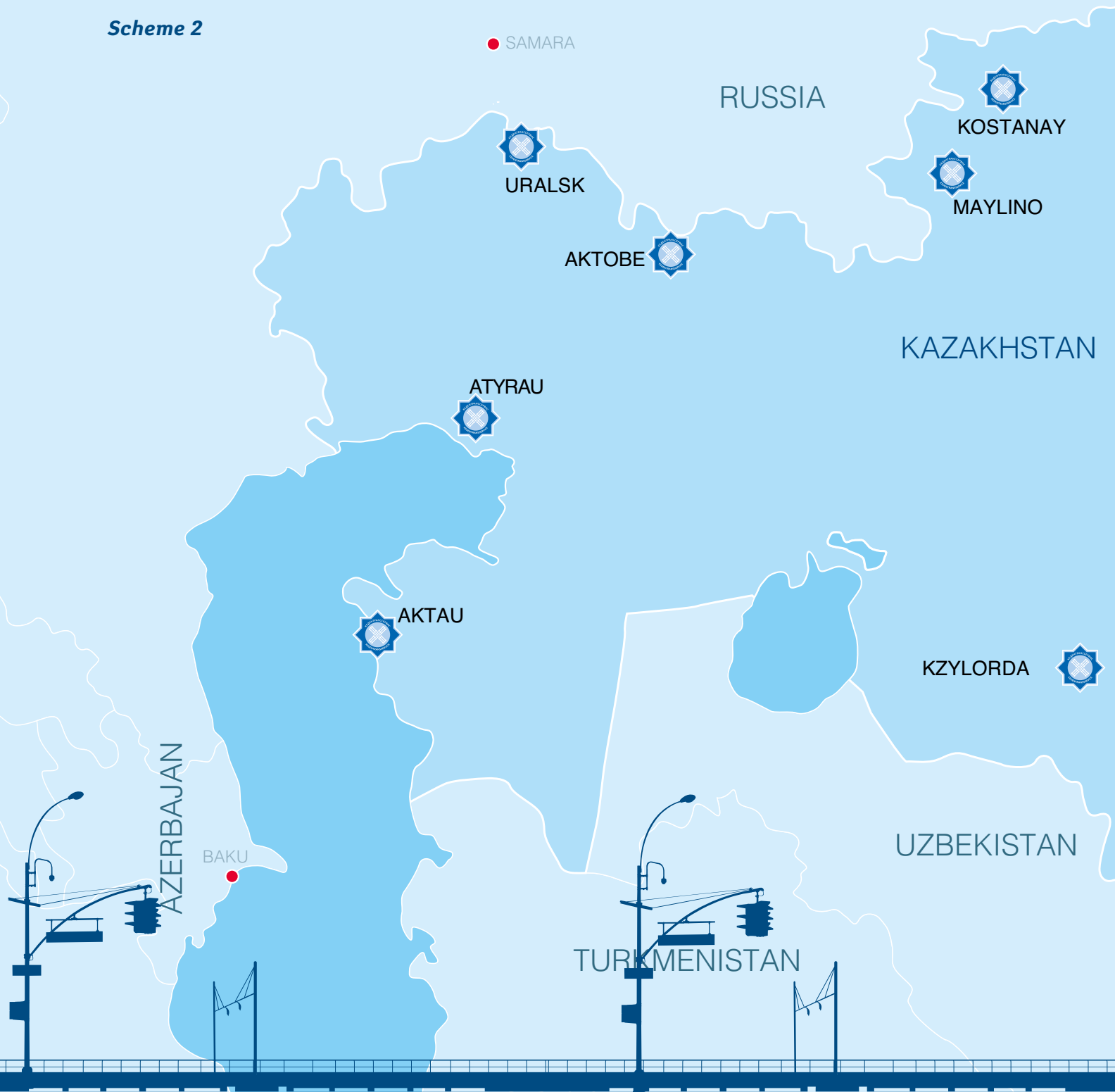
Kedentransservice JSC has a wide terminal network of branches in 14 regions of Kazakhstan and two representative offices:

- representative office in Xinjiang Uygur Autonomous Region of the People's Republic of China (Urumqi);
- representative office in the Republic of Uzbekistan (Tashkent).

The Company's terminal network consists of cargo sites located at 18 railway stations throughout Kazakhstan.

This is the largest network in Kazakhstan in terms of the volume of cargo handled in cars and containers and the second largest network of railway terminals in Kazakhstan after the station network of NC KTZ JSC.

**Scheme 2**





The Company's terminal network consists of:

**19 TERMINALS**

including:



**11 BRANCHES**

or

**17 ГРУЗОВЫХ УЧАСТКОВ**

terminal cargo handling areas

**1 BRANCH**

at Dostyk station (transshipment of cargo imported from the PRC)

**1 BRANCH**

at Altynkol station (transshipment of cargo imported from the PRC)

**1 BRANCH**

Aktogay Locomotive Depot





2

STRATEGY  
OF THE COMPANY

## 2.1. STRATEGIC GOALS AND OBJECTIVES

The main strategic goal of the Company is to increase capitalization due to the growth of the range of business and enhancement of business efficiency.

The achievement of this goal involves the assurance of compliance of the Company's activities with lower-level sub-goals in five perspectives covering all aspects of its activities: "Finance"; "Clients"; "Assets"; "Business Processes" and "Development Processes".

The main sub-goals of the Company in the "Finance" perspective are: "Enhancement of efficiency of current activities"; "Increase in the business potential and growth"; "Enhancement of effectiveness of a non-financial component of the business value".

The main sub-goals in the "Clients" perspective are: "Increase in the market share by main types of services"; "Improvement of quality of the services rendered" and "Expansion of the geographical presence".

The main sub-goals in the "Assets" perspective are: "Improvement of infrastructure"; "Improvement

of transportation assets" and "Improvement of corporate assets".

The main sub-goals in the "Business Processes" perspective are: "Improvement of basic processes" and "Improvement of supporting processes".

The main sub-goals in the "Development Processes" perspective are: "Development of new services"; "Development of fixed assets" and "Organizational development".

The target business model of development chosen by the Company – a "Universal integrated logistics company" – involves the provision of the entire range of logistics services in the field of container, bulk and general cargo, including heavy and oversized cargo.

The increase in the share of the last two categories should lead to the growth of profitability of the Company's operations. The core of the Company's business will include forwarding and integrated logistics services in the territory of the entire Eurasian continent. According to the analysis of key service requests, exactly these directions are the most promising for the Company.





## 2.2. TARGET AREAS OF ACTIVITIES OF KEDENTRANSSERVICE JSC

The main areas of the Company's activity are given in *Table 2*.

**Table 2.** Target areas of activities of Kedentransservice JSC

Target areas of activity	Required assets	Geography				Mode of transport			
		Kazakhstan	Customs Union and Central Asia	China and Europe	Railway	Road	Water-borne	Airborne	
Integrated logistics	Network of sales offices			KTZ Express, TransContainer					
Freight forwarding services									
Terminal-warehousing services	Terminals (container-type)			KTZ Express, TransContainer					
	Terminals (bulk, general cargo)								
Cargo transshipment (railway)	Border transshipment terminals					X	X	X	
Rolling stock handling (for railway only)	Fitting platforms, containers					X	X	X	
	Other rolling stock (cars)					X	X	X	
Transportation	Transport vehicles								

Target model

Partnership

The need for the development of the "Integrated Logistics" area on the Eurasian continent is associated with the deficit of integrated logistics solutions in the market. Today, western logistics companies are poorly represented in the market of Kazakhstan and Central Asia, therefore the demand for integrated logistics services is much higher than the supply. In the years to come, the attractiveness of this area will grow, because in Kazakhstan as well as in the world large clients are evolving in the direction from the consumption of freight forwarding services towards integrated logistics services and solutions. Therefore, despite the existing gap in competencies, the model proposes the creation of this direction within the Company, at least, for the markets of Kazakhstan and Central Asia.

The decision on inclusion of freight forwarding services in the main activities of the Company and their development on the global Eurasian market is associated to a large extent with the globalization, growth of international freight turnover, necessity for making transit, export and import transportations by large client companies, which are striving for minimization of their efforts and prefer to work with fewer agents. The development of forwarding

services in a wide geographical space, including the countries of Europe and China, requires considerable competencies or partnership relations with experienced international logistics companies as transportations in the territory of European and Asian countries differ in many different aspects - from differences in national legislation to different rail gauge in Europe, Russia, China. There is a possibility of considering the options of an alliance with or acquisition of a western logistics company.

Implementation of the freight forwarding area requires also the establishment of representative offices, expansion of the agency network and use of capabilities of partners of NC KTZ JSC and TransContainer PLC and other partners as well. Creation of an agency network allows expanding the geography of clients and increasing the efficiency of international transportation. All customer service agencies and offices should be united by a single IT solution that provides efficient management of the Company's own container platforms and cars in the territory of other countries.

Warehouse and terminal businesses of the Company still remain in the portfolio. The development of these directions meets the current market needs:

in conditions of the growing demand in the logistics services market of Kazakhstan there is an acute shortage of quality storage facilities, which leads to a rise in rental rates.

The sustainability of the target business model is ensured through the ownership of transport and logistics assets, synergy between the business areas, long-term attractiveness of the logistics business, and increase in client loyalty due to the complexity and wide geography of services.

**A business model of a universal integrated logistics company** is the most attractive among the models under consideration, however, its implementation involves making a number of significant changes in the Company:

- First, it is necessary to enhance the operational efficiency of the existing business: upgrade key terminals and mechanize all operations.
- Second, it is necessary to open representative offices and elaborate an issue to search for new logistics routes.
- Third, it is necessary to acquire modern rolling stock.

Thus, the development of the Company in accordance with the target business model requires considerable investments in infrastructure, assets and competencies.

The implementation of the Company's Development Strategy in accordance with the chosen target model should be carried out in three stages:

**Phase 1. Freight forwarder, operator of fitting platforms and terminal operator in Kazakhstan.**

The Company has already gained a stable position in the field of railway transportation and container cargo forwarding. At the first stage of development the core business activities include container cargo forwarding and railway transportation (rolling stock handling). Cargo transshipment at the border stations Dostyk and Altyntkol during the first stage of development as well as terminal operations are also included in the core business activities.

Activities implemented at the first stage of development of assets and competencies included enhancement of operational efficiency of the existing activities.

Enhancement of the Company's operational efficiency requires, first of all, implementing certain measures to optimize unprofitable activities: *full/partial sale of locomotives and lease of less profitable terminals.*

To make a decision on the locomotive fleet, the Company has calculated the outcome of possible scenarios for operation of locomotives (full implementation, or provision of part of the fleet for rent, or use of the fleet to provide locomotive traction or transportation services with options depending on a possible start date of operation of the entire fleet under this scenario).

In order to optimize the terminal activities of the Company, the Board of Directors should approve the Program for the development of terminal activities of Kedentransservice JSC until 2025, which will define the stages of development of key terminals and propose options for leasing less profitable terminals.





3

MARKET REVIEW.  
KEY PERFORMANCE  
RESULTS



## 3.1. GLOBAL CONTAINER TRANSPORTATION MARKET

According to the report of the world's largest ship broker Clarkson, in 2015, the volume of international container transportation increased by 2.3% to 175.2 mln TEU (twenty-foot equivalent unit).

As compared to 2014, the market growth rate decreased more than twice.

The volumes of transportation in the trans-Pacific direction remained approximately at the previous year level, and in the second most important segment of the market – transportation from Asia to Europe – decreased by 3.7%. Negative dynamics is associated with a decrease in demand for imported goods in Europe, a crisis in the CIS countries and improvement in the quality of inventory management, which resulted in a decrease in the ratio of additional orders.

The growth rate of the container transportation market within the Asian region declined to 3%, which was caused to a large extent by a slowdown in economic growth both in China and in other countries of the region.

In addition, against the background of unchanged low oil prices there was a reduction in volumes of import to developing countries, whose economies were dependent greatly on export of raw materials. As a result, in 2015, the volume of container transportation in the «north – south» direction increased by 1.1%.

In 2015, the level of containerization of the world-wide seaborne trade amounted to 16%.

## 3.2. KAZAKHSTAN RAILWAY TRANSPORTATION AND MARKET POSITION OF THE COMPANY

### 3.2.1. Container transportation

Container transportation is the dominant type of cargo transportation in the world-wide trade and it is considered the most cost-effective and environmentally friendly. In recent years, the level of containerization on major international trade routes of Europe has reached 65%. Servicing of containerized cargo is carried out at specialized infrastructure facilities, in particular, in container terminals, logistics centers and dry ports.

The container transportation market of Kazakhstan is very important for the transit traffic expansion. The growth of the containerization level will depend on the development of transit potential and industrial-innovative modernization of the national economy.

Currently, container transportation in the direction of the countries of Central Asia, the European Union, Russia and Belarus, China and from China through the territory of Kazakhstan is carried out by route container trains – there are about 42 regular routes.

In 2015, new routes, including import transportation, were launched: Xian – Mangyshlak, Lianyungang – Almaty-1, Hefei – Kustanay, Urumqi – Kustanay.

Transit transportation from the PRC to Europe: Hefei – Hamburg, Lanzhou – Hamburg, Chengdu – Dostyk – Nuremberg; from Europe to the PRC: Madrid – Dostyk – Yiwu, Hamburg – Dostyk – Wuhan, Kotka – Dostyk – Korla, Lodz – Chengdu, Hamburg – Dostyk – Lanzhou, Duisburg – Dostyk – Korla, Duisburg – Dostyk – Chengdu, Kutno – Dostyk – Chengdu, on which more than 7 thous. TEU were transported.

In addition, the following routes were launched: Tashkent – Dostyk – PRC, Sergeli – Lokot – Nakhodka, Formachevo – Dostyk – Urumqi, Urumqi – Dostyk – Kresty, Urumqi – Dostyk – Horvino, Urumqi – Dostyk – Kuntsevo, Urumqi – Dostyk – Kupavna, Urumqi – Dostyk – Krasnodar, Kuitun – Dostyk – Tbilisi, Urumqi – Dostyk – Tbilisi, Yiwu – Dostyk – Bolashak – Tehran, Urumqi – Gypjak, Lianyungang – Dostyk – Aktau Port.

As compared to 2014, the number of container trains increased more than 1.7 times.

The railway infrastructure system of Kazakhstan includes various companies-operators: a single operator of locomotives, a single operator of container transportation, a single car operator, etc.

In turn, Kedentransservice JSC is also positioned in the railway services market as a company-operator of terminal cargo handling in cars and containers. This sector of the Company's activities is provided by a number of approach lines (dead-end tracks) and several transport and logistics centers that provide services for loading, unloading and storage of cargo in cars and containers.

The current transport and logistics infrastructure of Kazakhstan has been formed on the basis of the existing transport networks of the former Soviet Union. Storage facilities and transshipment bases have been also modernized in conditions

of additional privatization processes and state financing.

The competitive advantage of Kedentransservice JSC in this market is the presence of a wide branch network throughout Kazakhstan. Cargo handling is carried out in 11 branches (16 cargo terminals). The volumes of terminal cargo handling in Kedentransservice JSC are associated with the volumes of cargo transportation by railways of Kazakhstan.

Thus, the total volume of cargo transportation by NC KTZ JSC for 2015 amounted to 244 mln tons, including 29% – in export direction, 58% – in inter-regional direction, 7% – in import direction and 6% – in transit direction.

In 2015, the volume of railway cargo transportation in all directions decreased by 10% as compared to 2014, which is explained by a general reduction in traffic both in Kazakhstan and in border countries (*Table 3*).

**Table 3. Volumes of railway cargo transportation in the Republic of Kazakhstan by types of railway services, mln tons<sup>1</sup>**

Type of railway services	2014	2015
Export	86	71
Import	17	16
Transit	16	14
Within KTZ	152	143
<b>Total</b>	<b>270</b>	<b>244</b>

<sup>1</sup> According to data provided by NC Kazakhstan Temir Zholy JSC.



### 3.2.2. Market of cargo transshipment at near-border stations

#### A. Dostyk station

The Trans-Asian railway runs along two transport corridors through the territory of Kazakhstan: the northern and central, both of which run through Dostyk and Altynkol stations, which are under the jurisdiction of NC KTZ JSC.

