ҚАЗТЕМІРТРАНС

JOINT STOCK COMPANY KAZTEMIRTRANS

Consolidated Financial Statements
for the year ended 31 December 2017

JOINT STOCK COMPANY KAZTEMIRTRANS

TABLE OF CONTENTS

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 2017

Management of Joint Stock Company Kaztemirtrans (the "Company") is responsible for the preparation of the consolidated financial statements of the Company and its subsidiaries (jointly the "Group"), that present fairly the consolidated financial position of the Group as at 31 December 2017, 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;
- applying reasonable estimates and valuation;
- compliance with IFRS, disclosure and explanation of all significant deviations in consolidated financial statements;
- providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of consolidated financial statements to understand the impact of particular transactions, other events and conditions, and also other events or conditions, which influence on the Group's consolidated financial position and financial performance;
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2017 were approved by management of Joint Stock Company Kaztemirtrans on 26 February 2018.

On behalf of Group's management:

K.A. Saurbayev **Acting President**	**A.B. Maksutov** **Vice-President for Finance**	**M.N. Uzenbayev** **Chief Accountant – Director of Accounting Department**
26 February 2018	26 February 2018	26 February 2018

Astana, Republic of Kazakhstan

Deloitte.

Deloitte, LLP
36 Al Farabi Ave.,
Almaty, 050059,
Republic of Kazakhstan
Tel: +7 (727) 258 13 40
Fax: +7 (727) 258 13 41
deloitte.kz

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of JSC Kaztemirtrans (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the 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 2017, 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 Consolidated 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 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.

Emphasis of matter

As described in Note 18 to the accompanying consolidated financial statements of the Group, 74% of the Group's income for the year ended 31 December 2017 was received from transactions of related parties. Our opinion is not modified in respect of this matter.

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 Certificate No.0000523 dated 15 February 2002, Republic of Kazakhstan

DELOITTE, LLP

Deloitte LLP State license for audit activities in 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

26 February 2018
Deloitte LLP

JOINT STOCK COMPANY KAZTEMIRTRANS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

(in thousands of Tenge)

	Notes	31 December 2017	31 December 2016
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	6	337,243,546	353,412,403
Intangible assets		342,810	448,740
Investments in associates		33,035	-
Other non-current assets	7	1,210,266	1,881,219
Deferred income tax asset	13	266,501	390,572
Total non-current assets		339,096,158	356,132,934
CURRENT ASSETS			
Inventories	8	6,716,409	5,150,651
Trade receivables from related parties	26	22,580,954	9,466,389
Trade receivables from third parties		988,225	646,405
Other current assets	9	7,811,193	1,772,879
Prepaid income tax		76,007	133,184
Other prepaid taxes		2,840	2,277,275
Other financial assets		148,321	99,270
Loans to related parties	26	1,918,219	-
Cash and cash equivalents	10	853,975	955,711
		41,096,143	20,501,764
Non-current assets held for sale	11	3,147,193	8,667,579
Total current assets		44,243,336	29,169,343
TOTAL ASSETS		383,339,494	385,302,277
EQUITY			
Share capital	12	67,726,866	67,726,866
Foreign currency translation reserve		-	107,775
Accumulated deficit		(245,671,330)	(229,614,041)
Equity deficit attributable to the shareholder of the Parent		(177,944,464)	(161,779,400)
Non-controlling interests		(1,251,817)	(526,365)
TOTAL EQUITY DEFICIT		(179,196,281)	(162,305,765)
NON-CURRENT LIABILITIES			
Deferred tax liabilities	13	8,788,944	7,475,803
Long-term loans	14	515,844,334	454,242,480
Employee benefit obligations		353,255	322,835
Finance lease liabilities		533,885	-
Total non-current liabilities		525,520,418	462,041,118
CURRENT LIABILITIES			
Current portion of long-term loans	14	4,632,632	68,966,340
Trade accounts payable	15	10,162,377	9,236,289
Current portion of employee benefit obligations		24,976	19,060
Taxes payable and obligatory payments to budget	16	3,582,326	1,199,103
Other current liabilities	17	18,613,046	2,508,044
		37,015,357	81,928,836
Liabilities directly associated with the assets classified as held for sale	11	-	3,638,088
Total current liabilities		37,015,357	85,566,924
TOTAL LIABILITIES AND EQUITY		383,339,494	385,302,277

