ҚАЗТЕМІРТРАНС

JOINT STOCK COMPANY KAZTEMIRTRANS

Consolidated Financial Statements
for the year ended 31 December 2016

JOINT STOCK COMPANY KAZTEMIRTRANS

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JOINT STOCK COMPANY KAZTEMIRTRANS

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Management of Joint Stock Company Kaztemirtrans ("the Company") is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of the Company and its subsidiaries (jointly "the Group") as at 31 December 2016, and the consolidated financial results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the Group's consolidated financial statements comply with IFRS;
- maintaining statutory accounting records in compliance with legislation of the Republic of Kazakhstan and IFRS;
- taking such steps as are reasonably available to them to safeguard the Group's assets; and
- detecting and preventing fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2016 were approved by management of Joint Stock Company Kaztemirtrans on 20 February 2017.

On behalf of Group's management:

E.B. Iskakov **Acting President**	**E.M. Akhmurzin** **Acting Vice-President of Finance**	**D.T. Kapizova** **Acting Chief Accountant**
20 February 2017	20 February 2017	20 February 2017

Astana, Republic of Kazakhstan

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of JSC Kaztemirtrans

Opinion

We have audited the consolidated financial statements of JSC Kaztemirtrans and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's consolidated financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Alua Yessimbekova
Engagement Partner
Certified Public Accountant
New Hampshire, USA
License No.07348
dated 12 June 2014

Daulet Kuatbekov
Qualified Auditor
of the Republic of Kazakhstan
Certificate No.0000523
dated 15 February 2002

DELOITTE, LLP

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

Nurlan Bekenov
General Director
Deloitte LLP

20 February 2017
Almaty, Republic of Kazakhstan

JOINT STOCK COMPANY KAZTEMIRTRANS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

(in thousands of tenge)

	Notes	31 December 2016	31 December 2015
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	6	353,412,403	377,783,518
Intangible assets		448,740	615,248
Investments in joint ventures	7	-	3,464,364
Other non-current assets	8	1,881,219	4,283,091
Deferred tax asset	18	390,572	272,976
Total non-current assets		**356,132,934**	**386,419,197**
CURRENT ASSETS			
Current portion of long-term loans provided	9	-	119,864,840
Inventories	10	5,150,651	4,582,994
Trade accounts receivable	11	10,112,794	5,756,979
Other financial assets	12	99,270	6,088,314
Prepaid income tax		133,184	89,376
Other prepaid taxes	13	2,277,275	2,807,482
Other current assets	14	1,772,879	9,392,954
Cash and cash equivalents	15	955,711	5,835,467
		20,501,764	154,418,406
Non-current assets held for sale	16	8,667,579	5,119,899
Total current assets		**29,169,343**	**159,538,305**
TOTAL ASSETS		**385,302,277**	**545,957,502**
EQUITY			
Share capital	17	67,726,866	67,726,866
Foreign currency translation reserve		107,775	67,015
Accumulated deficit		(229,614,041)	(214,890,398)
Equity deficit attributable to the shareholder of the Parent		(161,779,400)	(147,096,517)
Non-controlling interests		(526,365)	(182,057)
TOTAL EQUITY DEFICIT		**(162,305,765)**	**(147,278,574)**
NON-CURRENT LIABILITIES			
Deferred tax liabilities	18	7,475,803	10,733,365
Long-term loans	19	454,242,480	527,730,859
Employee benefit obligations		322,835	306,045
Finance lease liabilities		-	162,622
Total non-current liabilities		**462,041,118**	**538,932,891**
CURRENT LIABILITIES			
Current portion of long-term loans	19	68,966,340	19,581,274
Current portion of debt securities issued	20	-	120,045,700
Current portion of finance lease liabilities		-	66,470
Current portion of employee benefit obligations		19,060	18,014
Trade accounts payable	21	9,236,289	7,622,187
Taxes payable and obligatory payments to budget	22	1,199,103	1,831,782
Other current liabilities	23	2,508,044	5,137,758
		81,928,836	154,303,185
Liabilities directly associated with the assets classified as held for sale	16	3,638,088	-
Total current liabilities		**85,566,924**	**154,303,185**
TOTAL LIABILITIES AND EQUITY		**385,302,277**	**545,957,502**

E.B. Iskakov
Acting President

20 February 2017

E.M. Akhmurzin
Acting Vice-President of Finance

20 February 2017

D.T. Kapizova
Acting Chief Accountant

20 February 2017

The notes on pages 10-46 are an integral party of these consolidated financial statements. The independent auditor's report is on pages 2-4.

JOINT STOCK COMPANY KAZTEMIRTRANS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousands of tenge)

	Notes	2016	2015
Revenue from services provided	24	81,268,806	78,813,688
Cost of sales	25	(67,402,055)	(63,351,548)
Gross profit		**13,866,751**	**15,462,140**
General and administrative expenses	26	(9,602,864)	(9,518,891)
Finance income	27	4,050,313	6,760,645
Finance costs	28	(38,464,806)	(30,877,406)
Foreign exchange gain/(loss)	31	9,670,999	(225,226,146)
Share of gain from revaluation of contribution in joint venture		-	434,871
Share of profit of a joint venture	7	1,118,752	1,090,683
Other income		1,245,893	544,398
Loss before income tax		**(18,114,962)**	**(241,329,706)**
Corporate income tax benefit	18	3,052,536	2,322,027
Loss for the year		**(15,062,426)**	**(239,007,679)**
Other comprehensive income/(loss):			
Other comprehensive loss that will not be reclassified subsequently to profit or loss:			
Actuary income/(loss) on a fixed payment pension plan		29,576	(17,325)
Other comprehensive income that may be reclassified subsequently to profit or loss:			
Exchange differences from translating foreign operations into the reporting currency		45,341	74,461
Other comprehensive income for the year		74,917	57,136
Total comprehensive loss for the year		**(14,987,509)**	**(238,950,543)**
Loss for the year attributable to:			
Shareholder of the Parent		(14,753,219)	(238,659,358)
Non-controlling interests		(309,207)	(348,321)
		(15,062,426)	**(239,007,679)**
Total comprehensive loss for the year attributable to:			
Shareholder of the Parent		(14,678,302)	(238,609,767)
Non-controlling interests		(309,207)	(340,776)
		(14,987,509)	**(238,950,543)**

E.B. Iskakov
Acting President

20 February 2017

E.M. Akhmurzin
Acting Vice-President of Finance

20 February 2017

D.T. Kapizova
Acting Chief Accountant

20 February 2017

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousands of tenge)

	Share capital	Foreign currency translation reserve	Retained earnings/ (accumulated deficit)	Total equity/(equity deficit) attributable to shareholder of the Parent	Non-controlling interests	Total equity/ (equity deficit)
At 1 January 2015	**67,726,866**	**-**	**23,786,384**	**91,513,250**	**158,719**	**91,671,969**
Loss for the year	-	-	(238,659,358)	(238,659,358)	(348,321)	(239,007,679)
Other comprehensive loss for the year	-	67,015	(17,424)	49,591	7,545	57,136
Total comprehensive income/(loss) for the year	-	67,015	(238,676,782)	(238,609,767)	(340,776)	(238,950,543)
At 31 December 2015	**67,726,866**	**67,015**	**(214,890,398)**	**(147,096,517)**	**(182,057)**	**(147,278,574)**
Loss for the year	-	-	(14,753,219)	(14,753,219)	(309,207)	(15,062,426)
Other comprehensive income/(loss) for the year	-	40,760	29,576	70,336	4,581	74,917
Total comprehensive income/(loss) for the year	-	40,760	(14,723,643)	(14,682,883)	(304,626)	(14,987,509)
Dividends	-	-	-	-	(39,682)	(39,682)
At 31 December 2016	**67,726,866**	**107,775**	**(229,614,041)**	**(161,779,400)**	**(526,365)**	**(162,305,765)**

E.B. Iskakov
Acting President

20 February 2017

E.M. Akhmurzin
Acting Vice-President of Finance

20 February 2017

D.T. Kapizova
Acting Chief Accountant

20 February 2017

The notes on pages 10-46 are an integral party of these consolidated financial statements. The independent auditor's report is on pages 2-4.