Dostyk station located at the junction of the state borders of Kazakhstan and China is an economically significant object in the transit-transport potential of Kazakhstan and a link between Europe and Asia for cargo transportation along transcontinental routes.

Dostyk station is an outside longitudinal station with a consecutive arrangement of transshipment sites.

It is located at 303–310 km of Aktogay – State Border section.

The total area of the station is 126 thous. m<sup>2</sup>.

Kedentransservice JSC possesses eight transshipment sites designed for various cargo reloading, including transshipment sites: for transshipment of packaged cargo; perishable cargo; cargo on the open rolling-stock; cargo in covered train cars; transshipment sites for high-capacity containers, heavy cargo, wheeled machinery and bulk goods. All transshipment sites are equipped with the required amount of machinery for carrying out round-the-clock uninterrupted transshipment operations. The maximum transshipment capacity of Dostyk station is more than 500 cars per day.

Despite the fact that more than 95% of goods are transported between China and Western Europe by sea, increase in congestion and lengthening the terms of transportation force the foreign trade participants and the global logistics industry to search for new routes for the delivery of goods.

Over the last few years, the land bridge through Kazakhstan (Dostyk station) confirms its sustainable development. Thus, during 2015, 375 container trains were arranged on firm-time slots on routes from China to Europe, which was 65% more than in 2014. 202 container trains were arranged in the

opposite direction, while in the same period last year only 30 such trains were arranged.

In total, 648 transit container trains with a total capacity of 55.5 thous. TEU were organized in 2015.

This corridor has a potential for further development, as western regions of China are developing under the GoWest program and will contribute to increasing the trade and transportation volumes.

At the end of 2015, China ranks the third after the EU countries in terms of foreign trade with Kazakhstan, which amounts to 22.7 bln. US dollars or 17%<sup>2</sup> of the total foreign trade turnover of Kazakhstan.

The volumes of transshipment at Dostyk station depend on the volumes of goods imported (import + transit from China to Kazakhstan) to the Republic of Kazakhstan, which are determined annually at the meeting of heads of railway administrations of the two countries – Kazakhstan and China.

According to experts estimates, the need of China for transportation through Kazakhstan will amount to 1.0–1.5 mln. containers per year.

#### B. Altynkol station

Altynkol station was opened on December 22, 2012. In connection with the opening of the new station a distance between the points of cargo dispatch and receipt has reduced significantly:

- by 550 km – distances from China to southern regions of Kazakhstan and Central Asian countries (as compared to the existing direction of Alashankou – Dostyk – Aktogay);
- by 700 km – distances from Aktau to Jinghe;
- by 1,300 km – the routes between the Persian Gulf and the Far East, along with the project for the construction of a new Bafq-Mashhad railway line implemented in Iran;

A new international corridor connecting China and South-East Asia with Central Asian countries and Russia was opened.

<sup>2</sup> Statistics Committee of the Ministry of National Economy of RoK.





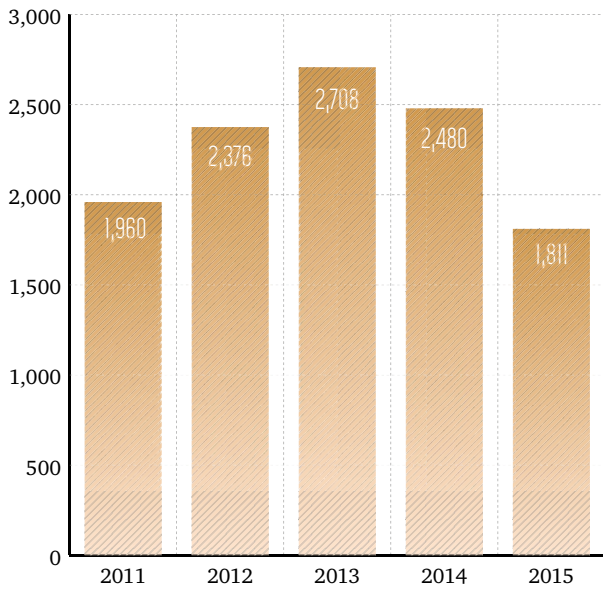
At the same time, after the opening of Altynkol station, transportation of the most part of the cargo volumes in the direction of Central Asia and Southern Kazakhstan was started through Altynkol station, which resulted in reduction in the cargo volumes at the Dostyk station.

Altynkol station has 3 separate specially designed transshipment sites:

- storage area for packaged cargo;
- large-sized area;
- container terminal.

One of the key objectives of the Company is, certainly, the realization of a transit potential of Kazakhstan, which creates prerequisites for the development of the car fleet as well as reconstruction and expansion

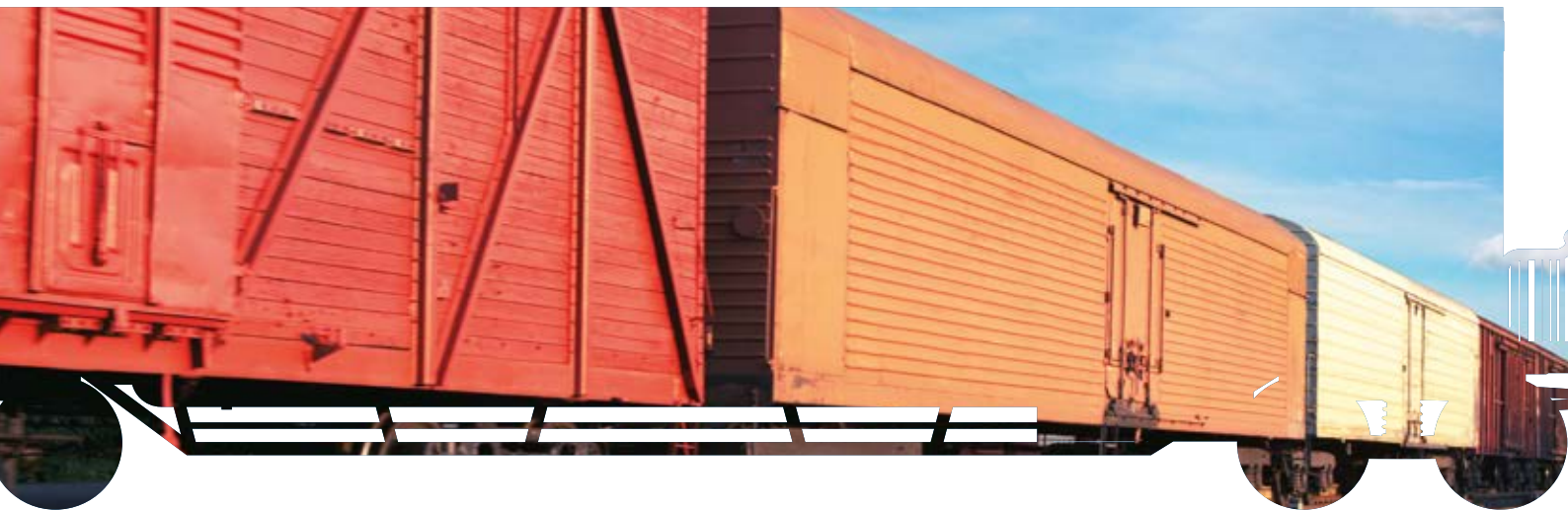
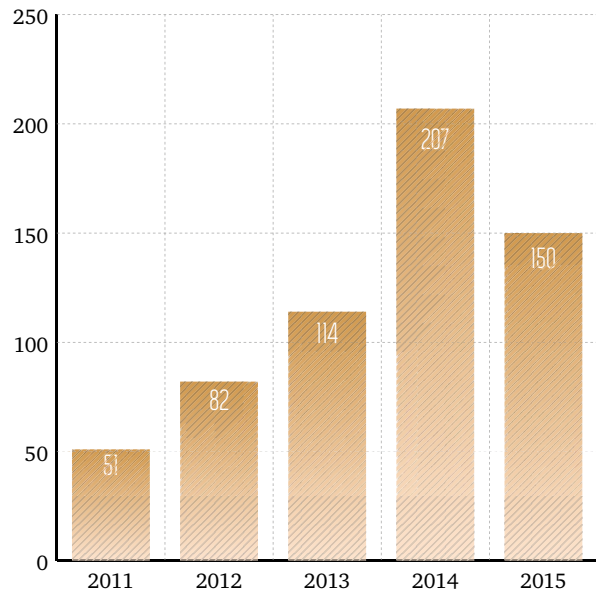
**Diagram 1.** Volumes of car transshipment at border crossings of Kazakhstan and the PRC, Dostyk and Altynkol stations for 2011–2015, thous. tons



of transshipment capacities at the railway border crossings of Kazakhstan and the PRC.

At the end of 2015, Dostyk and Altynkol stations carried out transshipment of 1,811 thous. tons of cargo in cars and 150 thous. TEU in containers coming from China, which was 27% lower than in 2014 (*Diagram 1, 2*).

**Diagram 2.** Volumes of container transshipment at border crossings of Kazakhstan and the PRC, Dostyk and Altynkol stations for 2011–2015, thous. TEU



### 3.2.3. Market of terminal cargo handling in Kazakhstan

The Company's competitive advantage in this market is the presence of a wide branch network throughout Kazakhstan. Cargo handling is carried out in 11 branches of the Company (at 16 cargo terminals).

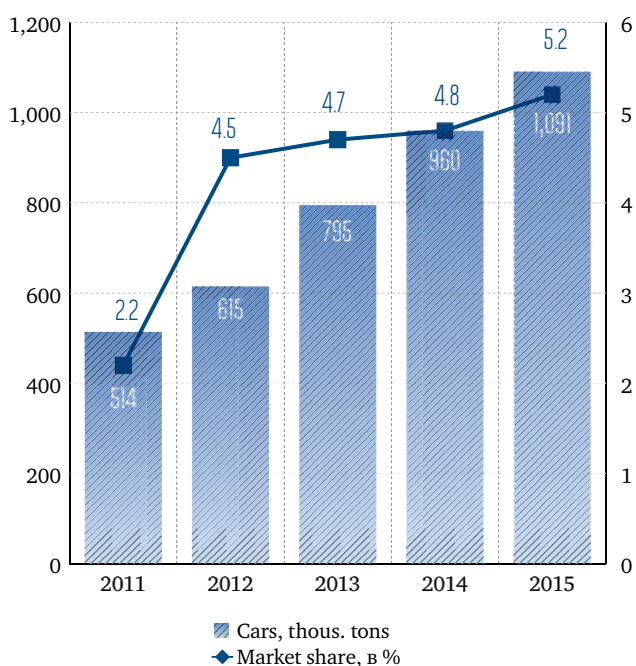
In total, in 2015 the Company's terminals handled 1,091 thous. tons of cargo in cars and 42 thous. TEU in containers, which was 14% higher and 33% lower than in 2014, accordingly (*Diagram 3, 4*).

In the period of 2014–2015, the Company's market share in the terminal car cargo handling remained at the level of 3.3%. With increased competition on the part of private terminals, the Company's

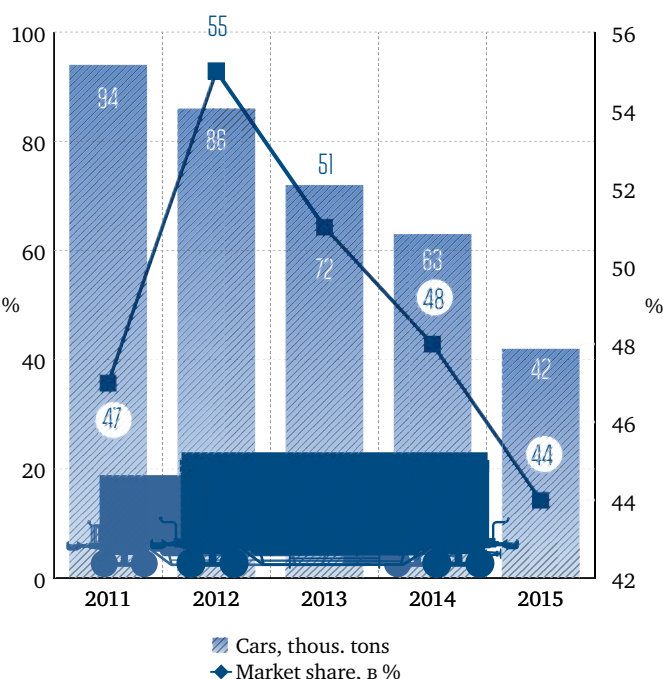
competitiveness was preserved through the renovation of production resources and increase in the range of services (construction of ramps for loading/unloading of wheeled machinery, etc.).

In the period of 2014–2015, the Company's market share in the container handling operations remained at the level of 41%. The decline in the market of container handling operations amounts to 33%. The market share was preserved due to the increase in the competitiveness of the Company's terminals, including through the provision of a complex of transport and terminal services on a "door-to-door" basis (provision of a car, freight forwarding services, auto delivery) (*Table 4*).

**Diagram 3.** Volumes of car cargo handling for 2011–2015, thous. tons



**Diagram 4.** Volumes of container cargo handling for 2011–2015, thous. TEU



**Table 4.** Share of KDTS in terminal car handling in 2014–2015, thous. tons

Name	2014	2015
Market, thous. tons	41,734	41,148
KDTS, thous. tons	1,323	1,364
Share, %	3.2	3.3

In total, the branches of KDTS handled: Packaged cargo – 400 thous. tons; heavy-weight cargo – 361 thous. tons; bulk cargo – 603 thous. tons. The leader in the segment of packaged cargo handling is the branch of Almaty city and Almaty region, which handled 79 thous. tons or 20%; in the segment of

heavy-weight and bulk cargo handling – the branch of Astana city and Akmola region, which handled 72 thous. tons and 86 thous. tons or 20% and 14%, respectively (*Table 5*).

**Table 5. Share of KDTS in terminal container handling in 2014–2015, thous. TEU**

Name	2014	2015
Market, thous. TEU	154.4	103.1
KDTS, thous. TEU	62.8	42.3
Share, %	41	41

In general, there is high workload of both indoor and outdoor storage facilities at the Company's terminals (>70%). Expansion of storage areas is required at terminals located in Astana, Atyrau,

Aktau, Aktobe, Karaganda, Shymkent, Almaty-1 and Almaty-2. The situation at terminals in the cities of Semey and Taldykorgan is contrary (<35%) – higher workload of storage facilities is required (*Table 6*).