On behalf of the Management:

K.A. Saurbayev **Acting President**	**A.B. Maksutov** **Vice-President for Finance**	**M.N. Uzenbayev** **Chief Accountant – Director of Accounting Department**
26 February 2018	26 February 2018	26 February 2018

The notes presented below are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017
(in thousands of Tenge)

	Notes	2017	2016
Revenue from rendering services	18	76,699,584	81,268,806
Cost of rendered services	19	(49,736,061)	(67,402,055)
Gross profit		**26,963,523**	**13,866,751**
General and administrative expenses	20	(6,017,236)	(9,602,864)
Finance income	21	1,189,718	4,050,313
Finance costs	22	(38,398,722)	(38,464,806)
Foreign exchange (loss)/gain		(412,189)	9,670,999
Disposal of non-current assets held for sale	11	1,469,653	-
Share of profit of a joint venture		(162,215)	1,118,752
Other income		756,640	1,245,893
Loss before income tax		**(14,610,828)**	**(18,114,962)**
Corporate income tax (expense)/ benefit	13	(1,575,306)	3,052,536
Loss for the year		**(16,186,134)**	**(15,062,426)**
Other comprehensive income:			
Other comprehensive (loss)/income that is subject for reclassification as part of profit or loss in the following periods:			
Actuary (loss)/income on a defined pension benefit plan		(19,329)	29,576
Exchange differences on translating foreign operations		(117,219)	45,341
Other comprehensive (loss)/income for the year		**(136,548)**	**74,917**
Total comprehensive loss for the year		**(16,322,682)**	**(14,987,509)**
Loss for the year attributable to:			
Shareholder of the Parent		(15,487,952)	(14,753,219)
Non-controlling interests		(698,182)	(309,207)
		(16,186,134)	**(15,062,426)**
Total comprehensive loss for the year, attributable to:			
Shareholder of the Parent		(15,624,500)	(14,678,302)
Non-controlling interests		(698,182)	(309,207)
		(16,322,682)	**(14,987,509)**

On behalf of the Management:

K.A. Saurbayev **Acting President**	**A.B. Maksutov** **Vice-President for Finance**	**M.N. Uzenbayev** **Chief Accountant – Director of Accounting Department**
26 February 2018	26 February 2018	26 February 2018

The notes presented below are an integral party of these consolidated financial statements.

JOINT STOCK COMPANY KAZTEMIRTRANS

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(in thousands of Tenge)

	Notes	2017	2016
Cash flows from operating activities:			
Loss before income tax		(14,610,828)	(18,114,962)
Adjustments for:			
Depreciation and amortisation		19,974,591	20,022,556
Finance costs	22	38,398,722	38,464,806
Finance income	21	(1,189,718)	(4,050,313)
Gain on disposal of subsidiaries		(1,469,653)	-
Loss on disposal of assets		799,346	-
Foreign exchange loss/(gain)		412,189	(9,670,999)
Allowance for doubtful debts	20	294,560	168,543
Share of loss/ (profit)of joint venture		162,215	(1,118,752)
Loss on impairment of assets held for sale		-	1,975,884
Other		-	47,645
Operating income before changes:		42,771,424	27,724,408
Change in trade accounts receivable		(11,933,349)	(6,601,191)
Change in inventories		974,619	1,083,849
Change in other current assets		(6,207,639)	6,347,124
Change in trade accounts payable		939,416	5,181,063
Change in tax prepayment and overpayment		2,331,021	-
Change in taxes payable, obligatory payments to budget and value added tax recoverable		2,210,989	(4,062,290)
Change in other current liabilities		16,025,630	(548,884)
Change in non-current assets and liabilities held for sale		598,692	-
Change in employee benefit obligations		12,569	(29,576)
Change in other non-current assets		279,892	-
Cash generated by operating activities		48,003,264	29,094,503
Interest paid		(33,011,733)	(33,536,639)
Income tax paid		(5,228,777)	(341,413)
Net cash generated by/(used in) operating activities		**9,762,754**	**(4,783,549)**
Cash flows from investing activities:			
Purchase of property, plant and equipment, and advances paid for purchase of non-current assets and major repair of property, plant and equipment		(10,484,832)	(276,892)
Purchase of intangible assets		(111,812)	-
Purchase of a share in associates		(195,250)	-
Interest-free loans given	26	(8,500,000)	-
Proceeds from settlement of loans given	26	6,500,000	115,442,600
Disposal of share in subsidiaries		5,911,258	-
Proceeds from disposal of other non-current assets		-	3,854,796
Deposits placed		(26,861,248)	(43,150,365)
Deposits withdrawn		26,892,645	48,753,290
Interest received		253,625	4,532,062
Dividends from a joint venture		-	708,718
Net cash (used in)/ generated by investing activities		**(6,595,614)**	**129,864,209**