1. GENERAL INFORMATION

Joint Stock Company Kaztemirtrans ("the Company") was founded according to the decision of the Board of Directors of JSC National Company Kazakhstan temir zholy, the Company's sole shareholder ("the Parent" or "JSC NC KTZ"). The Company was registered on 21 October 2003, however, the capital was paid in several instalments starting from 14 November 2003 ("the Inception Date"), and the Company started its operations since this date.

The Company's principal activity is to provide carriages operator services, rent of carriages, and provide transportation and forwarding services in the Republic of Kazakhstan and abroad. The Company is the owner of a fleet of freight carriages in the Republic of Kazakhstan.

The Company has a dominant (monopolistic) market position as a platform and carriage operator; rent of railway carriages and operates according to the Law of the Republic of Kazakhstan "On Competition and the Regulation of Monopolistic Activities".

The Company's sole shareholder is Kazakhstan temir zholy National Company JSC ("KTZ" or "the Shareholder"). The Government as represented by Samruk-Kazyna National Welfare Fund JSC is the Company's ultimate shareholder. Detailed information on related party transactions is presented in Note 32.

The consolidated financial statements include the financial results of the operations of the Company and its subsidiaries listed in Note 30. The Company and its subsidiaries are hereinafter referred to as "the Group".

In 2016, the Group's average number of employees was 2,011 people (2015: 2,053 people).

The Company's legal address is: Republic of Kazakhstan, Astana, 010000, Kunayev Street 10.

The consolidated financial statements were approved for issue by the Company's management presented by the Acting President, Acting Vice-President of Economics and Finance, and Acting Chief Accountant on 20 February 2017.

2. BASIC PRINCIPLES OF PREPARATION

Statement of compliance

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

Going concern

The consolidated financial statements of the Group have been prepared on a going concern basis. However, as at 31 December 2016, the Group's negative working capital and equity deficit amounted to 59,397,581 thousand tenge and 162,305,765 thousand tenge, respectively. Also, for the year ended 31 December 2016, net loss and net cash used in operating activities of the Group amounted to 15,062,426 thousand tenge and 4,783,549 thousand tenge, respectively.

The management believes that the Group will be able to realise its assets and repay its liabilities in the normal course of business, as the management has developed the following measures, including:

- Management of the Group has developed a debt portfolio management policy for 2016-2020, according to which the Group plans to refinance the loan of JSC National Welfare Fund Samruk-Kazyna for 10 years in 2017. Management of the Group has already restructuring arrangements with the Parent.

- Also, management of the Group has reached an agreement to restructure EBRD loans, including a loan to the Parent company. According to the agreement, EBRD loans issued to the Group and the EBRD loan to the Parent company were restructured and combined into one. The loan interest rate is 4.35% + 6-month LIBOR, taking into account agreement adjustments. The loan repayment date is 24 July 2026.
- All loans of the Group are guaranteed by the Parent company, or together with its Parent, the Group represent the borrowers in the loan agreements;
- The Parent provided a support letter, which confirms the intention to provide financial and operational support to the Group. Management believes that with this support, the Group is able to achieve an adequate level of operational profit.

In assessing its going concern basis, the management have considered the Group's financial position, expected future financial performance, its borrowings, available credit facilities and its capital expenditure commitments, considerations of tariffs, currency exchange rates and other risks facing the Group. Based on the analysis performed, management of the Group believes that the consolidated financial statements do not require any adjustments to the carrying amount of assets and liabilities, income and expenses and classifications of consolidated statement of financial position, which may be requested as a consequence of the events in question.

3. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Adoption of new and revised standards

The following new and revised standards have become effective starting from 1 January 2016:

- Amendments to IAS 1 Disclosure Initiative;
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation;
- Annual Improvements to IFRSs 2012-2014 Cycle.

The amendments to IAS 1 clarify how to apply the concept of materiality in practice, how to present the lines and totals in statements of financial position, profit or loss and other comprehensive income. In addition, the amendments clarify that management can determine the procedure for presenting notes to the financial statements.

In particular, the Group has reconsidered:

- Disclosed information for materiality, since the inclusion of immaterial data in the financials may reduce the usefulness of the disclosed material financial information;
- Key accounting policies to disclose certain transactions and events specific to the Group, when such policies are selected from the accounting alternatives provided for in IFRS.

The Group believes that these amendments will improve the quality, clarity and usefulness of these consolidated financial statements.

Standards and Interpretations in issue but not yet effective

The Group has not applied the following new and revised IFRSs that are in issue, but not yet effective:

New or revised standards and interpretations	Effective for annual periods beginning on or after [1]
IFRS 9 *Financial Instruments*	1 January 2018
IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
IFRS 16 *Leases*	1 January 2019
Amendments to IFRS 10 and IAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Date to be determined by the IASB[2]
Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017

[1] Early adoption is permitted for all new or amended standards and interpretations. IFRS 16 can be early adopted if IFRS 15 *Revenue from Contracts with Customers* has also been applied.

[2] The amendment was initially issued in September 2014 with the effective date on 1 January 2016. In December 2015, the IASB deferred the effective date of the amendments indefinitely until the research project on the equity method has been concluded.

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared based on the assumption that the Group will continue as a going concern.

These consolidated financial statements are presented in thousands of tenge, unless otherwise indicated.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at each reporting date, as explained below.

Historical cost is usually determined based on the fair value of the consideration given in exchange for goods and services.

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

In addition, for financial reporting purposes, fair value measurements are categorised by levels based on the degree to which inputs to fair value measurements are observable and their significance:

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

The Company and its subsidiaries registered on the territory of the Republic of Kazakhstan maintain accounting records in accordance with IFRS, and foreign subsidiaries prepare their financials in accordance with the requirements of the countries, in which they operate. These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

Functional currency and presentation currency

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

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

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into tenge using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the reporting date of the consolidated statement of financial position. All currency differences arising from the change in exchange rates subsequent to the date of a transaction are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries disclosed in Note 30.

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

Investments in joint ventures are accounted for using the equity method.

Gains or losses on transactions with a joint venture are recognised in the Group's financial statements only to the extent of a share in a joint venture not owned by the Group.

Inventories

Inventory largely comprises items that are used in the process of operations to support the use of rolling stock, to manufacture finished products (freight carriages) and not for trading purposes.

Inventories are valued at the lower of cost or net realisable value. Costs comprise charges incurred in bringing inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. Inventories are accounted for using the weighted average cost method.

Non-current assets and disposal groups classified as held for sale

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

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

Property, plant and equipment

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

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs, which have been incurred in bringing the assets to the location and condition necessary for their intended use.
The value of assets constructed by the Group includes the cost of all materials used in construction, direct labour costs, financing costs that are directly attributable to the project, and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised as soon as an asset is ready for its intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of an asset (calculated as the difference between net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss and other comprehensive income in the year when the asset is derecognised.

The carrying value of an asset, useful life and methods are revised and adjusted, when necessary, at the end of each financial year.

Subsequent costs

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

All other subsequent costs, such as repair and maintenance costs are expensed as incurred.

Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as applied to current and comparative years.