**Table 6. Workload of storage facilities for 6 months of 2016**

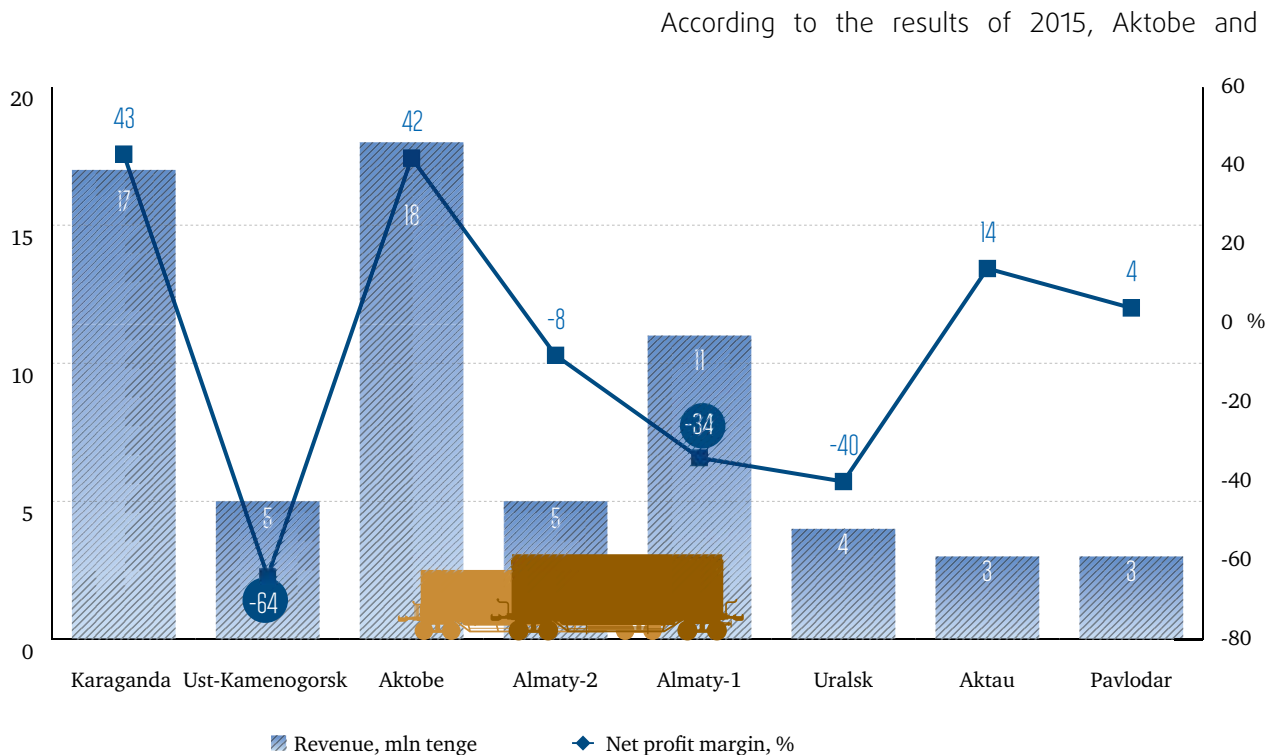
	Total area of outdoor areas, m <sup>2</sup>	Workload of outdoor areas, %	Total area of storage facilities, m <sup>2</sup>	Workload of storage facilities, %
Astana	234,904	28	2,690	85
Kokshetau	319,276	0	1,304	100
Atyrau	22,200	100	3,442	13
Aktau	13,000	0	422	66
Ust-Kamenogorsk	135,566	6	1,807	70
Semey	437,465	6	3,233	0
Aktobe	5,280	100	5,615	100
Karaganda	80,659	4	1,260	6
Kostanay	3,499	100	1,158	84
Pavlodar	214,828	41	4,430	100
Kyzylorda	29,859	100	573	57
Uralsk	89,900	95	6,344	16
Shymkent	148,992	100	2,400	100
Almaty-1	148,777	46	9,295	99
Almaty-2	95,954	100	1,901	100
Taldykorgan	27,898	100	0	0

A separate place on the terminal cargo handling market belongs to the segment of TSW services.

At the end of 2015, the Company operated 9 TSWs at terminals located in the cities of Aktau, Ust-

Kamenogorsk, Uralsk, Aktobe, Karaganda, Semey, Pavlodar and Almaty (Almaty-1 and Almaty-2). TSWs located at terminals in Shymkent, Astana, Kokshetau, Taldykorgan, Kyzylorda and Atyrau are on lease.



**Diagram 5. TSW revenue structure for 2015, mln tenge**

Karaganda branches take the leading positions in terms of TSW profitability (*Diagram 5*).

### 3.2.4. Market of transport and forwarding services

The development of the freight forwarding services market depends on the level of development of economy and business activity in countries where clients of freight forwarding organizations are present.

The freight forwarding services market of Kazakhstan is highly competitive and is characterized by the presence of numerous major players such as UTLC, KTZ-Express JSC, Transsystem MEK LLP, Transcom LLP, Tranco LLP, Bogatyr Trans LLP, Freightservice LLP, VERTEXTRANS LLP, etc.

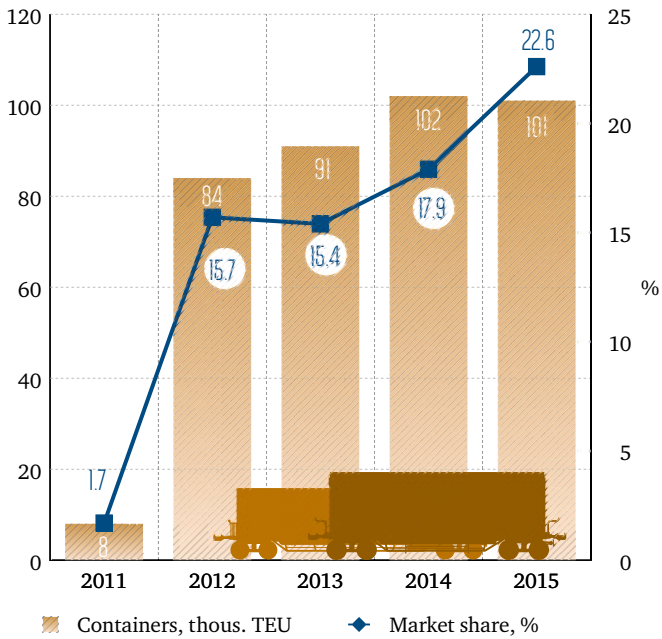
According to the data of NC KTZ JSC, in 2015 the total number of freight forwarding companies that entered into railway transport service contracts amounted to more than 600 companies.

About 60% of all traffic in Kazakhstan is carried out with the participation of domestic freight forwarders.

This number of forwarding companies in the territory of Kazakhstan can be explained by simplified requirements for conclusion of contracts with freight forwarders.

In the period of 2011–2015, the volumes of freight forwarding services for transportation of containers increased 12.6 times and amounted to 101 thous. TEU; the Company's market share in that period increased from 1.7 to 22.6% (*Diagram 6*).

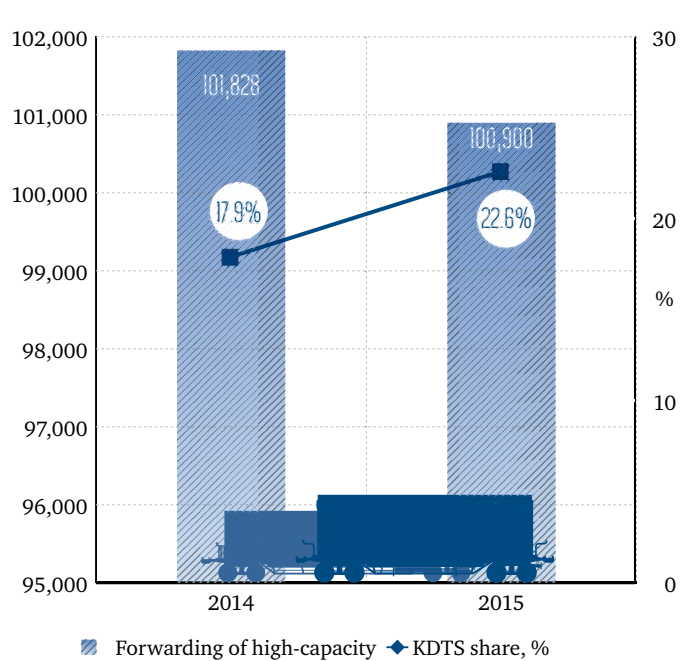
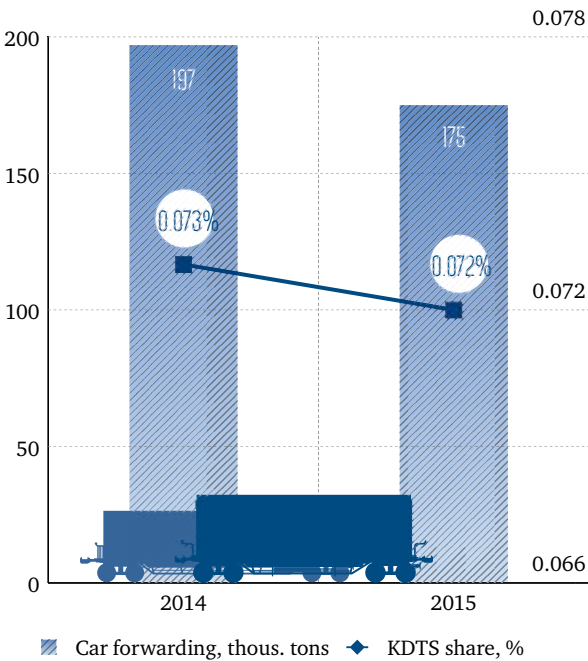
**Diagram 6. Volumes of services and market share in transport and freight forwarding services for 2011–2015, thous. TEU**



Kedentransservice JSC has been providing freight forwarding services since 2008, and this business area is attributed to the new promising activities of the Company.

Mutual integration of business processes of TransContainer OJSC and Kedentransservice JSC has allowed transferring all transportation operations of TransContainer OJSC in the territory of Kazakhstan and Central Asia to the Company (**Diagram 7**). Accordingly, the regulations for provision of comprehensive transport and logistics services have been transferred to the Company. This has become possible due to the implementation of modern transport and logistics technologies in the Company. In 2016, the Company intends to implement more ambitious plans related to remote access of clients to the web-portal, which will improve the quality of service.

**Diagram 7. Market share of the Company in freight forwarding**



### 3.2.5. Rolling stock handling

A share of KDTS for 12 months of 2015 was equal to 47.1% (210.6 thous. TEU), which was 42.4 thous. TEU lower as compared to the same period of 2014.

Direct competitors of the Company are Transcom LLP (180 fitting platforms) and Eastcomtransservice JSC (180 fitting platforms).

Competition on the part of road transport occurs predominantly in the field of inland transportation at small and medium distances (up to 1000–1500 km).

As for the competition for the global transit from China to Europe, the main competitors are sea carriers, first of all due to the fact that the most promising regions for the origin of cargo flows gravitate toward seaports, as well as due to the low cost of transportation.

At the same time, railway transport has the advantages in transit traffic in the form of shorter and more stable cargo delivery terms.

## 3.3. MAIN COMPETITORS IN THE FIELD OF FREIGHT FORWARDING SERVICES FOR 12 MONTHS OF 201, TEU

In connection with the total transition to a private fleet of cars in Russia and Kazakhstan and, as a consequence, the development of a private fleet of fitting platforms, the Company has also competitors represented by major private operators of the 1520 gauge market:

- **A-Trans LLC:** the car fleet of the company consists of 4,000 cars.
- **Module LLC:** the company operates the fleet consisting of 800 own and 175 leased fitting platforms.
- **Transgarant LLC:** the company operates the fleet consisting of more than 2,511 fitting platforms.
- **Russian Troyka CJSC:** the company operates the fleet consisting of 1,475 platforms.
- **Fintrans GL LLC:** the company operates the fleet consisting of 106 platforms.
- **Spectransgarant LLC:** the company operates the fleet composed of 4,937 units, including 3,174 tank containers and 1,763 fitting platforms.
- **Ruscon LLC:** the company operates the fleet consisting of more than 1,000 fitting platforms.





### 3.4. MARKET SHARE OF KEDENTRANSSERVICE JSC IN TERMS OF CORE ACTIVITIES

The data presented below indicates the market share of Kedentransservice JSC for the 12 months of 2014 and 2015. (Table 7).

**Table 7. Market share of Kedentransservice JSC in terms of core activities for 12 months of 2014 and 2015**

Item	12 months of 2015		Deviation from the plan		12 months 2014	Comparison to 2014	
	Plan	Actual	Abs.	%	Actual	Abs.	%
<b>Transshipment at Dostyk and Altynkol stations</b>							
<b>Market, thous. tons</b>	<b>1,944</b>	<b>1,853</b>	<b>-90</b>	<b>-5</b>	<b>2,616</b>	<b>-763</b>	<b>-29</b>
Car transshipment, thous. tons	1,934	1,811	-123	-6	2,480	-669	-27
Share, %	99%	98%	-2%	-2	95%	2.9%	3
<b>Market</b>	<b>168,963</b>	<b>157,213</b>	<b>-11,750</b>	<b>-7</b>	<b>215,187</b>	<b>-57,974</b>	<b>-27</b>
Container transshipment, TEU	168,963	149,549	-19,414	-11	206,658	-57,109	-28
Share, %	100%	95%	-5%	-5	96%	-0.9%	-1
<b>Transshipment at Dostyk station</b>							
<b>Market, thous. tons</b>	<b>1,842</b>	<b>1,713</b>	<b>-129</b>	<b>-7</b>	<b>2,513</b>	<b>-800</b>	<b>-32</b>
Car transshipment, thous. tons	1,842	1,688	-154	-8	2,410	-722	-30
Share, %	100%	99%	-1%	-1	96%	2.7%	2.8
Market	104,703	103,284	-1,419	-1	122,054	-18,770	-15
Container transshipment, TEU	104,703	103,284	-1,419	-1	116,059	-12,775	-11
Share, %	100%	100%	0%	0	95%	4.9%	5.2
<b>Transshipment at Altynkol station</b>							
<b>Market, thous. tons</b>	<b>101</b>	<b>141</b>	<b>39</b>	<b>39</b>	<b>103</b>	<b>38</b>	<b>37</b>
Car transshipment, thous. tons	91	123	32	35	70	53	76
Share, %	90%	88%	-2%	-3	68.1%	19.4%	28.5
<b>Market, TEU</b>	<b>66,058</b>	<b>53,929</b>	<b>-12,129</b>	<b>-18</b>	<b>93,133</b>	<b>-39,204</b>	<b>-42</b>
Container transshipment, TEU	64,260	46,265	-17,995	-28	90,598	-44,333	-48.9
Share, %	97%	86%	-11%	-12	97%	-11.5%	-11.8

Item	12 months of 2015		Deviation from the plan		12 months 2014	Comparison to 2014	
	Plan	Actual	Abs.	%	Actual	Abs.	%
<b>Lease of locomotives</b>							
Operating fleet of locomotives at the end of the period (Excl. Locomotives of Astana branch)	14.0	14.0	0.00	0%	14.0	0	0
Number of locomotives on lease	1.0	1.0	0.00	0%	8	-7	-87
<b>Rolling stock handling</b>							
Average number of leased cars for the period, units	4,836	4,824	-12	0%	4,942	-118	-2
<b>Market, TEU</b>	<b>487,605</b>	<b>447,220</b>	<b>-40,385</b>	<b>-8%</b>	<b>568,674</b>	<b>-121,454</b>	<b>-21</b>
Handling volumes, TEU	219,422	210,572	-8,850	-4%	253,019	-42,447	-17
Share, %	45.0%	47.1%	2%	5%	44.5%	2.59%	5.8
<b>Freight forwarding services</b>							
Car forwarding services, units	6,054	5,083	-971	-16%	5,719	-636	-11
Container forwarding services, units	70,664	56,504	-14,160	-20%	62,089	-5,585	-9
<b>Market, TEU</b>	<b>491,161</b>	<b>447,220</b>	<b>-43,941</b>	<b>-9%</b>	<b>568,674</b>	<b>-121,454</b>	<b>-21</b>
Forwarding of containers	116,596	100,900	-15,696	-13%	101,828	-928	-1
Share, %	23.7%	22.6%	-1%	-5%	17.9%	4.7%	26
<b>Market, thous. tons</b>	<b>250,703</b>	<b>244,264</b>	<b>-6,439</b>	<b>-3%</b>	<b>270,916</b>	<b>-26,652</b>	<b>-10</b>
Freight forwarding, thous. tons	200.56	175.0	-26	-13%	197	-22	-11
Share, %	0.08%	0.072%	0%	-10%	0.073%	0.00%	-1
<b>Terminal activities</b>							
<b>Market of high-capacity containers, TEU</b>	<b>139,570</b>	<b>103,049</b>	<b>-36,521</b>	<b>-26%</b>	<b>154,432</b>	<b>-51,383</b>	<b>-33</b>
Handling + Sorting of high-capacity containers, TEU	56,291	42,278	-14,013	-25%	62,793	-20,515	-33
Share, %	40.3%	41.0%	1%	2%	40.7%	0.37%	1
<b>Car market, thous. tons</b>	<b>42,802</b>	<b>41,148</b>	<b>-1,654</b>	<b>-4%</b>	<b>41,734</b>	<b>-586</b>	<b>-1</b>
Car handling at cargo terminals of KDTS, thous. tons	1,196	1,364	167	14%	1,323	41	3
Share, %	2.8%	3.31%	1%	19%	3.17%	0.14%	5



# 4

## FINANCIAL PERFORMANCE



## 4.1. BASIC FINANCIAL RESULTS

Financial performance results of Kedentransservice JSC for 2015 are given in *Table 8*.