JOINT STOCK COMPANY KAZTEMIRTRANS

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)
(in thousands of Tenge)

	Notes	2017	2016
Cash flows from financing activities:			
Long-term loans received	26	60,170,000	-
Repayment of long-term loans		(63,922,114)	(13,049,760)
Repayment of bonds		-	(115,562,041)
Finance lease payments		-	(201,909)
Net cash used in financing activities		(3,752,114)	(128,813,710)
Net decrease in cash and cash equivalents		(584,974)	(3,733,050)
Cash and cash equivalents at the beginning of the year	10	955,711	5,835,467
Effects of exchange rate changes on cash and cash equivalents held in foreign currencies		483,238	(869,239)
Cash and cash equivalents at the end of the year	10	**853,975**	**1,233,178**
Non-cash transactions:			
Payables and receivables offset for work/(services) received from/rendered to the Parent		1,452,814	7,503,014

On behalf of the Management:

K.A. Saurbayev
Acting President

26 February 2018

A.B. Makazutov
Vice-President for Finance

26 February 2018

M.N. Uzenbayev
Chief Accountant – Director of Accounting Department

26 February 2018

The notes presented below are an integral party of these consolidated financial statements.

JOINT STOCK COMPANY KAZTEMIRTRANS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
(in thousands of tenge)

	Notes	Share capital	Foreign currency translation reserve	Retained earnings/ accumulated deficit	Equity deficit attributable to the shareholder of the Parent	Non-controlling interests	Total equity/ (equity deficit)
At 1 January 2016		**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 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)**
Loss for the year		-	-	(15,487,952)	(15,487,952)	(698,182)	(16,186,134)
Other comprehensive loss for the year		-	(107,775)	(19,329)	(127,104)	(9,444)	(136,548)
Total comprehensive loss for the year		67,726,866	-	(245,121,322)	(177,394,456)	(1,233,991)	(178,628,447)
Dividends		-	-	-	-	(17,826)	(17,826)
Fair value adjustment of financial aid granted to the Shareholder		-	-	(550,008)	(550,008)	-	(550,008)
At 31 December 2017		**67,726,866**	**-**	**(245,671,330)**	**(177,944,464)**	**(1,251,817)**	**(179,196,281)**

On behalf of the Management:

K.A. Saurbayev
Acting President

26 February 2018

A.B. Maksutov
Vice-President for Finance

26 February 2018

M.N. Uzenbayev
Chief Accountant – Director of Accounting Department

26 February 2018

The notes presented below are an integral party of these consolidated financial statements.

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 "JSC NC KTZ", or "Shareholder", or "the Parent"). 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 that date.

The Company owns the freight carriages inventory of the Republic of Kazakhstan. Between 2003 and 2016, the Company's main activity is provision of carriage operator services, rent carriages and provide transportation services in the Republic of Kazakhstan and overseas. In 2017, the Company transferred its carriage operating and freight forwarding services to JSC KTZ-Express, a subsidiary of JSC NC KTZ.