Impairment of property, plant and equipment

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

Construction in progress

The cost of the Group's own construction facilities includes the cost of all materials used during construction, direct labor costs for the project and financing costs directly related to the project, as well as variable and fixed overhead costs in a certain proportion. Capitalization of costs ceases as soon as the facility is ready for planned use.

Subsequent costs

Maintenance costs that occur during the useful life of the asset (regular maintenance work to maintain the asset in good condition), as well as repair costs (technical inspections, maintenance contracts, etc.) are recognised as operating expenses.

Only the costs that meet the characteristics of asset recognition in accordance with IAS 16 Property, Plant and Equipment are capitalised.

Borrowing costs

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

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

Equity

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

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

Recognition of revenue and expenses

Recognition of revenue

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

Revenue from carriage operator services

Revenue from carriage operator services is recognised at the moment when carriages are transferred to the use of a customer.

Prepayments received from customers for transportation services that have not yet been provided are recorded as advances received from customers at the moment of its receipt. Prepayment is recognised as revenue as services are provided.

Revenue from rent of carriages

Revenue from rent of carriages is recognised based on the actual number of days freight carriages rent.

Recognition of expenses

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

Taxes

Current income tax

Tax assets and liabilities for current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to calculate the amounts in question are those that are enacted or substantively enacted as at the date of a consolidated statement of financial position.

Deferred income tax

Deferred income tax is tax that will be paid or refunded to the value of the difference between the carrying amount of assets and liabilities in consolidated financial statements and the relevant tax base used to calculate taxable profit, and is calculated using the liability method.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised in the consolidated statement of financial position if the temporary differences arise from goodwill or from initial recognition of other assets and liabilities in a transaction (except transactions on business combinations) that affects neither taxable profit nor accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the date of the consolidated statement of financial position.

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

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

Leases

Operating lease

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

Provisions

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

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position of the Group when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

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

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

HTM investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, HTM investments are measured at amortised cost using the effective interest method less any impairment.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash, and others) are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Issued financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are initially recognised at fair value less transaction costs. Subsequently they are measured at amortised cost using the effective interest method.

Subsequent events

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

5. SIGNIFICANT ASSUMPTIONS AND SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any impairment indication.

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

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

(in thousands of tenge)

Due to existing indicators, the Group performed an impairment test as at 31 December 2016. The key long-term assumptions used in the calculation were deregulation of tariffs starting from 2nd quarter 2017, followed by 23% increase in tariffs with subsequent annual increases for inflation rate and pre-tax discount rate of 10.31%. Based on the results of the test no impairment was identified as at 31 December 2016.

However, the value in use estimate is sensitive to the following assumptions: discount rate, the appropriate level of sustainable maintenance costs and continuance of operations. Adverse changes to the planned growth rates of cargo traffic associated with the general trends in the economy, lack of appropriate indexation of tariffs to inflation, the continuing volatility of tenge against foreign currencies, the level of government support, as well as adverse changes in other factors in the future may lead to significant impairment losses in the period in which they occur.

Capitalisation of expenses

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

Depreciation of property, plant and equipment

Depreciation of property, plant and equipment is calculated using the straight-line method over estimated useful lives of assets. The Group determines the useful lives of its assets. The estimates of useful lives, residual values and methods of depreciation are reviewed at each reporting date and adjusted if needed. Any changes are accounted for prospectively as a change in accounting estimate. Estimates with respect to useful lives and liquidation value of assets depend on expected use, repair and maintenance programs, scope of activity, improvement in technologies and other terms of activity. As a result, changes in these estimates, depreciation charges can significantly differ from the amounts reported in prior years.

Estimated useful lives used by the Group are presented below (in years):

Buildings and constructions	10-140
Machinery and equipment	3-59
Rolling stock	10-40
Other vehicle	4-15
Other property, plant and equipment	2-20

Allowances

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

Contingent liabilities related to the Kazakhstan taxation system

Kazakhstan legislative acts and regulations are not always clearly written and their interpretation is subject to the opinions of local tax inspectors and the Ministry of Finance. Instances of inconsistent opinions between local, regional and national tax authorities are quite usual. The current regime of penalties and interest on reported and violations of laws, resolutions and regulations is severe. Penalties include the confiscation of the amounts at issue (for currency law violations), and fines of generally 50% of taxes additionally accrued. Interest is assessed at 22.5%. As a result, penalties and interest can result in amounts that are multiples of any incorrectly reported taxes resulting in an understatement.

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

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

In view of the uncertainties associated with the Kazakhstan tax system, potential taxes, penalties and interest, if any, may exceed the amount expensed to date and accrued as at 31 December 2016. It is not possible to determine the amount of unasserted claims that may arise, if any, or the likelihood of any unfavourable outcome.

(in thousands of tenge)

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery and equipment	Railway transport	Other transport	Other	Construction in progress	Total
Historical cost:								
As at 1 January 2015	38,844	6,783,302	4,592,731	472,174,368	313,770	179,893	6,019,772	490,102,680
Additions	-	-	6,704	-	-	5,030	9,883,761	9,895,495
Internal transfer	-	502,990	766,990	11,354,134	-	69,067	(12,693,181)	-
Transfer from non-current assets held for sale (Note 16)	7,917	3,602,653	4,187,572	69,564	23,122	80,348	111,173	8,082,349
Joint venture share capital contribution	-	-	-	(1,016,795)	-	-	-	(1,016,795)
Transfer to non-current assets classified as held for sale (Note 16)	(30,702)	(5,628,104)	-	(2,987,615)	-	-	-	(8,646,421)
Disposals	-	(382)	(63,718)	(562,813)	(2,800)	(14,781)	(1,461,936)	(2,106,430)
As at 31 December 2015	16,059	5,260,459	9,490,279	479,030,843	334,092	319,557	1,859,589	496,310,878
Accumulated depreciation and impairment:								
As at 1 January 2015	-	(809,910)	(1,587,706)	(96,851,972)	(149,872)	(105,954)	-	(99,505,414)
Charge for the year	-	(188,069)	(884,979)	(20,979,764)	(28,958)	(26,169)	-	(22,107,939)
Transfer from assets of disposal groups classified as held for sale (Note 16)	-	(122,583)	(1,140,259)	-	(1,339)	(25,781)	-	(1,289,962)
Joint venture share capital contribution	-	-	-	743,378	-	-	-	743,378
Transfer to non-current assets classified as held for sale (Note 16)	-	661,303	-	2,865,219	-	-	-	3,526,522
Disposals	-	36	61,227	28,083	2,800	13,909	-	106,055
As at 31 December 2015	-	(459,223)	(3,551,717)	(114,195,056)	(177,369)	(143,995)	-	(118,527,360)
Net book value at 31 December 2015	**16,059**	**4,801,236**	**5,938,562**	**364,835,787**	**156,723**	**175,562**	**1,859,589**	**377,783,518**

(in thousands of tenge)

	Land	Buildings and constructions	Machinery and equipment	Railway transport	Other transport	Other	Construction in progress	Total
Historical cost:								
As at 1 January 2016	16,059	5,260,459	9,490,279	479,030,843	334,092	319,557	1,859,589	496,310,878
Additions	-	29,968	2,150	-	-	11,508	472,522	516,148
Internal transfer	-	74,571	9,736	-	-	37,633	(121,940)	-
Transfer to non-current assets classified as held for sale (Note 16)	-	-	(8,655)	(3,523,588)	(16,004)	(21,137)	-	(3,569,384)
Disposals	-	-	(7,773)	(4,820,264)	(2,800)	(7,279)	(1,065,965)	(5,904,081)
As at 31 December 2016	16,059	5,364,998	9,485,737	470,686,991	315,288	340,282	1,144,206	487,353,561
Accumulated depreciation and impairment:								
As at 1 January 2016	-	(459,223)	(3,551,717)	(114,195,056)	(177,369)	(143,995)	-	(118,527,360)
Charge for the year	-	(98,911)	(901,707)	(19,498,193)	(27,105)	(30,645)	-	(20,556,561)
Transfer to non-current assets classified as held for sale (Note 16)	-	-	7,223	966,855	-	7,625	-	981,703
Disposals	-	-	7,641	4,134,897	11,374	7,148	-	4,161,060
As at 31 December 2016	-	(558,134)	(4,438,560)	(128,591,497)	(193,100)	(159,867)	-	(133,941,158)
Net book value at 31 December 2016	**16,059**	**4,806,864**	**5,047,177**	**342,095,494**	**122,188**	**180,415**	**1,144,206**	**353,412,403**

(in thousands of tenge)

During the year ended 31 December 2016, the Group did not purchase freight carriages (2015: purchased 857 freight carriages for 11,354,134 thousand tenge).