**Table 8.** Financial performance results of Kedentransservice JSC for 2015, mln tenge

Item	Actual figure	Planned figure	Deviation	
			absolute	%
Gross proceeds	42,389	41,692	698	2
Net proceeds	30,186	28,223	1,963	7
Net expenses (excluding an income tax)	23,505	24,545	-1,040	-4
Income from sales	6,681	3,678	3,003	82
<i>Profitability of sales to net proceeds</i>	<i>22%</i>	<i>13%</i>	<i>9%</i>	<i>x</i>
Profit before tax	6,681	3,678	3,003	82
Income tax	1,467	846	621	73
<i>Effective income tax rate</i>	<i>22%</i>	<i>23%</i>	<i>-1%</i>	<i>x</i>
Net income	5,214	2,832	2,382	84
<i>Profitability of income to net proceeds</i>	<i>17.3%</i>	<i>10.0%</i>	<i>7.2%</i>	<i>x</i>
EBITDA	7,685	4,995	2,689	54
<i>Profitability of EBITDA to net proceeds</i>	<i>25.5%</i>	<i>17.7%</i>	<i>7.8%</i>	<i>x</i>

## 4.2. GROSS PROCEEDS

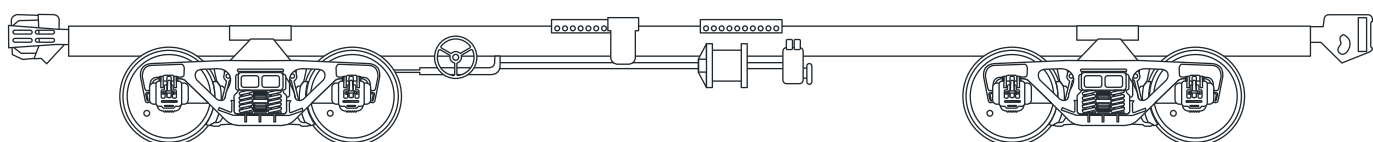
Following the results of Kedentransservice JSC for 2015, the gross proceeds as compared to the plan increased by 2% or 698 mln tenge on the whole due to the growth in gross proceeds from the rolling

stock handling (+6% or +910 mln tenge against the plan), gross proceeds from rent of locomotives exceeded the plan by 14% or 7 mln tenge, from non-core activities – by 715 mln tenge (*Table 11*).

## 4.3. NET PROCEEDS

Net proceeds increased on the whole by 7% or 1,963 mln tenge as compared to the planned figure. The growth of the net proceeds as compared to the planned figures was influenced mainly by the growth in revenue from handling operations, which was +6% or +910 mln tenge against the plan; the

plan for freight forwarding services was executed by +157%, or +786 mln tenge; the plan for lease of locomotives was overfulfilled by 14% or 7 mln tenge; overachievement of the plan for non-core activities amounted to 715 mln tenge.





## 4.4. NET EXPENSES

As compared to the plan, the reduction in net expenses excluding the income tax amounted to -4% or -1,040 mln tenge. The element-by-element

analysis of changes in expenditures as compared to the planned figure and actual figure of 2014 is presented in Tables 9 and 10, accordingly.

**Table 9. Analysis of the expense budget (actual figure-planned figure)**

Item	Actual figure	Planned figure	Deviation	
			absolute	%
<b>Income from core activities</b>	<b>42,389</b>	<b>41,692</b>	<b>698</b>	<b>2</b>
<i>Net income from core activities</i>	30,186	28,223	1,963	7
<b>Expenses from core activities</b>	<b>37,175</b>	<b>38,860</b>	<b>-1,684</b>	<b>-4</b>
<i>Net expenses from core activities</i>	23,505	24,545	-1,040	-4
Payroll fund	3,501	3,722	-221	-6
Social tax and deductions	360	368	-9	-2
Materials	1,013	1,221	-208	-17
Fuel	93	112	-18	-17
Electric power	113	124	-11	-9
Depreciation of fixed and intangible assets	912	1,188	-276	-23
Payment for works and services	8,572	8,734	-162	-2
Other (rent, travel expenses, consulting services)	8,481	8,631	-150	-2
Taxes	341	316	25	8
Financial expenses	92	129	-37	-29
Other income	0	0	0	0
Other expenses	27	0	27	0
Income tax	1,467	846	621	73
Services rendered by joint contractors	12,203	13,468	-1,265	-9
<b>Net income</b>	<b>5,214</b>	<b>2,832</b>	<b>2,382</b>	<b>84</b>

**Table 10. Dynamics of expenses for 2015-2014**

Item	2015	2014	Deviation	
			absolute	%
<b>Income from core activities</b>	<b>42,389</b>	<b>44,767</b>	<b>-2,378</b>	<b>-5</b>
<i>Net income from core activities</i>	30,186	31,096	-910	-3
<b>Expenses from core activities</b>	<b>37,175</b>	<b>41,795</b>	<b>-4,619</b>	<b>-11</b>
<i>Net expenses from core activities</i>	23,505	27,260	-3,755	-14
Payroll fund	3,501	3,779	-279	-7
Social tax and deductions	360	371	-11	-3
Materials	1,013	1,307	-294	-23
Fuel	93	118	-25	-21
Electric power	113	105	8	8
Depreciation of fixed and intangible assets	912	894	18	2

Item	2015	2014	Deviation	
			absolute	%
Payment for works and services	8,572	9,630	-1,058	-11
Other (rent, travel expenses, consulting services)	8,481	10,578	-2,097	-20
Taxes	341	393	-51	-13
Financial expenses	92	84	7	9
Other income	0	0	0	0
Other expenses	26.61	0.34	26.27	-
Income tax	1,467	863	604	70
Services rendered by joint contractors	12,203	13,672	-1,468	-11
<b>Net income</b>	<b>5,214</b>	<b>2,973</b>	<b>2,241</b>	<b>75</b>

## 4.5. NET INCOME. EBITDA

The net profit plan was overfulfilled by 84% or 2,382 mln tenge; net profit margin increased by 7.2% against the planned figure.

EBITDA increased by 54% or 2,689 mln tenge; EBITDA margin increased by 7.8% against the planned figure.

The growth of EBITDA margin by +7.8% was caused by the fact that the revenue increased (by +7%), while operating expenses (excluding payment of income tax, loans and depreciation) decreased (by -4%).

**Table 11. Gross proceeds (actual figure-planned figure), mln tenge**

Item	Actual figure	Planned figure	Deviation	
			absolute	%
Transshipment	8,958	9,197	-239	-3
Terminal operations, including:	2,054	2,270	-216	-10
Transport and freight forwarding services	13,491	13,969	-479	-3
Rolling stock handling	16,930	16,020	910	6
Lease of locomotives	55	48	7	14
Non-core activities	903	188	715	381
<b>Gross proceeds</b>	<b>42,389</b>	<b>41,692</b>	<b>698</b>	<b>2</b>
including: services rendered by joint contractors	12,203	13,468	-1,265	-9
<b>Net proceeds</b>	<b>30,186</b>	<b>28,223</b>	<b>1,963</b>	<b>7</b>
<b>Net income</b>	<b>5,214</b>	<b>2,832</b>	<b>2,382</b>	<b>84</b>

Net proceeds increased by 7%, or by 1,963 mln tenge as compared to the planned figure. The growth in net proceeds as compared to the planned figures was influenced mainly by the growth in the net proceeds from handling operations by 6% or 910 mln tenge against the plan; net proceeds

from freight forwarding services increased by +157% or 786 mln tenge; net proceeds from non-core activities exceeded the planned figure by 715 mln tenge due to significant changes in currency exchange rates and general weakening of tenge against the US dollar. The plan for lease



of locomotives was overfulfilled by 14% or 7 mln tenge.

At the same time, the decrease in proceeds from transshipment operations by 2.6% or 239 mln tenge against the plan was caused by a reduction

in the volume of container handling by 11% and car handling by 6%. The decrease in proceeds from terminal operations by 10% or 216 mln tenge against the plan was caused by a reduction in the volume of containers by 25% TEU.

## 4.6. INVESTMENT ACTIVITIES

In 2015, Kedentransservice JSC implemented 63 projects in the amount of about 1.5 bkn tenge, which was 3 times less as compared to 2014. The reason for this is that in 2014 the amount of about 2.7 bln tenge was spent to increase the car fleet.

In 2015, the main volume of capital investments was spent on modernization of the terminal infrastructure, in particular, overhauls of approach lines and turnouts, reconstruction of container sites, purchase of cranes, forklifts, and automotive equipment (*Table 12*).

**Table 12. Investment activities in 2015**

No	Category	2015
1	Overhaul of locomotives	0
2	Overhaul of machinery and equipment	0
3	Overhaul of buildings and facilities	360,073
4	Replacement of machinery and equipment	140,133
5	Modernization and new equipment	463,500
6	Reconstruction and construction of new buildings and facilities	379,281
7	Automation and IT development	139,835
8	Other projects (special equipment, furniture, etc.)	10,418
9	Cars	0
<b>Total</b>		<b>1,493,240</b>









# 5

## CORPORATE GOVERNANCE



One of the strategic directions of activities of Kedentransservice JSC is to increase the effectiveness of corporate governance.

The Company proceeds on the basis that effective corporate governance is the fundamental condition for a steady growth of the Company's capitalization, reduction in the probability of corporate conflicts, increase in the Company's attractiveness for investors and positive influence on the Company's image.

The purpose of corporate governance is to ensure effective activities of the Company, increase the value of its share capital and ensure the protection of rights and realization of shareholders' interests.

The Company understands the importance of corporate governance and pays great attention to the introduction of corporate governance principles. In 2014, the Corporate Governance Code was approved.

The Company is striving for establishment of a balance between the interests of shareholders,

the Company's management and stakeholders, while the Company's corporate governance system includes the interaction of several levels of the corporate ladder:

- 1) the General meeting of shareholders,
- 2) the Board of Directors and committees of the Board of Directors,
- 3) the executive body of the Company – the Management Board.

**Corporate governance in the Company is based on the following fundamental principles:**

1. Principle of protection of shareholders' rights and interests;
2. Principles of effective management of the Company by the Board of Directors and the executive body;
3. Principles of transparent and objective disclosure of information on the Company's activities;
4. Principle of legality and ethics;
5. Principle of an effective dividend policy;
6. Principle of an effective personnel policy;
7. Principle of environmental protection;
8. Policy of settlement of corporate conflicts;
9. Principle of responsibility.

## 5.1. EQUITY HOLDING STRUCTURE

The Company has 2 (two) registered shareholders:

1. Helme's Operation UK Limited – owner of 46.9% voting shares of Kedentransservice JSC;
2. Logistic System Management B.V. – owner of 53.1% voting shares of Kedentransservice JSC.

In turn, each of NC Kazakhstan Temir Zholy JSC and TransContainer PLC owns 50% ownership of LSM.

The rights and obligations of the Company's shareholders are defined in the Company's Charter and the Corporate Governance Code of the Company.

The Company observes the procedure for convening, preparing, holding and summing-up the results of the General Meeting of Shareholders. Interaction with shareholders and support of activities of the Board of Directors are provided by the Corporate Secretary of the Company.



## 5.2. DIVIDENDS

The Company's dividend policy is based on the following principles:

- upon availability of net profit the Company pays annually a portion of the net profit for distribution of dividends and uses the profit remaining at the Company's disposal mainly for the implementation of its investment program and repayment of its financial liabilities payable during the next period;
- observance of the balance of interests of the Company and its shareholders;
- striving for increasing the Company's capitalization and investment attractiveness;
- observance of shareholders' rights provided for by the legislation of the Republic of Kazakhstan and the best practice of corporate conduct;
- transparency of procedures for determining the amount of dividends and their payment.

Dividends are paid within the terms established by the Regulations on the Dividend Policy of Kedentransservice JSC – not later than 90 calendar days from the date of making a resolution by the General Meeting of Shareholders on their payment.

The amount of dividends recommended to the General Meeting of Shareholders is determined by the Board of Directors on the basis of the Company's financial performance. At the same time, the target level of a share of the Company's consolidated net profit (excluding income received from revaluation of financial investments) that is subject to payment in the form of dividends is the value of not less than

50% and not more than 70% of the Company's consolidated net profit – depending on the plan of financial and economic activity of the Company and recommendations of the Board of Directors of the Company.

### **Basic documents that ensure observance of shareholders' rights:**

1. Charter of Kedentransservice JSC;
2. Corporate Governance Code of Kedentransservice JSC;
3. Code of Business Ethics of Kedentransservice JSC;
4. Regulations on the Board of Directors of Kedentransservice JSC;
5. Regulations on the Audit Committee;
6. Regulations on the Strategic Planning Committee;
7. Regulations on the Personnel and Remuneration Committee;
8. Regulations on the President;
9. Regulations on disclosure of information of Kedentransservice JSC;
10. Conflict of Interest Management Policy of Kedentransservice JSC;
11. Regulations for preparation and provision of materials for meetings of the Board of Directors Regulations of Kedentransservice JSC;
12. Regulations on the procedure for preparation and holding of the General Meeting of Shareholders;
13. Regulations on the Dividend Policy of Kedentransservice JSC.

## 5.3. GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is the supreme managerial body. The procedure for convening, preparing and holding of the General Meeting of Shareholders is regulated by the Regulations on the procedure for preparation and holding of the General Meeting of Shareholders of TransContainer JSC. In 2015, the Company held three General Meetings of Shareholders, at which 11 issues were addressed.

## 5.4. THE BOARD OF DIRECTORS

The Board of Directors is responsible for the strategic management of the Company and its long-term sustainable development. The Board of Directors determines the vision and mission of the Company, its strategic goals and key performance indicators.

The competence of the Board of Directors is defined in the Company's Charter and is clearly delineated with the competence of executive bodies of the Company's management that manage the Company's daily operations.

One of the most important functions of the Board of Directors is the formation of effective executive bodies and exercise of control over their activities. The Board of Directors exercises effective control over the activities of executive bodies and monitors regularly the achievement of strategic goals and implementation of the Company's business plans. The competence of the Board of Directors includes the election of executive bodies, termination of their powers, determination of terms and conditions of labor contracts signed with members of executive bodies and their motivation.

The Board of Directors approves internal control and risk management policies and ensures the functioning of risk management and internal control systems. When determining the risk management policy the Board of Directors strives for achievement of a reasonable balance between the risks and profitability of the Company. The Board of Directors is responsible for improvement of the corporate governance system and practices in the Company and approves corporate governance improvement programs. The Board of Directors is responsible for the corporate social responsibility of the Company and formation of its corporate culture and business ethics.

The Board of Directors monitors and, if possible, eliminates potential conflicts of interest at the level of officials and shareholders, including misuse

of the Company's property and corruption when concluding related-party transactions, as well as controls the effectiveness of corporate governance practices in the Company.

The key principles of activities carried out by members of the Board of Directors and the Management Board are professionalism, reasonableness, prudence, honesty and objectivity.

During 2015, the Board of Directors of the Company held 15 meetings. 104 issues were addressed at the meetings.