Starting from 1 January 2017 the Company is not in a dominant position in platform wagon operation, box car operation, carriages rent services and is able to set its own service tariffs due to the cancellation of the state's pricing regulation on commodity markets stipulated by the Natural Monopolies' Law of the Republic of Kazakhstan.

During 2017, the Company increased its tariffs for rent of freight wagons, as a result, the average increase of tariff equaled to 30%.

The Company's sole shareholder is JSC NC KTZ. 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 26.

The consolidated financial statements include the financial performance results of the Company and its subsidiaries listed in Note 24. The Company and its subsidiaries are hereinafter referred to as the "Group".

In 2017, the Group's average number of employees was 1,728 people (2016: 2,011 people).

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

2. BASIC PRINCIPLES OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

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 2017 and for the year then ended, the Group's equity deficit and net loss amounted to 179,196,281 thousand tenge and 16,186,134 thousand tenge, respectively.

As at 31 December 2017 current assets exceeded current liabilities by 7,227,979 thousand tenge. (As at 31 December 2016, current liabilities exceeded current assets by 56,397,581 thousand tenge).

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 received from LLC KTZ Finance, the subsidiary of JSC NC KTZ, a loan of 11,000,000 thousand roubles (60,170,000 thousand tenge) at the rate of 9.85% maturing 1 June 2022. In August 2017, the loan from Samruk-Kazyna National Welfare Fund JSC was repaid in the amount of 60,000,000 thousand tenge;
- On 22 December 2016, 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. On 24 February 2017, the principal of the loan was converted into tenge to 26,617,335 thousand tenge at the rate of 4.35% + All-in-Cost and the balance was 5,283,335 US dollars at a rate of 4.35% + Libor.

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 believes that the Group has sufficient resources for further operational performance and redemption of its liabilities, and it is reasonable to use approach of going concern during preparation of consolidated financial statement.

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 continuous 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 connection with the above, management believes that the Group will continue as a going concern in the foreseeable future.

These consolidated financial statements do not contain any adjustments that might be required if the Group could not adhere to the going concern principle.

3. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Adoption of new and revised standards

In the current year, the following new and revised Standards and Interpretations were adopted for the first time:

- Amendments to IAS 7 – Disclosure Initiative;
- Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses;
- Annual Improvements to IFRSs 2014-2016 Cycle.

Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes caused by cash flows and not caused by cash flows.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify when an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference.

The application of the amendments had no impact on the Group's performance or financial position.

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:

IFRS 9 Financial Instruments

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, management of the Group has performed a preliminary assessment of the impact of IFRS 9 to the Group's consolidated financial statements as follows:

Classification and measurement

Loans carried at amortised cost are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9.

All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39 "Financial Instruments: Recognition and Measurement".

The above analysis of Group financial assets and liabilities as at 31 December 2017 was performed using facts and circumstances as at that date. The Group does not expect significant changes, in regards to the reclassification and measurement of financial assets and liabilities.

Impairment

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables.

In relation to the financial assets, whether lifetime or 12-month expected credit losses should be recognised, would depend on whether there has been a significant increase in credit risk of these items from initial recognition.

A new impairment model requires recognition of the expected credit losses for financial assets measured at amortized cost through other comprehensive income.

Based on the analysis performed, the Group expects a slight increase in the allowance for doubtful debts on trade receivables and cash and cash equivalents.

IFRS 15 Revenue from Contracts with Customers

The Group analysed significant contracts related to income from the rent of freight cars.

Management of the Group plans to use a modified retrospective transition method with the initial application of IFRS 15, however a final decision has not yet been taken.

According to preliminary estimates, management of the Group does not expect a significant impact on the recognition of revenue in the application of IFRS 15.

IFRS 16 Leases

Group management expects that the future application of IFRS 16 may affect the value of assets and liabilities because all lease agreements for which the Group is the lessee will be recognised in financial statements. However, it is not possible to estimate the impact of IFRS 16 before a detailed analysis has been performed.