As at 31 December 2016, the cost of fully depreciated property, plant and equipment amounted to 3,949,451 thousand tenge (31 December 2015: 5,717,350 thousand tenge).

7. INVESTMENTS IN JOINT VENTURES

	2016	2015
Cost of investments at 1 January	3,464,364	3,024,081
Share of profit of a joint venture	749,608	1,090,683
Group's contribution to the share capital of a joint venture in the form of property, plant and equipment	-	273,417
Dividends	(708,718)	(1,358,688)
Share of profit from the revaluation of property, plant and equipment transferred to the charter capital of a joint venture	369,144	434,871
Cost of investments at 31 December	3,874,398	3,464,364
Reclassification of investments in non-current assets held for sale (Note 16)	(3,874,398)	-
Cost of investments at 31 December	**-**	**3,464,364**

Information on the Group's joint ventures at 31 December 2016 was as follows:

Name	Nature of activity	Place of activities/ place of registration	Share	Voting share
ROSSKAZZHELDORTRANS LLC	Overseas freight forwarding	Russian Federation	50%	50%
JSC Astyk Trans	Grain transportation	Republic of Kazakhstan	50%	50%

As at 31 December 2016 and 2015, ROSSKAZZHELDORTRANS LLC does not carry out activities and the cost of investments is nil.

As at 31 December 2016, the Group classified investments in the joint venture, JSC Astyk Trans in non-current assets held for sale due to the planned sale of 50% share in this entity in 2017.

(in thousands of tenge)

Summary financial information in relation to the joint venture JSC Astyk Trans as at 31 December:

	31 December 2016	31 December 2015
Current assets, including	9,208,863	8,749,928
Cash and cash equivalents	*244,557*	*1,267,603*
Non-current assets	2,579,074	1,225,593
Total assets	12,032,494	9,975,521
Current liabilities	4,260,606	2,948,695
Non-current liabilities	23,092	98,098
Total liabilities	4,283,698	3,046,793
Total net assets	7,748,796	6,928,728
Ownership interest	50.00%	50.00%
Net assets of a joint venture attributable to the Group	3,874,398	3,464,364
Carrying value of investments	3,874,398	3,464,364
Revenue	19,671,787	16,596,757
Depreciation and amortisation	(1,062,309)	(2,462,498)
Finance income	677,505	430,815
Corporate income tax expenses	(729,268)	(401,004)
Profit for the year and total comprehensive income	1,499,215	2,181,365
Group's share in the joint venture's total comprehensive income	749,608	1,090,683

8. OTHER NON-CURRENT ASSETS

	31 December 2016	31 December 2015
Value added tax recoverable	965,906	3,066,246
Other non-current accounts receivable	426,294	483,861
Advances to suppliers and contractors	489,019	474,194
Non-current prepaid expenses	138,116	361,100
	2,019,335	4,385,401
Less: impairment of advances to suppliers and contractors	(138,116)	(102,310)
	1,881,219	4,283,091

(in thousands of tenge)

9. LOANS PROVIDED

	Maturity date	Annual interest rate, %	2016 US Dollars	2016 thousand tenge	2015 US Dollars	2015 thousand tenge
JSC NC KTZ	11 May 2016	7.8433%	-	-	324,000,000	109,988,280
JSC KTZ-Freight Transportations (JSC Locomotive until June 2016)	11 May 2016	7.8433%	-	-	26,000,000	8,826,220
Including/(less):						
Fair value adjustments of loans			-	-	(358,079)	(121,558)
Accrued interest			-	-	3,452,141	1,171,898
Total loans given			-	-	353,094,062	119,864,840
Less current portion			-	-	(353,094,062)	(119,864,840)
			-	-	-	-

In May 2006, Kazakhstan Temir Zholy Finance B.V. (hereinafter – "the Issuer" or "KTZ Finance B.V."), a subsidiary of the Company, issued Eurobonds and granted long-term loans to KTZ and its subsidiary JSC KTZ-Freight Transportations.

In May 2016, these loans were repaid.

For the year ended 31 December 2016, interest income amounted to 3,361,926 thousand tenge (2015: 6,086,858 thousand tenge) (Note 27).

10. INVENTORIES

	31 December 2016	31 December 2015
Spare parts	4,255,514	3,529,887
Materials and supplies	478,305	580,257
Other	416,832	472,850
	5,150,651	4,582,994

11. TRADE ACCOUNTS RECEIVABLE

	31 December 2016	31 December 2015
Trade accounts receivable	10,733,575	7,190,854
Less: Allowance for doubtful debts	(620,781)	(1,433,875)
	10,112,794	5,756,979

At 31 December 2016, trade receivables for services rendered to related parties comprised 25% (2015: 57.6%) of the Group's total trade receivables. Amounts of trade receivables from related parties are disclosed in Note 32.

As at 31 December 2016 and 2015, trade receivables mainly included amounts from buyers from the Republic of Kazakhstan.

(in thousands of tenge)

The following is an aging analysis of unimpaired trade receivables as at 31 December:

	31 December 2016	31 December 2015
Less than 60 days	9,548,329	5,651,390
60-90 days	31,377	101,744
91-120 days	533,088	3,845
Total	10,112,794	5,756,979

Presented below is an analysis of age of impaired accounts receivable as at 31 December:

	31 December 2016	31 December 2015
60-90 days	4,247	366
91-120 days	270	7,091
over 121 days	616,264	1,426,418
Total	620,781	1,433,875

As at 31 December, the Group's trade accounts receivable were denominated in the following currencies:

	31 December 2016	31 December 2015
Tenge	10,025,483	5,367,792
Russian Roubles	64,130	388,126
US Dollars	23,181	1,061
	10,112,794	5,756,979

The movement in the allowance for trade accounts receivable for the years ended 31 December are as follows:

	2016	2015
Allowance for doubtful debts at the beginning of the year	(1,433,875)	(546,439)
Recovery/(accrued) for the year	813,094	(887,436)
Allowance for doubtful debts at the end of the year	(620,781)	(1,433,875)

12. OTHER FINANCIAL ASSETS

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

	31 December 2016		31 December 2015	
	Interest rate	Thousand tenge	Interest rate	Thousand tenge
JSC Tsesnabank	4.0%	66,658	5.3%	6,015,253
JSC Eurasian Bank	-	-	5.3%	68,003
JSC Sberbank	3.0%	18,331	13.5%	5,000
		84,989		6,088,256
Accrued interest		14,281		58
		99,270		6,088,314

(in thousands of tenge)

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

	31 December 2016	31 December 2015
US Dollars	99,270	6,083,256
Tenge	-	5,058
	99,270	6,088,314

13. OTHER PREPAID TAXES

	31 December 2016	31 December 2015
Value added tax recoverable	2,274,497	2,801,729
Taxes recoverable other than income tax	2,778	5,753
	2,277,275	2,807,482

14. OTHER CURRENT ASSETS

	31 December 2016	31 December 2015
Other accounts receivable	1,484,834	5,738,935
Advances paid to suppliers	928,088	4,403,388
Prepaid expenses	209,894	172,305
	2,622,816	10,314,628
Less: Allowance for doubtful debts	(849,937)	(921,674)
	1,772,879	9,392,954

As at 31 December 2016 and 2015, other current assets were denominated in tenge.