### Key issues addressed by the Board of Directors in 2015:

- acceptance of the Development Strategy of Kedentransservice JSC until 2020 for consideration;
- acceptance of the analysis of activities of Kedentransservice JSC relating to the rolling stock handling;
- approval and acceptance of reports on critical risks included in the of Risk Register of Kedentransservice JSC for the 3rd and 4th quarters of 2014 and the 1st and 3rd quarters of 2015;
- approval of amendments to the list of measures and terms of their implementation for making amendments and additions to the Prospectus of Share Issue of Kedentransservice JSC;
- approval of corrections to the investment budget of Kedentransservice JSC for 2015;
- acceptance of results of Kedentransservice JSC and its subsidiary for 2014 for consideration;
- acceptance of the report on the progress of state registration and certification of real estate objects of Kedentransservice JSC for consideration;
- acceptance of the report on execution of decisions of the Board of Directors of Kedentransservice JSC for 2014;



- approval of the performance report of Kedentransservice JSC and its subsidiary for 9 months of 2015;
- acceptance of progress reports of the Audit Committee, the Strategic Planning Committee and the Personnel, Remuneration and Social Affairs Committee of the Board of Directors of Kedentransservice JSC;
- approval of the lists of key performance indicators for the management, Head of the Internal Audit Service and the Corporate Secretary for 2015;
- approval of the annual financial statements of Transport Holding of Kazakhstan LLP for 2014;
- adoption of a decision to distribute net profit of Transport Holding of Kazakhstan LLP for 2014;
- adoption of a decision to elect General Director of Transport Holding of Kazakhstan LLP;
- adoption of a decision to re-elect members of the Supervisory Board of Transport Holding of Kazakhstan LLP;
- approval of the Conflict of Interest Management Policy of Kedentransservice JSC;
- adoption of decisions to provide sponsorship to Association of Taxpayers of Kazakhstan ALE, the State Public Enterprise “Almaty Auenderi” and Astana Academy of Arts LLP;
- determination of the audit company for auditing the financial statements for 2015;
- determination of the amount of payment for the audit company’s services for auditing the financial statements for 2015;
- adoption of a decision to convene the annual General Meeting of Shareholders of Kedentransservice JSC;
- approval of amendments to the Charter of Kedentransservice JSC;
- adoption of a decision to elect the following persons to the Board of Directors of Kedentransservice JSC:
  - K.K. Alpysbayev;
  - P.V. Baskakov;
  - V.N. Markov;
  - A.N. Rakhimbekov;
  - Zh.Ye. Kurmanov (Independent Director);
  - A.A. Druzhinin (Independent Director);
- determination of the term of office of members of the Board of Directors of Kedentransservice JSC;
- taking the information on the absence of shareholders’ appeals against actions of Kedentransservice JSC and its officials in 2014 into consideration;
- taking the information on the amount and composition of remuneration of members of the Board of Directors and the President of the Company in 2014 into consideration;
- adoption of a decision to elect Kanat Kaliyevich Alpysbaev as Chairman of the Board of Directors of Kedentransservice JSC;
- approved of the Work Plan of the Board of Directors of Kedentransservice JSC for the period until the annual General Meeting of Shareholders held in 2016;
- determination of the quantitative composition of:
  - 1) the Strategic Planning Committee in the number of 6 persons;
  - 2) the Audit Committee in the number of 5 persons;
  - 3) the Personnel, Remuneration and Social Affairs Committee in the number of 4 persons;
- adoption of a decision to elect the following persons to the Strategic Planning Committee of Kedentransservice JSC:
  - Anton Viktorovich Lopatin;
  - Dmitry Aleksandrovich Tsvetkov;
  - Andrey Sergeevich Zhemchugov;
  - Arman Turlykhanovich Sultanov;
  - Saule Yedimtayevna Madiyeva;
  - Murat Maratovich Bekmagambetov;
- adoption of a decision to elect Anton Viktorovich Lopatin as Chairman of the Strategic Planning Committee;
- adoption of a decision to elect the following persons to the Audit Committee of Kedentransservice JSC:
  - Alexey Aleksandrovich Druzhinin;
  - Konstantin Sergeevich Kalmykov;
  - Yelena Vladimirovna Ustinova;
  - Yelena Borissovna Stankova;
  - Raushan Sembekovna Bimakhimova;
- adoption of a decision to elect Alexey Aleksandrovich Druzhinin as Chairman of the Audit Committee;
- adoption of a decision to elect the following persons to the Personnel, Remuneration and Social Affairs Committee of Kedentransservice JSC:
  - Zholdasbek Yessenbayevich Kurmanov;
  - Saniya Koshkinbayevna Ismailova;
  - Mikhail Robertovich Goncharov;
  - Yelena Yuryevna Strokova;
- adoption of a decision to elect Zholdasbek Yessenbaevich Kurmanov as Chairman of the Personnel, Remuneration and Social Affairs Committee;
- approval of the consolidated performance report of Kedentransservice JSC and its subsidiary for the first half of 2015;
- approval of corrections to the budget of Kedentransservice JSC for 2015;



- taking the report on completed procurements of Kedentransservice JSC for the first half of 2015 into consideration;
- approval of the budget of Kedentransservice JSC for 2016–2018;
- addressing the information on the progress of elaboration of the Development Strategy of Kedentransservice JSC until 2020 and the Development Program for transshipment operations of Kedentransservice JSC at Dostyk Station until 2020;
- approval of the budget of the Board of Directors of Kedentransservice JSC for 2016 including budgets of the Audit Committee; the Strategic Planning Committee; the Personnel, Remuneration and Social Affairs Committee of Kedentransservice JSC;
- approval of amendments to the Regulations on bonus payment to management of Kedentransservice JSC;
- approval of amendments to the Regulations on bonus payment to administrative and managerial employees of Kedentransservice JSC;
- approval of the list of key performance indicators of the Corporate Secretary of the Internal Audit Service of Kedentransservice JSC for 2016;
- approval of the annual audit plan of the Internal Audit Service of Kedentransservice JSC for 2016;
- approval of amendments and additions to the Regulations on payment of remunerations and compensations to members of the Strategic Planning Committee of Kedentransservice JSC, the Regulations on payment of remuneration and compensation to members of the Audit Committee of Kedentransservice JSC, the Regulations on payment of remuneration and compensation to members of the Personnel, Remuneration and Social Affairs Committee of Kedentransservice JSC;
- approval of the List of information constituting business secret of Kedentransservice JSC.

In accordance with the Company's Charter, the Board of Directors is composed of 6 members. Two of them are independent directors.



## 5.4.1. Structure of the Board of Directors

### Chairman:



**Kanat Kaliyevich ALPYSBAYEV**

– Vice-President for Logistics of Kazakhstan Temir Zholy NC JSC;

### Members:



**Peter Vassilyevich BASKAKOV**

– General Director of TransContainer PLC



**Victor Nikolayevich MARKOV**

– Director of Legal Affairs and Property Management of TransContainer PLC



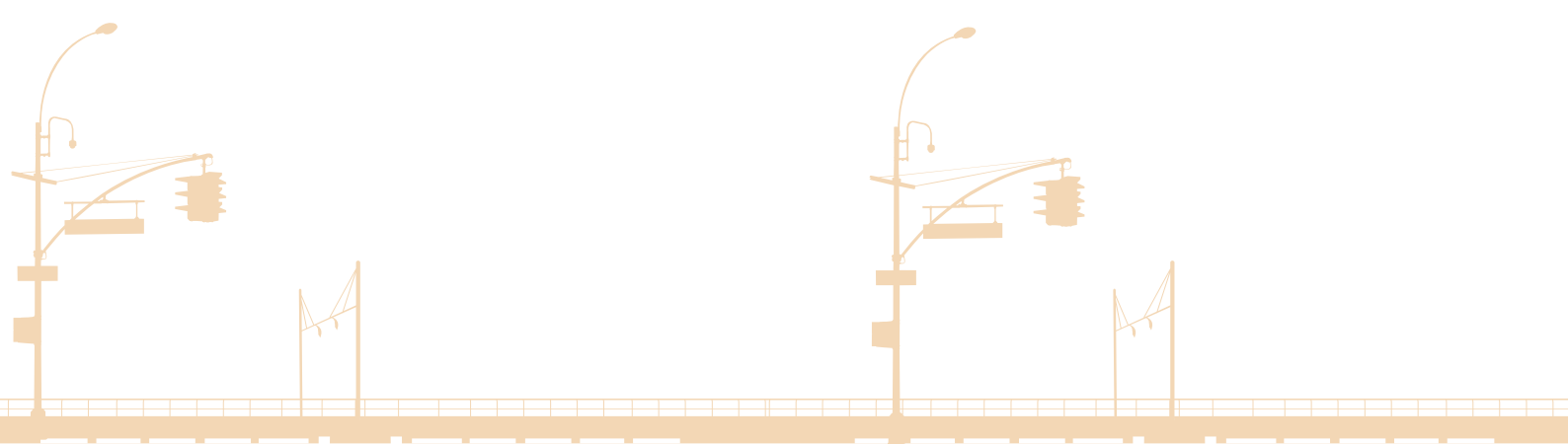
**Askar Nuridenovich RAKHIMBEKOV**

– Director of the Asset Management Department of NC Kazakhstan Temir Zholy JSC



**Semen Moiseyevich REZER**

– President of the Guild of Experts NGO (RF), *member of the BoD of KDTS till May 29, 2015*



For the purpose of preliminary consideration of the most significant issues relating to the Company's activities the Board of Directors has established the Strategic Planning Committee, the Audit Committee and the Personnel, Remuneration and Social Affairs Committee. The Committees play a significant role in the preliminary examination of issues to be addressed by the Board of Directors.

More than 70% of issues addressed by the Board of Directors in 2015 were preliminarily considered by the Committees.

Members of the Committees of the Board of Directors have necessary experience and qualifications with regard to the functional issues of the Committees.



**Yuri Vassilyevich  
YURYEV**

– Director of the Strategic Development Department of TransContainer PLC, *member of the BoD of KDTS till May 29, 2015*



**Zholdasbek  
Yessenbayevich  
KURMANOV**

– General Director of Dala Trans LLP



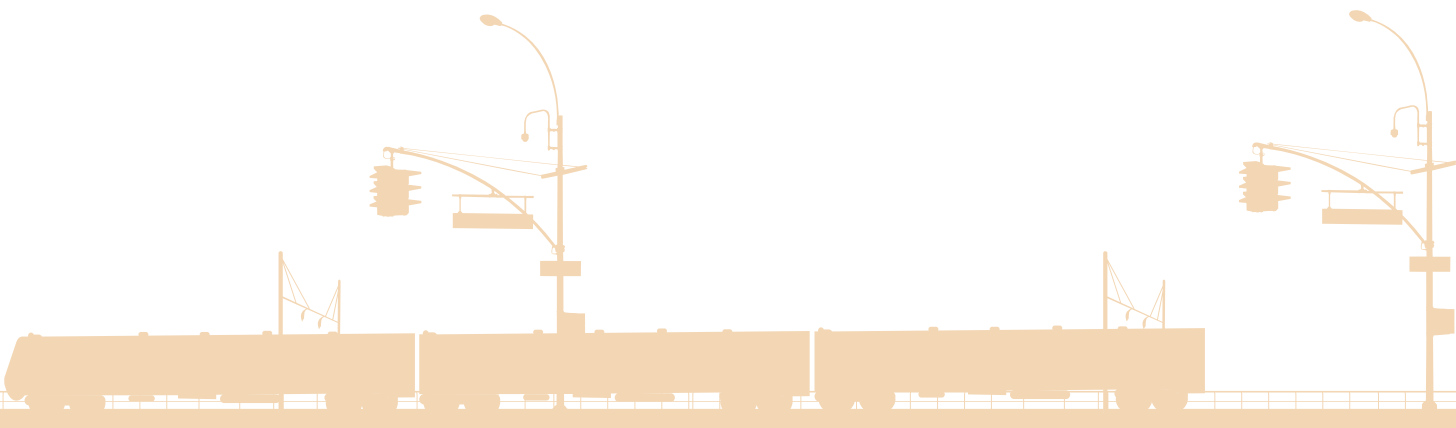
**Zhanar Bagdatovna  
RYMZHANOVA**

– adviser to the President of RZD OJSC, General Director of Project Office of UTLC LLC, *member of the BoD of KDTS till May 29, 2015*



**Alexey Aleksandrovich  
DRUZHININ**

– Vice-President of Rustranscom LLC, *member of the BoD of KDTS since May 29, 2015*





## 5.4.2. Strategic Planning Committee

The main functions of the Strategic Planning Committee are: formation of proposals for the priority areas of the Company's development; participation in the development of the Company's strategy; analysis and evaluation of the Company's strategy implementation program; preparation of proposals for correction of the approved strategy of the Company; control over the implementation of the Company's strategy; analysis of draft budgets of the Company.

During 2015, the Strategic Planning Committee held 8 meetings, at which 21 issues were addressed. Most of meetings were held by personal attendance.

### **Key issues addressed by the Strategic Planning Committee:**

- On consideration of the draft budget of Kedentransservice JSC for 2015–2017;
- On introduction of amendments and additions to the Regulations for the formation and control over the budget execution of Kedentransservice JSC;
- Review of results of Kedentransservice JSC and its subsidiary for 9 months of 2014;
- Consideration of the Development Strategy of Kedentransservice JSC until 2020;
- Review of the analysis of the activities of Kedentransservice JSC relating to the rolling stock handling;
- Consideration of corrections to the investment budget of Kedentransservice JSC for 2015;
- Review of results of Kedentransservice JSC and its subsidiary for 2014;
- On the procedure for distribution of net income of Kedentransservice JSC for 2014;
- On dividends on shares of Kedentransservice JSC for 2014;
- Review of results of Kedentransservice JSC and its subsidiary for the 1st quarter of 2015;
- Approval of the Work Plan of the Strategic Planning Committee of Kedentransservice JSC for the corporate year of 2015–2016;
- Performance Report of Kedentransservice JSC and its subsidiary for the first half of 2015;
- The second stage of the implementation of the non-operating locomotive fleet in the amount of 17.5 units;
- Consideration of corrections to the budget of Kedentransservice JSC for 2015;
- Consideration of the budget of Kedentransservice JSC for 2016–2018;
- On the progress of elaboration of the Development Strategy of Kedentransservice JSC until 2020 and the Development Program for

transshipment operations of Kedentransservice JSC at Dostyk Station until 2020;

- Consideration of the draft budget of the Strategic Planning Committee of Kedentransservice JSC for 2016;
- Performance Report of Kedentransservice JSC and its subsidiary for 9 months of 2015;
- Reorganization of the organizational structure of the branch network of Kedentransservice JSC;
- On consideration of the Development Program for the Terminal Network of Kedentransservice JSC until 2025.

### **Composition of the Strategic Planning Committee:**

#### **Chairman:**

1. Anton Viktorovich Lopatin – Deputy General Director for Economy and Finance of TransContainer PLC;

#### **Members:**

2. Yerzhan Aitzhanovich Terekulov – Director of the Strategic Planning and Organizational Development Department of NC Kazakhstan Temir Zholy JSC, member of the Strategic Planning Committee till June 26, 2015;
3. Arman Turlykhanovich Sultanov – Managing Director for Logistics of NC Kazakhstan Temir Zholy JSC, member of the Strategic Planning Committee since June 26, 2015;
4. Murat Maratovich Bekmagambetov – Director of the Strategic Planning and Organizational Development Department of NC Kazakhstan Temir Zholy JSC;
5. Andrey Sergeevich Zhemchugov – Director for stock market and operations with investors of TransContainer PLC;
6. Dmitry Aleksandrovich Tsvetkov – Head of the Strategic Development Department of TransContainer PLC;
7. Zhassulan Ablayevich Aliyev – Chief Manager of the Strategic Planning and Organizational Development Department of NC Kazakhstan Temir Zholy JSC, member of the Strategic Planning Committee till June 26, 2015;
8. Saule Yedimtayevna Madiyeva – Chief Manager of the Operational and Financial Activities Planning Department of NC Kazakhstan Temir Zholy JSC, member of the Strategic Planning Committee since June 26, 2015;
9. Aigul Kurmantayevna Nurpeissova – Chief Manager of the Operational and Financial Activities Planning Department of NC Kazakhstan Temir Zholy JSC, member of the Strategic Planning Committee since December 2, 2015.



### 5.4.3. Audit Committee

The Audit Committee ensures effective interaction of the Board of Directors with the external auditor and the Internal Audit Service, prepares recommendations for the Board of Directors for the candidacy of the external auditor, discusses jointly with the external auditor the work on the audit of financial statements and violations revealed as a result of the audit, controls the quality of services provided by the external auditor and the auditor's compliance with the audit independence requirements, analyzes recommendations provided by the external auditor, develops recommendations for the preparation of the Company's financial statements, assesses the work of the Internal Audit Service, initiates the introduction of amendments to the accounting policy and prepares proposals for improvement of internal control procedures, recommends the Board of Directors the candidacy of head of the Internal Audit Service, assesses the performance effectiveness of the Internal Audit Service, and develops measures for elimination and prevention of violations in the financial and economic activities of the Company.

During 2015, the Committee held 8 meetings, at which 43 issues were addressed. Most of meetings were held by personal attendance.