The group did not apply in advance standards, amendments and clarifications, which are issued but not yet effective.

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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 transactions with payments based on owned equity instruments, that are within IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised 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 Kazakhstan Temir Zholy 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 reporting date. 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 24.

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.

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.

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, other than large-scale technical inspections, 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.

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 rent of carriages

Revenue from rent of carriages is classified as an operating lease and recognised based on the actual number of days freight carriages rent. Revenue from operating lease is recognized evenly over the lease period. Initial direct costs, associated with the coordination of the terms of agreement of leasing and its registration are included in the carrying amount of the leased asset and are recognized evenly during the lease period.

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 financial statements 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.

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 in other total income, or directly in capital respectively. In the case, when current and deferred tax occurred due to initial accounting of business combination transactions, tax effect is reflected based on these transactions.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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.

Held to maturity 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) 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.

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 loans and trade 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 loans and trade receivables, where the carrying amount is reduced through the use of an allowance account. When bad loan and 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.

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 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

Events subsequent to the reporting date that provide additional information about the Group's consolidated financial position at the reporting date (adjusting events) are recorded in the consolidated financial statements. Events subsequent to the reporting date 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

Determination of control

For financial restructuring purposes, in April 2016, the Group, represented by JSC Kaztemirtrans, and ZIKSTO LLP entered into a trustee management agreement for a 69.94% interest in the charter capital of the subsidiary LLP Kazakhstan Carriage Construction Company for a period until 31 December 2017. During 2017, the Group continued to control LLP Kazakhstan Carriage Construction Company, as ZIKSTO LLP is an agent and is not authorised to manage financial and operating activities, exercising the rights delegated to it to make decision in the Group's interests.

(in thousands of Tenge)

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, and also current replacement costs.

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.

Due to existing indicators, the Group performed an impairment test as at 31 December 2017. The key long-term assumptions used in the calculation were a 23% increase in tariffs in 2018 with subsequent annual increases for forecasted inflation rate. Number of carriages used in operating activities as at the date of test performed and embedded in the model was equal to 54,003. Pre-tax discount rate was 12.63%. Based on the results of the test no impairment was identified as at 31 December 2017.

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.

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
Railway transport	10-40
Other transport	4-15
Other property, plant and equipment	2-20

Recoverability of deferred tax assets

Management of the Group believes that no allowance should be made in respect of deferred tax assets as of the reporting date as there is a 50% probability that deferred tax assets will be fully realised. As at 31 December 2017 and 2016, the carrying value of deferred tax assets was 43,471,877 thousand tenge and 45,312,572 thousand tenge, respectively.

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. Penalty rateis 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 2017. 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 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	-	-	(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	-	-	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)**
Historical cost:								
As at 1 January 2017	16,059	5,364,998	9,485,737	470,686,991	315,288	340,282	1,144,206	487,353,561
Additions	45,412	-	2,628	-	-	1,173	10,121,751	10,170,964
Internal transfer	-	-	-	10,044,482	-	-	(10,044,482)	-
Transfer to inventories	-	-	-	-	-	-	(315,026)	(315,026)
Transfer to non-current assets classified as held for sale	-	(1,234,808)	(3,624,637)	(1,868,666)	(98,144)	(99,538)	-	(6,925,793)
Disposals	-	(668)	(34,058)	(2,031,769)	(42,654)	(1,871)	(869,495)	(2,980,515)
As at 31 December 2017	**61,471**	**4,129,522**	**5,829,670**	**476,831,038**	**174,490**	**240,046**	**36,954**	**487,303,191**
Accumulated depreciation and impairment:								
As at 1 January 2017	-	(558,134)	(4,438,560)	(128,591,497)	(193,100)	(159,867)	-	(133,941,158)
Charge for the year	-	(100,238)	(846,142)	(19,245,448)	(22,310)	(29,021)	-	(20,243,159)
Transfer to non-current assets classified as held for sale	-	294,390	1,810,960	1,586,623	41,978	34,472	-	3,768,423
Disposals	-	138	26,160	286,083	42,017	1,841	-	356,239
As at 31 December 2017	**-**	**(363,844)**	**(3,447,582)**	**(145,964,239)**	**(131,415)**	**(152,575)**	**-**	**(150,059,655)**
Carrying value at 31 December 2017	**61,471**	**3,765,678**	**2,382,088**	**330,866,799**	**43,075**	**87,471**	**36,954**	**337,243,546**
Carrying 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)

As at 31 December 2017, the cost of fully depreciated property, plant and equipment amounted to 2,627,010 thousand tenge (31 December 2016: 3,949,451 thousand tenge).