The movement in the allowance for other current assets for the years ended 31 December were as follows:

	2016	2015
Allowance for doubtful debts at the beginning of the year	(921,674)	(479,721)
Recovery/(accrued) for the year	71,737	(441,953)
Allowance for doubtful debts at the end of the year	(849,937)	(921,674)

(in thousands of tenge)

15. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash in bank accounts in tenge	653,076	371,564
Cash in bank accounts in US Dollars	140,913	1,459,960
Cash in bank accounts in Russian Roubles	138,632	513,941
Cash in bank accounts in Euro	23,090	73,162
Short-term deposits in tenge	-	3,416,840
	955,711	5,835,467
Cash included in non-current assets classified as held for sale	277,467	-
	1,233,178	5,835,467

16. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	31 December 2016	31 December 2015
50% share in JSC Astyk Trans	3,874,398	-
90% share in LLC Regional Forward Logistics (LLC RFL)	3,303,572	-
100% share in JSC Centre of Transportation Services (JSC CTS)	1,326,057	-
Freight carriages held for sale	163,552	122,397
Emerald Quarter administrative building	-	4,997,502
	8,667,579	5,119,899
Liabilities associated with non-current assets held for sale	(3,638,088)	-
Total	5,029,491	5,119,899

On 30 December 2016 online bids took place to sell interest in JSC Astyk Trans, LLC RFL and JSC CTS. As at 31 December 2016, the Group reclassified investments in subsidiaries and in a joint venture to non-current assets held for sale.

On 29 December 2015, the Group entered into a purchase and sale agreement for an interest in the Emerald Quarter administrative building. In 2016, ownership rights were transferred to the buyer of the administrative building and the outstanding amount of 4,997,502 thousand tenge was repaid.

Non-current assets held for sale and liabilities associated with non-current assets held for sale are presented as follows:

	LLC RFL 31 December 2016	JSC CTS 31 December 2016	Total 31 December 2016
Property, plant and equipment	11,340	593,380	604,720
Intangible assets	-	449	449
Inventories	-	3,134	3,134
Trade accounts receivable	2,435,081	161,255	2,596,336
Income tax prepaid	72,215	163,762	235,977
Other taxes prepaid	684	293,581	294,265
Other current assets	579,865	37,416	617,281
Cash and cash equivalents	204,387	73,080	277,467
Assets held for sale	**3,303,572**	**1,326,057**	**4,629,629**
Deferred income tax liabilities	-	(283,037)	(283,037)
Current portion of liabilities under long-term loans	-	(55,046)	(55,046)
Current portion of liabilities under employee benefit obligations	(9,942)	(4,791)	(14,733)
Trade accounts payable	(2,704,954)	(154,229)	(2,859,183)
Other taxes payable and obligatory payments to budget	(198,796)	(81,006)	(279,802)
Other current liabilities	(118,058)	(28,229)	(146,287)
Liabilities related to assets held for sale	**(3,031,750)**	**(606,338)**	**(3,638,088)**
Net assets classified as held for sale	**271,822**	**719,719**	**991,541**

17. SHARE CAPITAL

	Number of shares authorised for issue	Issued, number of shares	Par value, in tenge	Share capital, in thousands of tenge
At 31 December 2016	123,000,000	62,303,295	1,000	67,726,866
At 31 December 2015	123,000,000	62,303,295	1,000	67,726,866

Share capital of the Company was formed through issuances of shares based on the decision of the Parent. The shares have been paid by assets, mainly, freight carriages.

(in thousands of tenge)

18. INCOME TAX

	2016	2015
Current income tax expenses	115,769	158,462
Adjustment in respect of prior years	(76,184)	742,936
Deferred income tax benefit	(3,092,121)	(3,223,425)
	(3,052,536)	(2,322,027)

A reconciliation of income tax benefit, calculated based on loss before tax at the statutory income tax rate, with income tax expenses is provided below:

	2016	2015
Loss before income tax	(18,114,962)	(241,329,706)
Official tax rate	20%	20%
Theoretical tax benefit at the statutory income tax rate	(3,622,992)	(48,265,941)
Tax effect of expenses that are not deductible for tax purposes:		
Adjustment in respect of previous years	(76,184)	742,936
Non-deductible expenses	9,552,799	4,008,763
Change in unrecognized deferred tax assets	(8,906,158)	41,192,215
Income tax benefit recognised through profit or loss	(3,052,536)	(2,322,027)

Deferred tax balances calculated by applying the statutory tax rates in effect at the respective reporting dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the consolidated financial statements, are as follows at 31 December:

	2016	2015
Deferred tax assets:		
Tax losses carried forward	44,749,899	39,050,382
Trade accounts receivable	124,506	286,775
Discount on loan receivables	185,105	151,236
Accrued liabilities to employees	37,394	45,224
Other	215,668	21,437
	45,312,572	39,555,054
Deferred tax liabilities:		
Property, plant and equipment and other non-current assets	(52,272,751)	(49,892,209)
Other	(125,052)	(123,234)
	(52,397,803)	(50,015,443)
Total net deferred tax liabilities	**(7,085,231)**	**(10,460,389)**

Movement in temporary differences during the year:

	2016	2015
Net deferred income tax liability at the beginning of the year	10,460,389	13,709,695
Transfer from liabilities of discontinued operations classified as assets held for sale	-	(25,881)
Transfer to liabilities associated with assets held for sale (Note 16)	(283,037)	-
Recorded in profit or loss	(3,092,121)	(3,223,425)
Net deferred income tax liability at the end of the year	**(7,085,231)**	**10,460,389**

In 2016, the Group recognised deferred tax assets related to indexation of liabilities on intragroup loans to 8,906,158 thousand tenge, in portion that will be used in future, in 10 years (2015: the Group did not recognise deferred tax assets related to indexation of liabilities on intragroup loans of 41,192,215 thousand tenge).

(in thousands of tenge)

The following is the analysis of deferred tax assets and liabilities presented in the consolidated statement of financial position:

	31 December 2016	31 December 2015
Deferred income tax assets	390,572	272,976
Deferred income tax liabilities	(7,475,803)	(10,733,365)
Deferred tax liabilities included in liabilities associated with assets held for sale	(283,038)	-
	(7,368,269)	(10,460,389)

Deferred tax asset relates to subsidiary Kazakhstan Carriage Construction Company LLP.