#### Key issues addressed by the Audit Committee:

- Information on the progress of state registration of real estate objects of Kedentransservice JSC;
- Report on implementation of the Action Plan aimed at execution of recommendations of the external auditor based on the audit results of the annual financial statements of Kedentransservice JSC for 2013;
- Evaluation of effectiveness of systemic measures taken in the course of elimination of violations identified during the audit;
- Consideration of the redrafted Regulations on the Internal Audit Service of Kedentransservice JSC;
- Consideration of the Draft Code of Professional Ethics of the Internal Audit Service of Kedentransservice JSC;
- Consideration of the Draft Rules for organization of internal audit of Kedentransservice JSC;
- Review of the annual consolidated financial statements of Kedentransservice JSC for the year ended on December 31, 2014;
- Report of the audit company on the results of the audit of the financial statements of Kedentransservice JSC for 2014;
- On determining the amount of payment for the audit company's services for auditing the financial statements for 2015;
- Activity report of the Internal Audit Service of Kedentransservice JSC for 2014;
- Review of the financial statements of Transport Holding of Kazakhstan LLP for 2014;
- Review of the list of key performance indicators of Head of the Internal Audit Service for 2015;
- Approval of the Work Plan of the Audit Committee of Kedentransservice JSC for the corporate year of 2015–2016;
- Consideration of the Action Plan aimed at execution of recommendations of external auditors following the results of 2014;
- Consideration of the interim report on implementation of the Action Plan aimed at execution of recommendations of the external auditor based on the audit results of the financial statements for 2014;
- Consideration of the report on critical risks included in risk register of Kedentransservice JSC for the 2nd quarter of 2015;
- Activity report of the Internal Audit Service of Kedentransservice JSC for the first half of 2015;
- Consideration of the interim consolidated financial statements of Kedentransservice JSC for six months ended on June 30, 2015;
- Report on implementation of the plan of measures aimed at execution of recommendations of the external auditor based on the audit results of the financial statements for 2014 and the first half of 2015;
- Consideration of the report on completed procurements of Kedentransservice JSC for the first half of 2015;
- Activity report of the Internal Audit Service of Kedentransservice JSC for the 1st quarter of 2015;
- Consideration and approval of the action plan for the audit of financial and economic activities of Kedentransservice JSC for 2013–2014 and the first half of 2015 and the personal composition of the audit commission;
- Consideration of the report on execution of critical risks action plan of Kedentransservice JSC for the 3d quarter of 2015;
- Consideration of the activity report of the Internal Audit Service of Kedentransservice JSC for the 3d quarter of 2015;
- Consideration of the annual audit plan of the Internal Audit Service of Kedentransservice JSC for 2016;
- Consideration of the draft budget of the Audit Committee of Kedentransservice JSC for 2016;



- Consideration of the annual audit plan of the Internal Audit Service of Kedentranservice JSC for 2016;
- Consideration of the list of key performance indicators of Head of the Internal Audit Service of Kedentranservice JSC for 2016;
- On the results of the audit of financial and economic activities of Kedentranservice JSC for the period of 2013-2014 and the first half of 2015;
- On consideration of the results of the audit of financial and economic activities of Kedentranservice JSC for the period of 2013, 2014 and the first half of 2015;
- On consideration of the redrafted Accounting Policy of Transport Holding of Kazakhstan LLP.

#### **Composition of the Audit Committee:**

##### **Chairman:**

1. Semen Moiseyevich Rezer – President of the Guild of Experts NGO (RF), Chairman of the Audit Committee till May 29, 2015;
2. Alexey Aleksandrovich Druzhinin – Vice-President of Rustranscom LLC, Chairman of the Audit Committee since June 26, 2015.

##### **Members:**

3. Konstantin Sergeyevich Kalmykov – Chief Accountant of TransContainer PLC;
4. Yelena Vladimirovna Ustinova – Head of the Internal Audit Service of TransContainer PLC;
5. Raushan Sembekovna Bimakhimova – Director of the Accounting Department of NC Kazakhstan Temir Zholy JSC;
6. Yelena Borissovna Stankova – Chief Manager of the Accounting Department of NC Kazakhstan Temir Zholy JSC.



#### 5.4.4. Personnel, Remuneration and Social Affairs Committee

The Personnel, Remuneration and Social Affairs Committee prepares recommendations for issues relating to the Company's policies and standards for the selection of candidates to the Company's management bodies aimed at attraction of qualified specialists to the management of the Company.

The Personnel, Remuneration and Social Affairs Committee plays a key role in the formation of transparent, effective and reasonable remuneration policies and practices in the Company, as well as in issues associated with personnel planning, professional composition and effective work of the Board of Directors, executive bodies and other key managerial employees of the Company.

During 2015, the Committee held 7 meetings, at which 25 issues were addressed. Most of meetings were held by personal attendance.

##### **Key issues addressed by the Personnel, Remuneration and Social Affairs Committee:**

- On consideration of the redrafted Regulations on labor remuneration and bonus payment to the staff of the Corporate Secretary and the Internal Audit Service.
- Approval of the Work Plan of the Personnel, Remuneration and Social Affairs Committee of Kedentransservice JSC for the corporate year of 2015–2016;
- Consideration of the draft budget of the Personnel, Remuneration and Social Affairs Committee of Kedentransservice JSC for 2016;
- Consideration of amendments to the Regulations on bonus payment to management of Kedentransservice JSC;
- Consideration of amendments to the Regulations on bonus payment to administrative and managerial employees of Kedentransservice JSC;
- On consideration of the list of key performance indicators of the Corporate Secretary of Kedentransservice JSC for 2016;
- On introduction of amendments and additions to the Regulations on payment of remunerations and compensations to members of the Strategic Planning Committee of Kedentransservice JSC, the Regulations on payment of remuneration and compensation to members of the Audit Committee of Kedentransservice JSC, the Regulations on payment of remuneration and compensation to members of the Personnel, Remuneration and Social Affairs Committee of Kedentransservice JSC;
- On consideration of the draft Personnel Policy of Kedentransservice JSC for 2016–2018;
- On introduction of amendments and additions to local acts regulating labor remuneration of personnel of Kedentransservice JSC;
- Consideration of the List of key indicators of top management of Kedentransservice JSC for 2016.

##### **Composition of the Personnel, Remuneration and Social Affairs Committee:**

###### **Chairman:**

1. Zholdasbek Yessenbayevich Kurmanov – General Director of Dala Trans LLP;

###### **Members:**

2. Mikhail Robertovich Goncharov – Director of TransContainer PLC;
3. Yelena Yuryevna Strokovva – Head of the Labor and Wage Rate Setting Department of TransContainer PLC;
4. Saniya Koshkinbayevna Ismailova – Director of the HR Department of NC Kazakhstan Temir Zholy JSC.



## 5.5. MANAGEMENT BOARD

The executive body of Kedentransservice JSC is the Management Board, which plays a key role in management of the Company's activities, ensuring the following:

- achievement of strategic goals and objectives determined by the Board of Directors of the Company;
- implementation of long-term plans and programs of the Company's activities;
- execution of resolutions of the Board of Directors and the General Meeting of Shareholders;
- creation and maintenance of operation of effective risk management and internal control systems;

- personnel management, motivation of the Company's employees and long-term personnel planning;
- management of activities of the Company's branches and subsidiaries.

The Management Board is managed by the President of the Company, who is the Chairman of the Management Board.

In the period from January to December 2015 the Management Board of the Company was composed of seven members.

### Composition of the Management Board (as of 31.12.2015):



**E.B. ISKAKOV**  
Chairman of the  
Management Board



**M.T. MIRZALIYEV**  
acting Vice-President  
for economy and  
finance



**YU.V. SUKMANOV**  
Vice-President



**YE.R. KULAKOV**  
Vice-President for  
production



**A.T. ABDIROV**  
Chief Engineer



**G.K. MUKANOV**  
Executive Director for  
procurement



**N.ZH. ORAZALIN**  
Executive Director for  
legal and property  
relations



In 2015, the Management Board held 19 meetings, at which 193 issues were discussed.

The Management Board carries out its activities in accordance with the work plan approved for

6 months taking into account the work plans of the Board of Directors, committees of the Board of Directors and proposals of the Company's management.

## 5.6. INTERNAL CONTROL SYSTEM

The Company's internal control system is based on generally accepted international standards.

The Board of Directors supervises the operation and effectiveness of the Internal Control Service on a permanent basis. The Internal Audit Service has been established with the aim to provide assistance to the Board of Directors and executive bodies in enhancement of effectiveness of the Company's management, improvement of its financial and economic activities through the systematic and consistent approach to the analysis and evaluation of risk management and internal control systems.

The Service carries out its activities in compliance with the principles of independence and objectivity

as well as the Regulations on the Internal Audit Service of Kedentransservice JSC, the laws of the Republic of Kazakhstan, the Regulations on the Audit Committee of Kedentransservice JSC, resolutions of the General Meeting of Shareholders and the Board of Directors of the Company, internal regulations of the Company, standards established for activities of internal auditors defined by the International Occupational Internal Audit Standards.

Head of the Service reports to the Audit Committee and the Board of Directors on the results of activities of the Service for the reporting quarter and for the year, on the internal control status in the Company as well as on the implementation of the annual work plan and budget of the Service.

## 5.7. RISK MANAGEMENT

Kedentransservice JSC places special emphasis on management of risks that may affect the activities and reputation of the Company, their timely identification, assessment, prevention and monitoring.

Basic principles and approaches to risk management are set forth in the Concept of the risk management system of Kedentransservice JSC approved by the Board of Directors on March 27, 2014.

The management exerts efforts for the development and improvement of the corporate risk management system, which is a necessary condition for achievement of strategic and operational objectives in conditions of a rapidly changing market environment.

Within the framework of implementation and further development of the risk management system, Kedentransservice JSC has elaborated and

approved the following documents of the Risk Management System:

- the Rules for risk identification and assessment that determine the procedures for identification of risk events, assessment of their consequences, provision of information to management and the Board of Directors on relevant events, including new events and changes in risk characteristics;
- the "Risk Management" regulations have been approved as part of regulation of business processes of Kedentransservice JSC.

The Risk Management Committee has been established under the Management Board of the Company. Activities of the Risk Management Committee are governed by the Regulation on the Risk Management Committee. The Risk Management Committee is chaired by the President of the Company and includes managerial employees of the Company, who are owners of key risks and business processes of the Company. The Board of Directors receives regular risk reports.



## 5.8. RELATED-PARTY TRANSACTIONS

Approval of related-party transactions is carried out in accordance with the legislation and the Charter of the Company. The Board of Directors receives

reports on all related-party transactions. Information on related-party transactions is available at the Company's official web-site: [www.kdts.kz](http://www.kdts.kz).

## 5.9. CONFLICT OF INTEREST MANAGEMENT POLICY

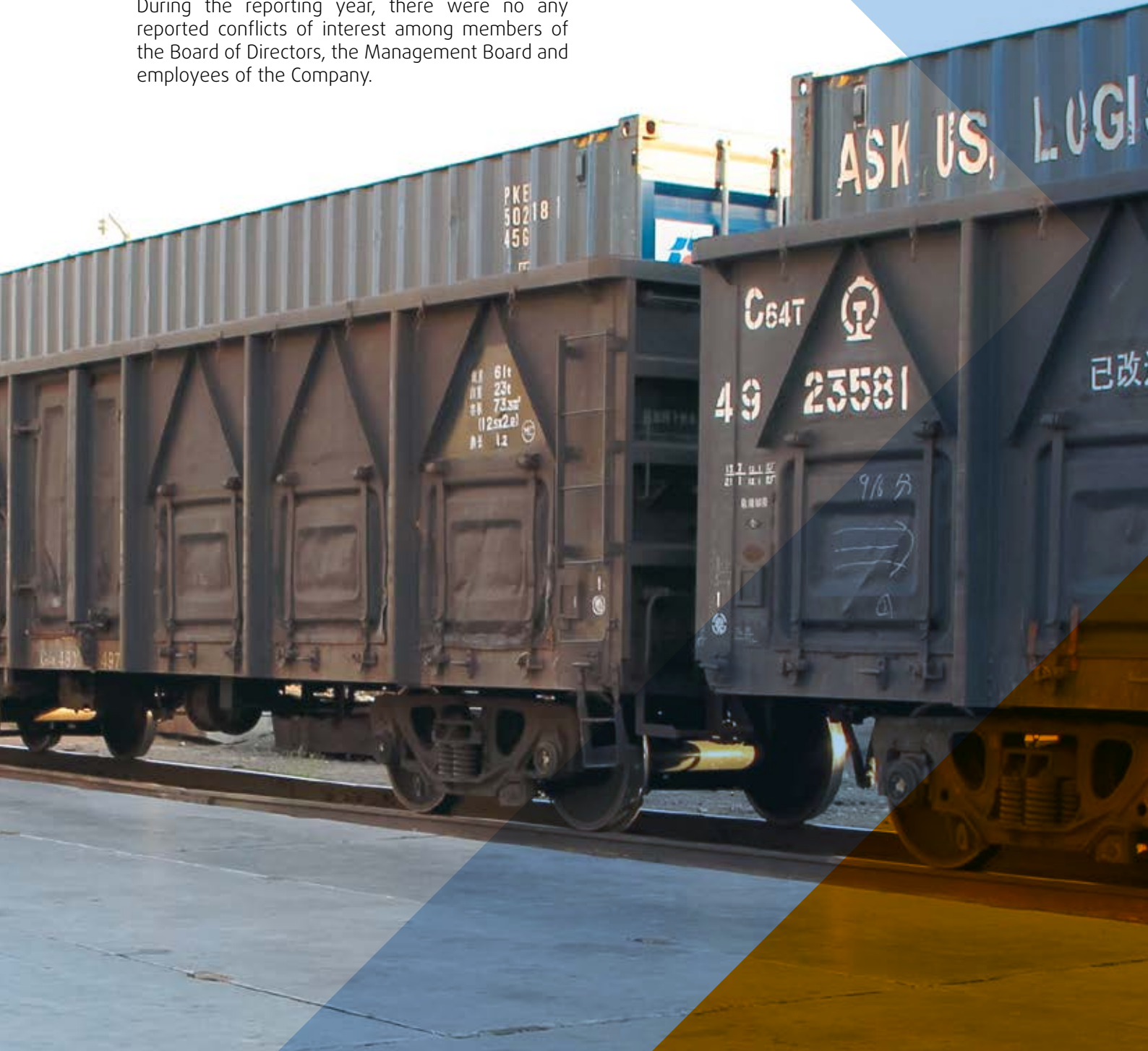
In 2015, the Company approved the **Conflict of Interest Management Policy of Kedentransservice JSC**, which defined the concept of a conflict of interest, a list of possible situations of conflict of interest and establishes the procedure for settlement of a conflict of interest among members of executive bodies and other employees of the Company.

According to the Conflict of Interest Management Policy of Kedentransservice JSC, officers and employees of the Company are obliged to inform promptly a superior officer of any real or potential circumstances that contribute to the occurrence of a conflict situation, to make every effort to avoid situations that lead or may lead to conflicts, including in relations with business partners and clients, state



authorities and other economic entities, and should refrain from making decisions on operations, in which they have a conflict of interest.

During the reporting year, there were no any reported conflicts of interest among members of the Board of Directors, the Management Board and employees of the Company.







6

SOCIAL AND  
ENVIRONMENTAL  
RESPONSIBILITY



The Company recognizes that in modern business conditions human resources and methods of their management become increasingly important elements in the course of ensuring the competitiveness of enterprises as compared to other traditional sources of success.

Human resources are the main productive force of the Company. In this regard, the Company pays great attention to ensuring the stability, creation of a healthy social and psychological climate among the employees, timely addressing of problematic issues, prevention and management of labor disputes and conflicts.

Within the framework of implementation of the social policy the Company provides its employees additional social benefits, services and benefits, including:

- voluntary health insurance for 1,127 employees of the Company and their family members in the amount of more than 30.7 mln tenge;

- material assistance in case of death/illness of close relatives in the amount of 15,360,500 tenge;
- material assistance in connection with the birth of a child, marriage registration, paid surgical operations in the amount of 7,655,000 tenge;
- cash reward for contribution to the development of the railway industry, in connection with the celebration of anniversaries in the total amount of 5,081,759 tenge;
- organization of summer camps for children;
- provision of subsidized sanatoria and holiday-homes vouchers for employees;
- sports programs and initiatives, including the opportunity to practice different sports.