As at 31 December 2017, property, plant and equipment of the Group with carrying amount of 5,758,095 thousand tenge were used as a collateral for Group's loans (31 December 2016: nil) (Note 14).

7. OTHER NON-CURRENT ASSETS

	31 December 2017	31 December 2016
Non-current prepaid expenses	666,223	138,116
Other non-current accounts receivable	413,197	426,294
Advances to suppliers and contractors	138,033	489,019
Value added tax recoverable	130,846	965,906
	1,348,299	2,019,335
Less: allowance for doubtful debts for other non-current assets	(138,033)	(138,116)
	1,210,266	1,881,219

8. INVENTORIES

	31 December 2017	31 December 2016
Spare parts	5,746,647	4,255,514
Raw materials and supplies	389,574	478,305
Other	580,188	416,832
	6,716,409	5,150,651

9. OTHER CURRENT ASSETS

	31 December 2017	31 December 2016
Advances paid to suppliers	6,803,481	928,088
Other accounts receivable	1,855,693	1,484,834
Prepaid expenses	181,596	209,894
	8,840,770	2,622,816
Less: Allowance for doubtful debts for other current assets	(1,029,577)	(849,937)
	7,811,193	1,772,879

As at 31 December 2017, the Company paid advances for the purchase of wagon wheels and all-rolled wheels of 6,803,481 thousand tenge (31 December 2016: 100,000 thousand tenge).

As at 31 December 2017 and 2016, other current assets were denominated in tenge.

(in thousands of Tenge)

10. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Short-term deposits, in tenge	725,453	-
Cash in bank accounts, in US Dollars	95,279	140,913
Cash in bank accounts, intenge	27,194	653,076
Cash in bank accounts, in Russian Roubles	294	138,632
Cash in bank accounts,in Euro	5,755	23,090
	853,975	955,711
Cash included in non-current assets classified as held for sale	-	277,467
	853,975	**1,233,178**

11. NON-CURRENT ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

	31 December 2017	31 December 2016
Car repair depo	2,789,635	-
Freight carriages held for sale	256,946	163,552
Astana Production Facility	100,612	-
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
	3,147,193	8,667,579
Liabilities associated with non-current assets held for sale	-	(3,638,088)
	3,147,193	**5,029,491**

On 9 October 2017, the Group entered into a sale agreement for the property of the Group's branches – Car repair depo (Arys, Balkhash and Kushmurun) and Astana production facility for 3,939,776 thousand tenge with Astana Railway Services LLP. As at 31 December 2017, the Group classified these assets as non-current assets held for sale (Note 26).

As at 31 December 2017, the Group sold its investments in subsidiaries and a joint venture.

As of the disposal date, non-current assets held for sale and liabilities associated with non-current assets held for sale were as follows:

	LLC RFL 10 February 2017	JSC CTS 24 January 2017	Total
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 employee benefit obligations	(9,942)	(4,791)	(14,733)
Trade accounts payable	(2,552,581)	(154,229)	(2,706,810)
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	**(2,879,377)**	**(606,338)**	**(3,485,715)**
Net assets classified as held for sale	**424,195**	**719,719**	**1,143,914**

As at 31 December 2017, gain on disposal of non-current assets classified as held for sale was recognized in profit or loss and was calculated as follows:

	2017
Cash inflows from disposal	5,911,258
Less: carrying amount of investments at the date of loosing significant control	(4,441,605)
Gain on disposal	**1,469,653**

12. SHARE CAPITAL

	Number of shares authorised for issue	Issued, number of shares	Share capital, in thousands of tenge
At 31 December 2017	123,000,000	62,303,295	67,726,866
At 31 December 2016	123,000,000	62,303,295	67,726,866

Share capital of the Group was formed through issuances of shares based on the decision of the Parent. The shares have been paid by assets, mainly, freight carriages, contributed to the Group's share capital.