19. LONG-TERM LOANS

As at 31 December, long-term loans, including interest, included:

	Maturity date	Interest rate	31 December 2016	31 December 2015
Long-term loans:				
JSC NC KTZ				
Loan 1	10 July 2042	6.95%	266,020,915	270,956,396
Loan 2	10 July 2042	5.578%	66,658,000	67,894,000
Loan 3	6 October 2020	6.375%	96,585,693	98,359,671
JSC NWF Samruk-Kazyna	15 September 2017	7.2%	60,000,000	60,000,000
European Bank for Reconstruction and Development ("EBRD"):				
Loan	24 July 2026	LIBOR + 4.35%	29,011,520	-
Loan 1	13 April 2020	US Dollars LIBOR 6-month deposits + 3.25%	-	10,159,499
Loan 2	10 November 2018	US Dollars LIBOR 3-month deposits + 2.95%	-	32,544,245
JSC ATF Bank:				
Loan 1	20 September 2017	KAZPRIME+ 6.5%	642,856	642,856
Loan 2	4 December 2017	US Dollars LIBOR 6-month deposits + 8.37%	2,348,492	2,395,842
Interest payable			1,941,344	4,359,624
			523,208,820	547,312,133
Less current portion			(68,966,340)	(19,581,274)
			454,242,480	**527,730,859**

As at 31 December 2016 and 2015, loans according to maturity dates were represented as follows:

Within:	2016	2015
1 to 2 years	2,623,585	74,203,708
2 to 3 years	2,623,585	13,084,934
3 to 4 years	2,623,585	2,254,081
4 to 5 years	2,623,585	1,127,040
over 5 years	443,748,140	437,061,096
Total	454,242,480	527,730,859

(in thousands of tenge)

As at 31 December, the Group's long-term loans were denominated in the following currencies:

	2016	2015
US Dollars	462,194,294	486,477,277
Tenge	61,014,526	60,834,856
	523,208,820	547,312,133

On 22 December 2016, the Group, the Parent and EBRD concluded an agreement to restructure loans. According to the agreement, EBRD loans issued to the Group and the EBRD loan to the Parent were restructured and combined into one. The loan interest rate is 4.35% + 6-month LIBOR, taking into account agreement adjustments. The loan maturity date is 24 July 2026.

20. DEBT SECURITIES ISSUED

	Maturity date	Annual interest rate, %	31 December 2016	31 December 2015
Eurobonds issued at 98.292%- Tranche 2	11 May 2016	7%	-	119,003,306
Including:				
Discount on debt securities issued			-	(121,558)
Accrued interest on debt securities issued			-	1,163,952
Total debt securities issued			-	120,045,700
Less short-term interest due			-	(1,163,952)
Less the current portion of long-term loans			-	(118,881,748)
			-	-

On 11 May 2006, the Issuer issued two Eurobond tranches for a total of US Dollars 800,000,000 to circulate outside of the USA in accordance with Regulation S under the United States Securities Act of 1933.

In 2016 liabilities under these debt securities were repaid.

21. TRADE ACCOUNTS PAYABLE

	31 December 2016	31 December 2015
For services provided	5,376,540	4,655,912
For inventories	3,002,320	2,338,108
For supply of property, plant and equipment	857,429	628,167
	9,236,289	7,622,187

(in thousands of tenge)

As at 31 December, the Group's trade accounts payable were denominated in the following currencies:

	31 December 2016	31 December 2015
Tenge	8,595,336	6,939,993
Russian Roubles	329,451	135,908
US Dollars	299,281	535,281
Euro	12,221	11,005
	9,236,289	7,622,187

22. TAXES PAYABLE AND OBLIGATORY PAYMENTS TO BUDGET

	31 December 2016	31 December 2015
Withholding tax on non-residents	962,846	1,077,356
Value added tax payable	93,679	512,500
Other	142,578	241,926
	1,199,103	**1,831,782**

23. OTHER CURRENT LIABILITIES

	31 December 2016	31 December 2015
Advances received	1,986,878	4,468,545
Provision for unused vacation	186,970	226,120
Current payroll liabilities	64,673	30,868
Other liabilities	269,523	412,225
	2,508,044	**5,137,758**

24. REVENUE FROM SERVICES PROVIDED

	2016	2015
Revenue from carriage operator services	50,626,644	43,821,036
Revenue from rent of carriages	25,744,559	29,163,790
Revenue from freight forwarding	3,138,213	3,217,219
Other sales revenue	1,759,390	2,611,643
	81,268,806	**78,813,688**

For the year ended 31 December 2016, 92.2% of revenue from carriage operator services were generated from companies – residents of the Republic of Kazakhstan (2015: 74%).

(in thousands of tenge)

25. COST OF SALES

	2016	2015
Railway tariffs	26,739,021	24,100,165
Depreciation and amortisation	19,974,755	21,492,490
Freight carriages and spare parts repair expenses	10,656,547	8,831,718
Materials and supplies	6,503,842	5,207,324
Personnel costs, including short-term provisions	1,737,920	1,603,922
Security expenses	233,088	234,821
Other services	1,556,882	1,881,108
	67,402,055	**63,351,548**

Personnel costs for the year ended 31 December included:

	2016	2015
Salaries	1,543,138	1,421,725
Social tax	212,973	184,028
Unused vacation provision recovery	(18,191)	(1,831)
	1,737,920	**1,603,922**

26. GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
Taxes	3,242,039	4,899,521
Loss on impairment of assets held for sale	1,975,884	-
Personnel costs, including short-term provisions	1,806,833	1,633,344
Operating lease expenses	604,859	264,665
Depreciation and amortisation	185,389	299,943
Allowances for doubtful debts	168,543	1,329,389
Professional services (consulting, audit and legal)	127,413	80,828
Employee benefit obligation expenses	47,801	103,087
Other services	1,444,103	908,114
	9,602,864	**9,518,891**

Personnel costs for the years ended 31 December included:

	2016	2015
Salaries	1,619,726	1,435,663
Social tax	193,722	177,757
(Recovery)/accrual of provision for unused vacation	(6,615)	19,924
	1,806,833	**1,633,344**

(in thousands of tenge)

27. FINANCE INCOME

	2016	2015
Finance income on loans provided (Note 9)	3,361,926	6,086,858
Finance income on short-term investments and deposits	456,026	414,828
Income in the form of interest on cash balances and discount on apartments	131,570	44,791
Amortization of the premium on long-term debt securities	100,791	214,168
	4,050,313	**6,760,645**

28. FINANCE COSTS

	2016	2015
Interest expenses on long-term loans	35,156,143	25,155,413
Interest expenses on debt securities	3,000,444	5,645,249
Interest expenses on finance leases	308,219	76,744
	38,464,806	**30,877,406**

29. FINANCIAL AND CONTINGENT LIABILITIES

Contractual liabilities

As at 31 December 2016, the Group had contractual commitments of 6,662,217 thousand tenge (31 December 2015: 9,437,025 thousand tenge). These commitments include amounts to acquire property, plant and equipment, inventories and services.

Contingent liabilities

Litigation

The Group is subject to various legal proceedings related to business operations, such as property damage claims. The Group does not believe that pending or threatened claims of these types, individually or in aggregate, are likely to have any material adverse effect on the Group's consolidated financial position or results of operations.

Compliance with legislation

Since the Group has a dominant (monopolist) position as a platform operator, operating carriages and leasing railway carriages, the regulator monitors tariffs (prices) for these services.

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

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

Insurance

The Group is obliged to take out insurance against injuries to employees and liability insurance of vehicle owner.

In 2016 and 2015, a significant portion of the Group's property, plant and equipment was not insured. It was not insured against business interruptions and damage to third party property or the environment due to accidents at its facilities or relating to its operations.