In 2015, the total financial assistance provided to **331** employees of the Company amounted to **23,576,443** tenge.



## 6.1. PERSONNEL POLICY

As of December 31, 2015, the Company's headcount amounted to 2,056 persons, including 62 women being on maternity and childcare leave.

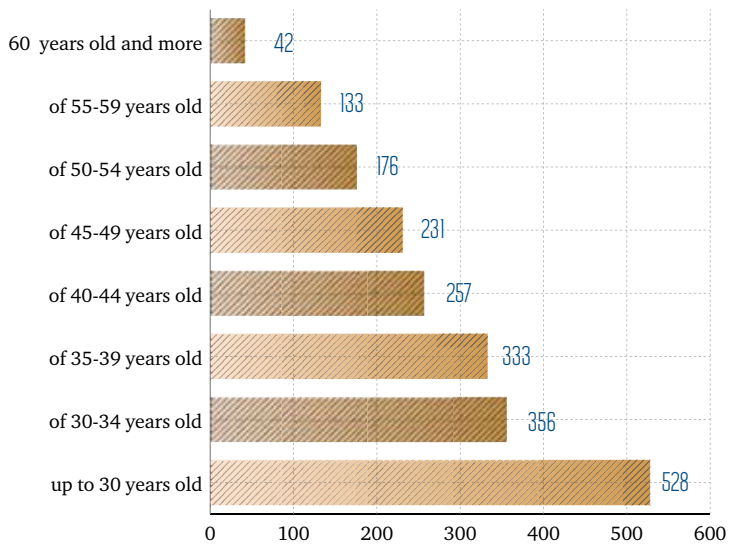
The Company's staffing level was equal to 94.6 with the planned figure of 2,173 persons.

During 2015, the number of the Company's employees decreased by 151.5 persons or 9.3% as compared to the same period of 2014.

Change in the personnel number of the Company and its business units is shown in **Diagram 8**.

Age composition of the Company's personnel is represented as follows (**Diagram 9**):

**Diagram 9. Staff potential status in Kedentransservice JSC**

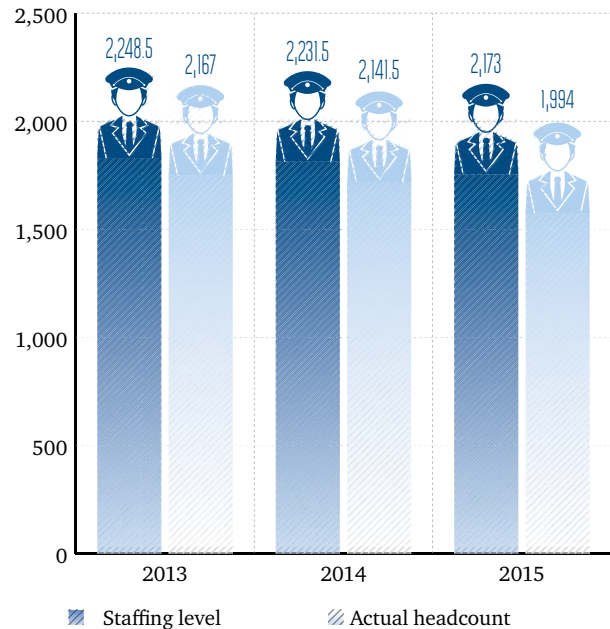


Comparative analysis of the staff turnover has indicated the following (**Diagram 10**): >>>>

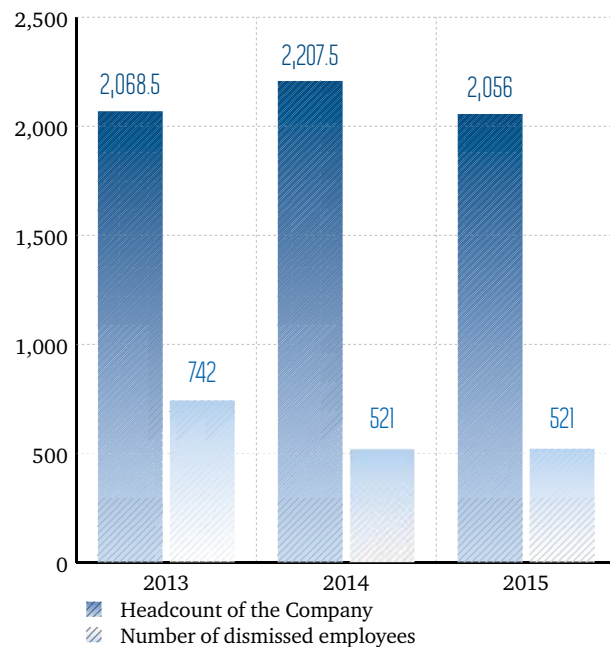
In order to increase the level of employees' professional competence, the Company pays great attention to advanced training. In 2015, the Company provided advanced training for 1,160 employees in the amount of more than 16,484,890 tenge. Including:

- 1) 1,094 employees completed training in branches of Kedentransservice JSC in the field of occupational health and safety and industrial safety, which accounted for 59% of the headcount. The total expenditures amounted to 12,240,200 tenge;
- 2) in 2015, 66 employees completed training in the central office, which accounted for 31% of the

**Diagram 8. Comparative analysis of the staff number**



**Diagram 10. Staff Potential Status**



total number of employees of the central office. The total expenditures amounted to 4,244,690 tenge;

The branches conducted training in the field of occupational health and safety, industrial safety, fire

safety and electrical safety. Production employees also underwent re-training in the following specialities: "crane operator", "section foreman", "chief of the cargo district", "controller of load

fastening expenditure rates". Employees of legal and accounting departments of branches passed advanced training in their specialties.

## 6.2. PROCESS-BASED MANAGEMENT

Since the beginning of 2013 the Company has been implementing a project for simulation and optimization of key business processes of the Company (or for implementation of process-based management), within the framework of which the Company has:

- 1) developed a top-level process map and identified process attributes;
- 2) established the Process Management Committee and the Process Office;
- 3) elaborated regulations for the key business processes "Cargo Transshipment", "Rolling Stock Handling", "Acceptance and Control Over Execution of Orders", "Terminal Cargo Handling at Cargo Yards" and "Budget Management";
- 4) purchased a license for ARIS Business Architect software (1 workstation);
- 5) conducted training seminars on the topic: "Basics of Process Management" for:
  - the Company's management;
  - heads of business units and specialists of the central office of the Company;

- managers and specialists of the Company's branches: Dostyk station, Almaty city and Almaty region;
  - specialists of the Corporate Development Department and Information Technology Department on the topic: "Basics of Business Simulation Using ARIS Tools";
- 6) The following documents have been developed:
- Simulation agreements;
  - Concept of process-based management;
  - Regulations on the Process Management Committee;
  - corporate standard "Documentation Management";
  - ARIS Administration Guide.

In 2015, the Company together with Logic-BPM LLC provided training for 33 employees in the field of ARIS simulation environment.

The Company has developed and approved models and regulations for all 43 processes. The Company has also elaborated process-oriented regulations on structural divisions of its central office.

## 6.3. LABOR REMUNERATION AND INCENTIVE SYSTEM

Since 2014, the Company has implemented a new labor remuneration and incentive system created on the basis of the grade system (for a constant

salary component) and key performance indicators (for a variable salary component).

### 6.3.1. Grade system

The grade system has been developed on the basis of the analysis results and the Company's job evaluation using compensatory factors (166 positions were evaluated). The grade system allows the Company to take into account a number of criteria, including job evaluation indicators such as: management; communications; responsibility and risks; work complexity; independence; cost of error, etc.

In total, the Company has 14 grades; a salary range has been established for each grade. This system promotes the creation of a transparent payroll system and increase in basic salary of employees, who really play an important role for the Company, as well as stimulates the development of their career growth.



### 6.3.2. Key performance indicators system

In parallel with the grade system the Company has developed and implemented a system of key performance indicators (KPIs) for the calculation of efficiency and effectiveness of top managers, heads of the central office departments, directors of branches and representative offices.

The Company's KPI system consists general corporate indicators developed on the basis of strategic priorities of the Company and individual performance indicators based on tasks of each manager in business processes of Kedentransservice JSC. Target KPI values are established by the resolution of the Management Board on the basis of predefined parameters of the Company's budget.

### 6.3.3. Rating performance assessment of branches

Since 2013 the Company has developed a rating performance assessment system for branches, which allows obtaining an objective performance assessment of the Company's branches, enhances the effectiveness of their activities in achievement of budgetary indicators and implementation of production tasks, and defines leaders and underperformers.

The criteria for performance assessment in branches are the efficiency of internal processes (achievement of budgetary and production indicators) and the quality of their performance (absence of occupational injuries, accidents and derailment in a branch, etc.).

At the end of 2015, according to the results of the rating assessment Atyrau and East-Kazakhstan regional branches became the leaders.

## 6.4. SPONSORSHIP AND CHARITY

In 2015, within the framework of priorities defined by the Sponsorship and Charity Rules of Kedentransservice JSC the Company provided sponsorship/charitable assistance totaling 7,800,000 tenge to the following organizations:

Association for Support of People with Disabilities NGO, Astana Academy of Arts LLP, "Almaty Auenderi" Almaty Department of Culture Public State Enterprise, Association of Taxpayers of Kazakhstan ALE and Dar Public Fund (**Diagram 11**).

### **Diagram 11**

In 2015, the Company signed a voluntary health insurance contract for 1,127 employees of the

Company and their family members in the amount of more than 30.7 mln tenge.

## 6.5. LABOR SAFETY

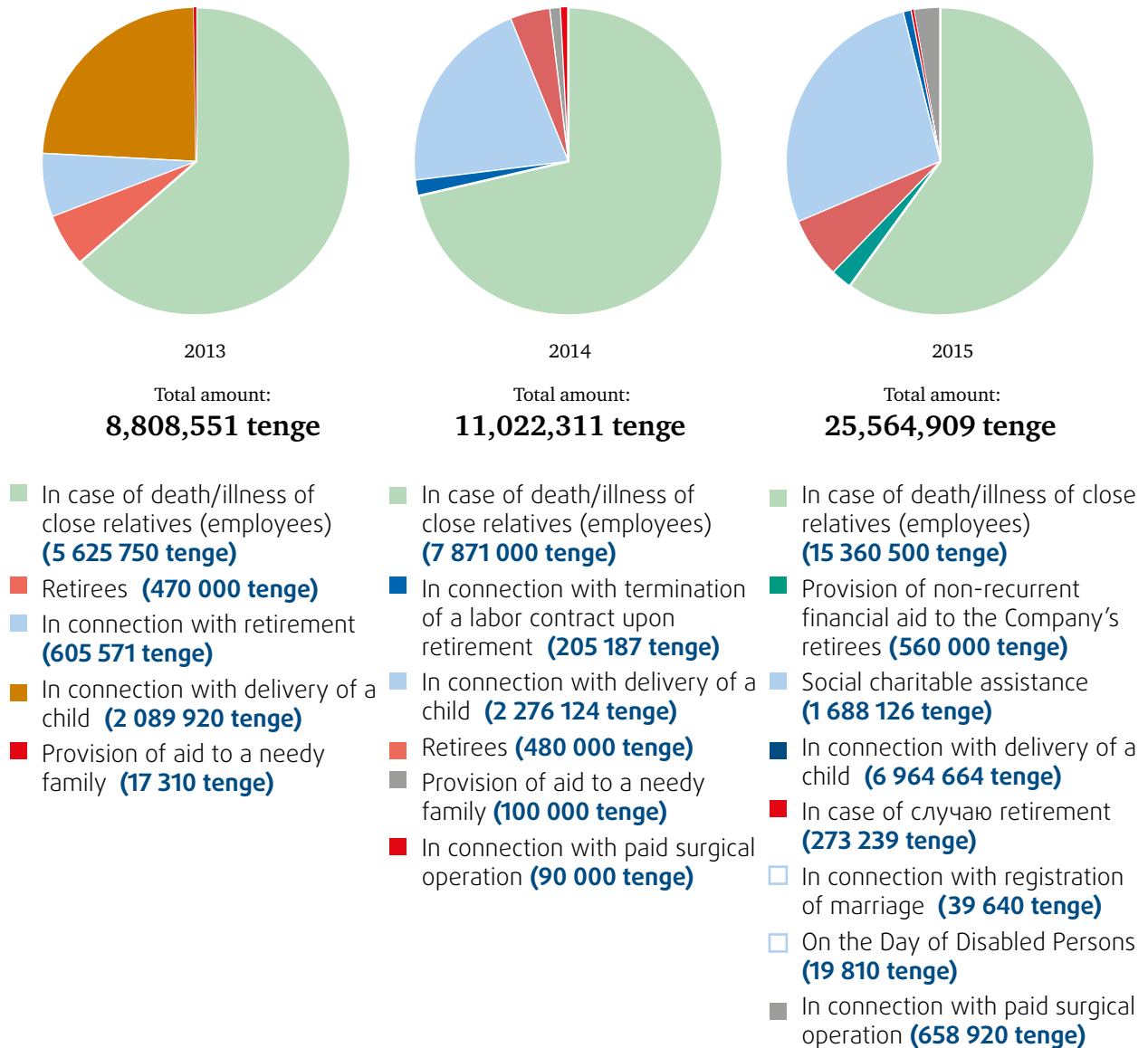
The work of Kedentransservice JSC in the field of occupational health and safety is carried out in strict compliance with requirements of the Labor Code of the Republic of Kazakhstan and other regulatory and technical documents applicable in this field.

at creating safe and healthy labor conditions in compliance with the legislative acts of the Republic of Kazakhstan. The Company has provided a uniform procedure for arrangement and implementation of organizational and preventive measures aimed at ensuring safe and healthy conditions for efficient and high-quality labor.

The Company has implemented a labor safety management system, which represents a set of interrelated social and economic, organizational and technical measures, methods and tools aimed

In 2015, the Company conducted training and knowledge assessment of responsible officials in



**Diagram 11. Material and charitable assistance of a social nature**

the amount of 190 AMP employees and obtained permits for 961 production employees for operation of hazardous production facilities. The total cost of such types of training amounted to 20,850,385.70 tenge.

The total procurement plan for 2015 amounted to 56,843,356.33 tenge.

The amount spent on procurement was equal to 45,607,609.76 tenge.

Special clothing was purchased in the amount of 20,864,314.56 tenge, including winter overalls in the amount of 16,254,799.68 tenge, special footwear in the amount of 14,118,369.14 tenge, winter footwear in the amount of 7,315,933.17 tenge and personal protective equipment in the amount of 10,624,926.06 tenge.

In all branches employees engaged in operation of hazardous production facilities pass pre-shift medical examination. During the reporting period of 2015, no facts of suspension from work for negative reasons were recorded.

The Company entered into a contract with Asia Life Insurance Company JSC for compulsory insurance of employer's liability for harm caused to life and health of employees in the performance of their job duties.

As part of the internal control system, Kedentransservice JSC keeps records of all



occupational incidents, carries out investigations of accident involving its employees and implements measures to reduce the causes of occurrence of such incidents. In 2015, the Company reduced the injury frequency rate 1.5 times and the occupational injury severity rate 2 times.

The Company defines the following aspects as the main priorities of the Occupational Safety Policy:

- the priority of employees' life and health in relation to the results of production activities;
- prevention of personnel injuries and health deterioration;
- continuous improvement of the occupational health and safety management system as well as enhancement of its effectiveness;
- continuous improvement of the safety level through the use of modern types of equipment as well as collective and personal protective equipment;

With the aim to implement the Policy priorities the the Company intends to ensure:

- performance of the work on an ongoing basis with the aim to identify the existing risks and development of action plans aimed at prevention and elimination of such risks;
- continuous personnel professional development;
- integration of issues related to occupation health and safety into all existing and new processes;
- allocation of personal responsibility of managers and executives for issues relating to occupational safety and health;
- motivation of employees with the aim to increase their involvement in the occupation health and safety management system;

- introduction of advanced knowledge and experience in the field of occupational health and safety;

For this purpose, in 2015 the Company's branches conducted a complex of social and economic, organizational and technical and medical preventive measures, such as:

- personnel training in safe working practices;
- creation of safe working conditions;
- provision of employees with protective clothing and other personal protective equipment;
- establishment of benefits and guarantees for work in harmful conditions;
- conduct of annual medical inspections and pre-shift medical examinations;
- provision of organizations' safety cabinets with personnel training facilities in the field of occupational health and safety;
- provision of employees with special literature and visual materials;
- providing workplaces with labour protection regulations.