(in thousands of tenge)

Guarantees

	Purpose of guarantee	Issue date	Period of guarantee	Amount of guarantee
Kazakhstan Temir Zholy Finance B.V.	Under a supplementary trust agreement, Kaztemirtrans and KTZ-Freight Transportations provide jointly and individually an unconditional and irrevocable guarantee of the timely repayment of the principal and accrued interest on the Eurobonds.	6 October 2014	6 April 2024	US Dollars 700,000,000
Kazakhstan Temir Zholy Finance B.V.	Under a supplementary trust agreement, Kaztemirtrans and KTZ-Freight Transportations provide jointly and individually an unconditional and irrevocable guarantee of the timely repayment of the principal and accrued interest on the Eurobonds.	10 July 2012	10 July 2042	US Dollars 800,000,000
Kazakhstan Temir Zholy Finance B.V.	Under a supplementary trust agreement, Kaztemirtrans and KTZ-Freight Transportations provide jointly and individually an unconditional and irrevocable guarantee of the timely repayment of the principal and accrued interest on the Eurobonds.	30 November 2012	30 November 2042	US Dollars 300,000,000
Kazakhstan Temir Zholy Finance B.V.	Under the credit contract between KTZ-Freight Transportations and US Export Import Bank, Kaztemirtrans and the Parent provide a guarantee.	26 November 2012	26 November 2022	US Dollars 424,856,806
Kazakhstan Temir Zholy Finance B.V.	Under the framework loan agreement, Kaztemirtrans provides a guarantee on the timely repayment of the debt.	3 December 2010	-	2,428,091,000 tenge
Credit Suisse Zurich Bank	Under a supplementary trust agreement, KTZ, Kaztemirtrans and KTZ-Freight Transportations provide jointly and individually an unconditional and irrevocable guarantee of the timely repayment of the principal and accrued interest on the Eurobonds.	20 June 2014	20 June 2019	100,000,000 Swiss Francs
Credit Suisse Zurich Bank	Under a supplementary trust agreement, KTZ, Kaztemirtrans and KTZ-Freight Transportations provide jointly and individually an unconditional and irrevocable guarantee of the timely repayment of the principal and accrued interest on the Eurobonds.	20 June 2014	20 June 2022	185,000,000 Swiss Francs

As at 31 December 2016 and 2015, the Company had no liabilities related to these guarantees.

(in thousands of tenge)

30. SUBSIDIARIES

As at 31 December, the Group's subsidiaries and their operations were as follows:

Subsidiary	Nature of operations	Country	Ownership interest, %	
			31 December 2016	31 December 2015
JSC Centre of Transportation Services	Transportation and freight forwarding services	Kazakhstan	-	100.00
Kazakhstan Temir Zholy Finance B.V.	Financing of the Parent and its subsidiaries	The Netherlands	100.00	100.00
Kazakhstan Carriage Construction Company LLP (KCCC LLP)	Manufacture of freight carriages	Kazakhstan	69.94	69.94
Regional Forward Logistics LLC	Transportation and freight forwarding services	Russia	-	90.00

As at 31 December 2016, the Group reclassified its share in JSC CTS and LLC RFL into assets held for sale (Note 16).

During 2015, there were no changes in Group structure.

There is a number of court decisions against a subsidiary KCCC LLP based on the claims of creditors for the recovery of accounts payable. As at 31 December 2016, the amount of claims of accounts payable is 817,699 thousand tenge.

As at 31 December 31 2016, for the purposes of financial improvement of KCCC LLP, JSC Kaztemirtrans and LLP ZIKSTO concluded an agreement for trust management of 69.94% of the share in LLP Kazakhstan Carriage Construction Company No. 01-04/2-НПКР dated 1 April 2016. Transfer of a share in trust management does not entail the transfer of ownership.

As at 31 December 2015, the Group has developed a roadmap for the rehabilitation and reorganization of KCCC LLP for 2016-2017, according to which the following activities were provided:

- A memorandum for cooperation in the field of car building with JSC National Company Kazakhstan Engineering was developed. In the framework of this memorandum between JSC Kaztemirtrans and JSC ZIKSTO, it is planned to conclude a contract of trust management of 69.94% share of JSC Kaztemirtrans in the share capital of KCCC LLP;
- Measures are planned to reorganize KCCC LLP through creation of a joint company with a carriage Company JSC ZIKSTO;
- It is planned to refinance loans of KCCC LLP at JSC ATF Bank, as well as attracting additional funding.

(in thousands of tenge)

31. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Capital risk management

The Group manages capital risk to ensure that it can continue as a going concern maximising profits for its Parent and optimising its debt to equity ratio.

The Group's capital structure includes share capital and retained earnings as disclosed in the consolidated statement of changes in equity.

Summary of significant accounting policies

The significant accounting policies and adopted methods, including criteria of recognition, basis for estimates and the basis for recognition of income and expenses with respect to each class of financial assets, financial liabilities and equity instruments are disclosed in Note 4 to the consolidated financial statements.

Objectives of financial risk management

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

Interest rate risk

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

The Group's exposure to the interest rate risk relates mainly to other financial assets and long-term borrowings (Notes 12 and 19). The weighted average effective interest rates were as follows as at 31 December:

	2016 (% per year)	2015 (% per year)
Deposits: tenge	-	13.5%
Deposits: US Dollars	3%-4%	5.3%
Long-term loans: US Dollars	4.3%-9.73%	3.58%-9.25%
Long-term loans: tenge	7.20%-19.5%	7.20%-23.67%

(in thousands of tenge)

Interest rate risk, sensitivity analysis

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

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

If interest rates on liabilities were 1% more/less and all other variables remained unchanged, the Group's profit for the year ended 31 December 2016 and retained earnings as at 31 December 2016 would decrease/increase by 5,419,945 thousand tenge (2015: 433,433 thousand tenge).

Currency risk

The Group carries out transactions in foreign currency. As at 31 December 2016, loans denominated in foreign currency, as well as loans received from JSC NC KTZ that are subject to indexation (Note 19) amounted to 462,194,294 thousand tenge.

For the year ended 31 December 2016, foreign exchange gain was 9,670,999 thousand tenge (2015: foreign exchange loss of 225,226,146 thousand tenge).

The amounts of the Group's financial instruments denominated in foreign currencies are recorded in tenge. The change in the tenge exchange rate against foreign currency may lead to the increase of the Group's expenses due to the growth of the exchange rate.

The Group limits foreign exchange risk by monitoring changes in foreign exchange rates in which cash, trade receivables, trade payables, and long-term borrowings are denominated.

Foreign currency sensitivity analysis

The Group is mainly exposed to change in US Dollar exchange rates.

The following table reflects the Group's sensitivity to 40% (2015: 40%) increases and decreases in the value of the tenge with respect to the relevant foreign currencies. 40% - is the sensitivity rate used in the preparation of internal currency risk reports for key management and represents management's evaluation of reasonably possible changes in exchange rates. The sensitivity analysis includes only outstanding monetary positions in foreign currency and adjusts their balance at the end of the period taking into account a 40% change in exchange rates. The sensitivity analysis includes a) cash and cash equivalents, b) other financial assets, c) long-term loans, d) trade accounts receivable and payable.

The following table indicates changes in financial assets and liabilities, if the tenge strengthens by 40% with respect to the relevant currency. A positive figure indicates an increase in profits for the reporting period and negative indicates a decrease in profits. If tenge weakens by 40% with respect to the relevant currency, there will be an equal and opposite effect on profit.

	Effect US Dollars	
	2016	**2015**
Financial assets	122,278	(50,963,647)
Financial liabilities	(184,880,894)	242,823,303
Net effect	184,758,616	191,859,656

(in thousands of tenge)

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

	2016	2015
Financial assets		
US Dollars	305,695	127,409,117
Financial liabilities		
US Dollars	462,202,234	607,058,258

Credit risk

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

The maximum exposure to credit risk is represented by the carrying amount of each financial asset. The Group believes that its maximum risk equals the value of trade accounts receivable (Note 11), less allowance for doubtful debts as at the reporting date.

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

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

As at 31 December 2016, the Group, primarily, placed cash on current and savings bank accounts in banks with the credit ratings of at least "B" according to Standard & Poor's.

Market risk

Market risk is the risk of possible fluctuations in the value of financial instruments as a result of changes in market prices. As the Group has a dominating market position, the risk of possible fluctuations in the value of the financial instruments is remote.