In order to prevent occupational injuries the Company's labor safety services and specialists carry out constantly comprehensive inspections of occupational health and safety and operation of power equipment in structural divisions as well as inspections of workplaces of production teams. During 2015, all branches held technical study sessions in accordance with the approved schedule (199 technical study sessions); the Labor Protection Day was held on a monthly basis (12 Labor Protection Days were held in all branches of the Company).

## 6.6. ENVIRONMENTAL PROTECTION

The Company considers environmental protection issues as one of the most important priority objectives stated in the Strategic Development Program of the Company. In terms of economic activities the Company complies with the requirements of the applicable environmental protection legislation regulated by the Environmental Code and other legal acts of the Republic of Kazakhstan.

Prevention of environmental contamination is a determinant factor in making all operational decisions in the course of loading and unloading operations.

The fundamental principles of the environmental policy are:

- energy saving and rational use of natural and energy resources at all stages of the production activity;
- reducing the amount of emissions and waste as well as environmentally safe waste management;
- improvement of production processes;
- openness and availability of the environmental monitoring results;
- involvement of the Company's personnel in environmental protection activities of enterprises through the development and improvement of

environmental education among employees of enterprises.

Environmental activities of the Company are carried out in the following areas:

1. Organization and keeping of production monitoring with the aim to obtain targeted environmental quality indicators:
  - atmospheric air monitoring, including control over effective operation of dust and gas cleaning equipment and compliance with the established emission limits;
  - monitoring of soils, land resources and production waste, including control over the level of soil contamination in cargo areas and sites;
  - control over formation, use and disposal of production and consumption waste;
  - development and planning of environmental protection measures;
  - control over implementation of environmental protection measures;

- minimization of the impact of enterprises' production processes on the environment and human health.

2. Recoding of environmental emissions in each branch of the Company, analysis of production monitoring data for compliance with environmental requirements, submission of industrial environmental monitoring data.

In all branches the sources of harmful environmental emissions are identified in the maximum permissible emission (MPE) targets elaborated by specialized organizations; appropriate permissions define the environmental emission limits; during the current year excess of the established limits has not been reported.

Currently, all branches of the Company have environmental emission permits according to the requirements imposed by the regional environmental protection authorities.

## 6.7. ENVIRONMENTAL COMPLIANCE

In order to meet the requirements of the Environmental Code and minimize the impact of enterprise's production processes on the environment and human health the Company's branches have elaborated environmental protection measures with the aim to reduce environmental emissions to the maximum possible extent. The main measures are:

- planting of vegetation (trees and shrubs), lawn-making and flower gardening;
- waste collection and storage in a metal container and removal from the territory of the enterprise to special waste disposal sites;

- collection of waste mercury-containing lamps into special containers and their delivery for demercurization.

Every year, for the purpose of ecological recovery of production areas the Company's structural units conduct voluntary Saturday works that include cleaning, planting of greenery, landscaping, whitewashing and painting of buildings and structures and maintenance of areas of production units in accordance with sanitary and epidemiological requirements.



7

ATTACHMENTS



**KEDENTRANSSERVICE  
JOINT STOCK COMPANY  
AND ITS SUBSIDIARY**

**International Financial Reporting Standards  
Consolidated Financial Statements and  
Independent Auditor's Report**

**31 December 2015**

**STATEMENT OF MANAGEMENT RESPONSIBILITY  
FOR THE PREPARATION AND APPROVAL OF THE  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 December 2015**

Management of Joint Stock Company Kedentransservice (hereinafter - the "Company") is responsible for the preparation of the consolidated financial statements of the Company and its subsidiary (together referred to as - "the Group") that present fairly in all material respects the consolidated financial position of the Group as at 31 December 2015, and the consolidated financial results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (hereinafter – the "IFRS").

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

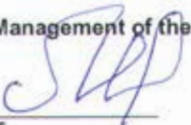
- properly selecting and applying appropriate accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the requirements of IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- making an assessment of the Group's ability to continue as a going concern.

Group's management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, across 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 information about the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Kazakhstan;
- taking all reasonably available measures to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.


These consolidated financial statements for the twelve months ended 31 December 2015 were approved by management of Kedentransservice JSC on 10 February 2016.

On behalf of Management of the Group:

  
Mirzaliyev M.T.  
Acting President

10 February 2016



  
Kapizova D.T.  
Chief Accountant

10 February 2016



## ***Independent Auditor's Report***

To the Shareholders and Board of Directors of JSC Kedentransservice

We have audited the accompanying consolidated financial statements of JSC Kedentransservice and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated statements of profit and loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditor's Responsibility**

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

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

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





## INDEPENDENT AUDITOR'S REPORT (continued)

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP*

Almaty, Kazakhstan  
25 February 2016 года

Approved by:



Dana Inkarbekova  
Managing Director of  
PricewaterhouseCoopers LLP  
(General State License of the Ministry of Finance  
of the Republic of Kazakhstan №0000005 dated  
21 October 1999)

Signed by:

*Almaz Sadykov*

Almaz Sadykov  
Partner  
(Institute of Chartered Accountants ACCA  
Certified №00836388 dated 31 July 2007)

Signed by:

*Irina Taskayeva*

Irina Taskayeva  
(Qualified Auditor's Certificate № 00000465  
dated 14 November 1998)




**Kedentransservice Joint Stock Company and Its Subsidiary**  
**Consolidated Statement of Financial Position**  
**As at 31 December 2015**

<i>In thousands of Kazakhstani Tenge</i>	Note	31 December 2015	31 December 2014
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	10,386,443	9,997,306
Investment property	8	112,725	139,116
Intangible assets	9	317,058	288,532
Other non-current assets	10	12,732	132,855
Investments	11	2,330	552,490
<b>Total non-current assets</b>		<b>10,831,288</b>	<b>11,110,299</b>
<b>Current assets</b>			
Inventories	12	801,618	461,828
Trade receivables	13	709,487	1,026,944
Receivables from related parties	37	3,058,249	1,900,318
Advances given	14	22,035	238,362
Prepaid income tax		4,561	-
Taxes receivable	15	137,018	133,498
Other receivables	16	52,224	34,685
Short-term financial investments	17	2,184,344	8,000
Other financial assets	18	22,000	22,000
Cash and cash equivalents	19	4,037,034	1,125,010
<b>Total current assets</b>		<b>11,028,570</b>	<b>4,950,645</b>
<b>TOTAL ASSETS</b>		<b>21,859,858</b>	<b>16,060,944</b>
<b>EQUITY</b>			
<b>Equity</b>			
Share capital	20	1,255,242	1,255,242
Retained earnings		13,982,355	9,957,515
<b>TOTAL EQUITY</b>		<b>15,237,597</b>	<b>11,212,757</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities	35	297,351	240,718
Finance lease liabilities	26	450,370	562,963
Borrowings	27	-	152,144
Non-current employee benefit obligations	25	94,471	-
<b>Total non-current liabilities</b>		<b>842,192</b>	<b>955,825</b>
<b>Current liabilities</b>			
Trade payables	21	1,445,930	1,559,305
Accounts payable to related parties	37	1,457,654	356,326
Advances received	22	1,023,593	806,581
Income tax payable		270,283	88,500
Taxes payable	23	35,396	33,882
Current employee benefit obligations	25	7,029	-
Other payables and accrued liabilities	24	1,427,591	884,943
Current portion of finance lease liabilities	26	112,593	115,608
Current portion of long-term borrowings	27	-	47,217
<b>Total current liabilities</b>		<b>5,780,069</b>	<b>3,892,362</b>
<b>TOTAL LIABILITIES</b>		<b>6,622,261</b>	<b>4,848,187</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>21,859,858</b>	<b>16,060,944</b>

  
 Mirzaliyev M.T.  
 Acting President

10 February 2016



  
 Kapizova D.T.  
 Chief Accountant

10 February 2016

**Kedentransservice Joint Stock Company and Its Subsidiary**  
**Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
**For the Year Ended 31 December 2015**

<i>In thousands of Kazakhstani Tenge</i>	Note	2015	2014
Revenue	28	41,446,291	44,573,474
Cost of sales	29	(31,860,533)	(37,050,409)
<b>Gross profit</b>		<b>9,585,758</b>	<b>7,523,065</b>
General and administrative expenses	30	(4,047,352)	(3,773,672)
Other operating income	33	121,090	56,383
Effect from revaluation of investment property	8	(26,391)	3,276
Other operating expenses	34	(20,163)	(17,922)
Foreign exchange gain		1,114,109	112,589
<b>Operating profit</b>		<b>6,727,051</b>	<b>3,903,719</b>
Finance costs	31	(91,112)	(84,376)
Finance income	32	44,927	14,729
Dividend income		-	1,416
<b>Profit before income tax</b>		<b>6,680,866</b>	<b>3,835,488</b>
Income tax expense	35	(1,466,935)	(862,748)
<b>Profit for the year</b>		<b>5,213,931</b>	<b>2,972,740</b>
<b>Other comprehensive income for the year</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>5,213,931</b>	<b>2,972,740</b>

Mirzaliyev M.T.  
Acting President

10 February 2016



Kapizova D.T.  
Chief Accountant

10 February 2016


**Kedentransservice Joint Stock Company and Its Subsidiary**  
**Consolidated Statement of Changes in Equity**  
**For the Year Ended 31 December 2015**

<i>In thousands of Kazakhstani Tenge</i>	Note	Share capital	Retained earnings	Total equity
<b>At 1 January 2014</b>		<b>1,255,242</b>	<b>7,948,336</b>	<b>9,203,578</b>
Total profit for the year		-	2,972,740	2,972,740
Total other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	2,972,740	2,972,740
Dividends	20	-	(963,561)	(963,561)
<b>At 31 December 2014</b>		<b>1,255,242</b>	<b>9,957,515</b>	<b>11,212,757</b>
<b>At 1 January 2015</b>		<b>1,255,242</b>	<b>9,957,515</b>	<b>11,212,757</b>
Total profit for the year		-	5,213,931	5,213,931
Total comprehensive income for the year		-	5,213,931	5,213,931
Dividends	20	-	(1,189,091)	(1,189,091)
<b>At 31 December 2015</b>		<b>1,255,242</b>	<b>13,982,355</b>	<b>15,237,597</b>

  
 Mirzaliyev M.T.  
 Acting President

10 February 2016



  
 Kapizova D.T.  
 Chief Accountant

10 February 2016




**Kedentransservice Joint Stock Company and Its Subsidiary**  
**Consolidated Statement of Cash Flows**  
**For the Year Ended 31 December 2015**

<i>In thousands of Kazakhstani Tenge</i>	<b>Note</b>	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>			
Profit before income tax		<b>6,680,866</b>	<b>3,835,488</b>
Adjustments for:			
Finance costs	31	91,112	84,376
Finance income	32	(44,927)	(14,729)
Dividend income		-	(1,416)
Depreciation and amortization	7,9	911,985	894,226
Allowance for doubtful accounts	30	407,684	69,821
Provision for unused vacation and payment of bonuses	29, 30	583,673	498,478
Effect from revaluation of investment property		26,391	(3,276)
Reversal of provision for slow-moving inventories	12	3,784	(504)
Provisions for employee benefits	29, 30	101,500	-
Loss on disposal of property, plant and equipment	34	19,827	1,027
Loss from impairment of property, plant and equipment	7	198,921	438,235
Reversal of impairment of property, plant and equipment	7	-	(18,822)
Provision for legal claims	30	302,682	-
Income from write-off of accounts payable	33	(55,624)	-
Foreign exchange translation differences		(864,360)	(46,102)
<b>Operating income before changes in working capital</b>		<b>8,363,514</b>	<b>5,736,802</b>
(Increase)/decrease in trade receivables and receivables from related parties		(1,126,558)	240,962
(Decrease)/increase in advances given		225,865	(158,082)
Increase in taxes receivable		(3,520)	(73,101)
(Increase)/decrease in other receivables		(86,890)	5,407
Increase in inventories		(343,574)	(126,344)
Increase/(decrease) in trade payables and payables to related parties		1,030,411	(2,140)
Decrease in other payables and accrued liabilities		(343,707)	(2,150)
Increase in advances received		217,014	110,077
Increase/(decrease) in taxes payable		1,514	(17,644)
<b>Cash received from operating activities</b>		<b>7,934,069</b>	<b>5,713,787</b>
Income tax paid		(1,233,080)	(904,328)
Interest paid		(91,817)	(83,522)
Interest received		26,774	10,576
<b>Net cash received from operating activities</b>		<b>6,635,946</b>	<b>4,736,513</b>
<b>Cash flows from investing activities:</b>			
Purchases of property, plant and equipment and advances given for property, plant and equipment	7, 10	(1,353,525)	(3,150,286)
Proceeds from sale of property, plant and equipment		19,452	66,000
Purchase of intangible assets	9	(95,498)	(101,035)
Investing into long-term financial investments		-	(550,160)
Investing into short-term financial investments		(2,176,343)	(540,271)
Proceeds from long-term financial investments		550,160	-
Proceeds from short-term financial investments		-	808,878
Repayment of finance lease liabilities		(115,608)	(137,662)
Restricted cash		-	(22,000)
Interest received		8,829	4,153
Dividends received		-	1,416
<b>Net cash used in investing activities</b>		<b>(3,162,533)</b>	<b>(3,620,967)</b>
<b>Cash flows from financial activities:</b>			
Dividends paid	20	(1,189,091)	(963,561)
Proceeds from borrowings		-	203,296
Repayment of borrowings		(199,361)	(3,935)




**Kedentransservice Joint Stock Company and Its Subsidiary**  
**Consolidated Statement of Cash Flows**  
**For the Year Ended 31 December 2015**

<i>In thousands of Kazakhstani Tenge</i>	Note	2015	2014
Net cash used in financing activities		(1,388,452)	(764,200)
Net increase in cash and cash equivalents		2,084,961	351,346
CASH AND CASH EQUIVALENTS at the beginning of the period	18	1,125,010	773,664
Effect of exchange rate change on cash and cash equivalents		827,063	-
CASH AND CASH EQUIVALENTS at the end of the period	18	4,037,034	1,125,010

  
 Mirzaliyev M.T.  
 Acting President

10 February 2016



  
 Kapizova D.T.  
 Chief Accountant

10 February 2016



# GLOSSARY

<b>SC</b>	stock company
<b>JSC</b>	joint-stock company
<b>NC KTZ JSC</b>	National Company Kazakhstan Temir Zholy JSC
<b>AMP</b>	administrative and managerial personnel
<b>PUC</b>	public utility company
<b>TEU</b>	twenty-foot equivalent unit conventional unit of measure of cargo vehicle capacity
<b>EBITDA</b>	Earnings Before Interest, Taxes, Depreciation and Amortization
<b>EU</b>	European Union
<b>RW</b>	railway
<b>PRC</b>	People's Republic of China
<b>KDTS</b>	Kedentransservice JSC
<b>KTZ</b>	Kazakhstan Temir Zholy
<b>KPI</b>	key performance indicators
<b>MNE</b>	Ministry of National Economy
<b>IEC</b>	International Electrotechnical Commission
<b>NP</b>	non-commercial partnership
<b>OJSC</b>	open joint-stock company
<b>ALE</b>	association of legal entities
<b>UTLC</b>	United Transport and Logistics Company
<b>PLC</b>	public limited company
<b>MPE</b>	maximum permissible emission
<b>RK</b>	Republic of Kazakhstan
<b>RF</b>	Russian Federation
<b>TSW</b>	temporary storage warehouse
<b>BoD</b>	Board of Directors
<b>LLP</b>	limited liability partnership
<b>THK LLP</b>	Transport Holding of Kazakhstan LLP
<b>TEU</b>	twenty-foot equivalent unit



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