Liquidity risk

The ultimate responsibility for managing liquidity risk rests with the Group's shareholder who created the necessary liquidity risk management system for the Group's management in accordance with liquidity management requirements and short-, medium- and long-term financing.

Management of the Group developed a debt portfolio management policy for 2016-2020, according to which the Group plans to refinance the loan of JSC National Welfare Fund Samruk-Kazyna in 2017 for 10 years. Management of the Group has also reached an agreement to restructure EBRD loans, including a loan of the Parent. According to the agreement, EBRD loans issued to the Group and the EBRD loan to the Parent were restructured and combined into one. The loan interest rate is 4.35% + 6-month LIBOR, taking into account agreement adjustments. The loan repayment date is 24 July 2026.

Liquidity risk tables

The following table reflects the Group's contractual terms for its non-derivative financial liabilities. The table was prepared using undiscounted cash flows on financial liabilities on the basis of the earliest date at which the Group will be required to pay. The table includes cash flows for both interest and principal.

(in thousands of tenge)

	Weighted average interest rate	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
31 December 2016								
Non-interest bearing:								
Trade accounts payable	-	9,236,289	-	-	-	-	-	**9,236,289**
Other current liabilities	-	334,196	-	-	-	-	-	**334,196**
Interest-bearing:								
Long-term loans with a floating interest rate	3.6%-23.7%	8,857,827	3,996,066	3,851,564	3,709,635	3,562,559	15,646,251	**39,623,902**
Long-term loans with a fixed interest rate	5.6-7.2%	91,494,851	28,410,851	28,410,851	28,410,851	28,394,016	908,898,976	**1,114,020,396**
31 December 2015								
Non-interest bearing:								
Trade accounts payable	-	7,622,187	-	-	-	-	-	**7,622,187**
Other current liabilities	-	443,093	-	-	-	-	-	**443,093**
Interest-bearing:								
Long-term loans with a floating interest rate	3.2%-3.6%	16,936,579	15,302,238	13,651,543	2,351,987	1,141,752	-	**49,384,099**
Long-term loans with a fixed interest rate	5.6%-7.2%	33,303,689	92,055,689	28,983,689	28,983,689	126,092,391	828,621,861	**1,138,041,007**
Debt securities with a fixed interest rate	7%	121,895,000	-	-	-	-	-	**121,895,000**
Finance lease liabilities	10.5%	66,470	-	-	-	162,622	-	**229,092**

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

	Weighted average interest rate	Up to 1 year	Indefinite	Total
31 December 2016				
Non-interest bearing:				
Cash and cash equivalents	-	1,229,829	-	**1,229,829**
Trade accounts receivable	-	10,733,575	(620,781)	**10,112,794**
Other current assets	-	1,484,834	(838,735)	**646,099**
Interest-bearing:				
Cash and cash equivalents	-	3,349	-	**3,349**
Other financial assets	3%-4%	99,270	-	**99,270**
31 December 2015				
Non-interest bearing:				
Cash and cash equivalents	-	2,418,627	-	**2,418,627**
Trade accounts receivable	-	7,190,854	(1,433,875)	**5,756,979**
Other current assets	-	1,799,271	-	**1,799,271**
Interest-bearing:				
Cash and cash equivalents	40%-44.5%	3,451,286	-	**3,451,286**
Other financial assets	5.3%-13.5%	6,242,643	-	**6,242,643**
Loans provided	7.84%	131,478,097	-	**131,478,097**

Fair value of financial instruments

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

Cash and cash equivalents

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

(in thousands of tenge)

Trade and other accounts receivable and payable

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

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

Loans

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

	2016 (% per annum)	2015 (% per annum)
Tenge		
1 to 5 years	12.8	13.9
Over 5 years	14.4	9.3
Foreign currency		
1 to 5 years	7.0	8.1
Over 5 years	8.7	5.8

The fair value hierarchy of the long-term loans is level 2. As at 31 December 2016 and 2015, there were no transfers between hierarchy levels.

Management of the Group believes that the carrying amount of the long-term loans is approximately equal to their fair value.

32. RELATED PARTY TRANSACTIONS

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

Related parties may enter into transactions that unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of related party relationships for those related parties with whom the Company conducted significant transactions or had a significant outstanding balance as at 31 December is set out below.

(in thousands of tenge)

		Shareholder	Entities of the Shareholder's Group	Joint ventures, in which the group is participant	Other related parties	Total
Due from related parties for goods and services	31 December 2016	476,546	7,447,199	1,538,135	4,509	**9,466,389**
	31 December 2015	7,835,984	58,546	167,416	118,228	**8,180,174**
Including allowance for doubtful debts	31 December 2016	-	239,915	167,416	625	**407,956**
	31 December 2015	-	261,154	-	625	**261,779**
Due to related parties for goods and services	31 December 2016	1,477,968	528,309	19,139	260,030	**2,332,525**
	31 December 2015	560,155	71,825	34,710	962,544	**1,629,234**
Loans received	31 December 2016	429,264,608	-	-	60,000,000	**489,264,608**
	31 December 2015	437,210,067	-	-	60,000,000	**497,210,067**
Interest payable	31 December 2016	1,086,200	-	-	192,000	**1,278,200**
	31 December 2015	3,826,918	-	-	192,000	**4,018,918**

Related party transactions for the years ended 31 December are presented as follows:

		Shareholder	Entities of the Shareholder's Group	Joint ventures, in which the group is participant	Other related parties	Total
Sale of goods and services	2016	9,499,821	29,632,037	5,610,749	5,529,119	**50,271,726**
	2015	21,385,963	173,288	-	9,015,010	**30,574,261**
Accrued allowance for doubtful debts	2016	-	-	167,416	-	**167,416**
	2015	-	-	-	-	**-**
Purchase of goods and sevices	2016	1,354,492	15,165,092	611,732	39,604	**17,170,920**
	2015	14,209,395	2,425,768	-	112,803	**16,747,966**
Finance income	2016	3,484,447	-	-	-	**3,484,447**
	2015	5,831,743	467,980	-	-	**6,299,723**
Finance expenses	2016	18,924,021	-	-	4,320,000	**23,244,021**
	2015	19,360,866	-	-	4,320,000	**23,680,866**
Dividends declared	2016	-	1,314,019	708,718	-	**2,022,737**
	2015	-	-	1,358,688	-	**1,358,688**

(in thousands of tenge)

Compensation to key management personnel of the Group

As at 31 December 2016 and 2015, key management personnel consisted of 8 people and 7 people, respectively. Compensation for key management personnel for the years ended 31 December was as follows:

	2016	2015
Salary	50,244	76,450
Pension contributions	4,761	6,893
Income tax	4,475	6,848
Social tax	4,290	5,886
Social contributions	651	940
	64,421	97,017

33. SUBSEQUENT EVENTS

Since 1 January 2017, the Group does not have dominant (monopolistic) position as a platform and carriage operator, rent of railway carriages and is entitled to set its own tariffs (prices) for the services it provided due to the deregulation of tariffs on commodity markets, stipulated by article 7-1 of the Law On Natural Monopolies.

On 24 January 2017, the Group sold a 100% share in JSC Centre for Transport Services.

On 10 February 2017, the Group sold a 50% share in JSC Astyk Trans.

In accordance with a resolution of the JSC Kaztemirtrans Board of Directors dated 13 February 2017, Minutes №3 based on the agreement with JSC NC KTZ, on 14 February 2017 financial aid to replenish working capital of 3,500,000 thousand tenge until 31 December 2017 with the option for early return was provided.

34. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements was approved for issue by the management of the Group on 20 February 2017.