(in thousands of Tenge)

13. INCOME TAX

	2017	2016
Current income tax expenses	592	115,769
Deferred income tax expense/(benefit)	2,814,647	(3,092,121)
Write off of deferred tax assets	538,108	-
Adjustments to the current income tax of previous years	(1,778,041)	(76,184)
	1,575,306	(3,052,536)

A reconciliation of income tax expense calculated based on profit before tax at the statutory income tax rate, with income tax expenses at 31 December is provided below:

	2017	2016
Loss before income tax	(14,610,828)	(18,114,962)
Official tax rate	20%	20%
Theoretical tax benefit at the statutory income tax rate	(2,922,166)	(3,622,992)
Tax effect of expenses that are not deductible for income tax purposes:		
Change in unrecognized deferred tax assets	538,108	(8,906,158)
Non-deductible expenses	5,737,405	9,552,798
Adjustment to the current income tax of previous years	(1,778,041)	(76,184)
Income tax expense/(benefit) recognised through profit or loss	1,575,306	(3,052,536)

As at 31 December 2017, 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 were as follows:

	31 December 2017	31 December 2016
Deferred tax assets:		
Tax losses carried forward	42,711,230	44,749,899
Accrued interest payable	403,935	-
Other	356,712	562,673
	43,471,877	45,312,572
Deferred tax liabilities:		
Property, plant and equipment and other non-current assets	(52,105,902)	(52,272,751)
Other	111,582	(125,052)
	(51,994,320)	(52,397,803)
Total net deferred tax liabilities	(8,522,443)	(7,085,231)

Movement in deferred taxes for 2017 and 2016 was as follows:

	2017	2016
At 1 January	(7,085,231)	(10,460,389)
Recognised through:		
Equity	137,502	-
Profit or loss	(1,574,714)	3,092,120
Liabilities related to assets classified as held for sale	-	283,038
At 31 December	(8,522,443)	(7,085,231)

(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 2017	31 December 2016
Deferred income tax assets	266,501	390,572
Deferred income tax liabilities	(8,788,944)	(7,475,803)
Deferred tax liabilities included in liabilities associated with assets held for sale	-	(283,038)
	(8,522,443)	(7,368,269)

The deferred tax asset arose from subsidiary LLP Kazakhstan Carriage Construction Company. In 2017, the Group wrote off tax assets related to tax losses of previous years of 538,108 thousand tenge (2016: nil) due to non-recoverability within next 10 years.

14. LONG-TERM LOANS

As at 31 December 2017, the following long-term loans, include interest:

	Currency	Maturity date	Interest rate	31 December 2017	31 December 2016
Long-term loans:					
JSC NC KTZ					
Loan 1	US Dollar	10 July 2042	6.95%	265,262,042	266,020,915
Loan 2	US Dollar	10 July 2042	5.578%	66,466,000	66,658,000
Loan 3	US Dollar	6 October 2020	6.375%	96,325,515	96,585,693
LLC KTZ Finance	Russian Rouble	1 June 2022	9.85%	63,062,546	-
JSC NWF Samruk-Kazyna	Tenge	15 September 2017	7.2%	-	60,000,000
European Bank for Reconstruction and Development ("EBRD"):					
Loan 1	Tenge	24 July 2026	All-in cost + 4.35%	22,939,152	29,011,520
Loan 2	US Dollar	24 July 2026	LIBOR + 4.35%	1,513,179	-
JSC ATF Bank:					
Loan 1	Tenge	6 December 2021	16%	2,992,826	-
Loan 2	Tenge	20 September 2017	KAZPRIME+ 6.5%	-	642,856
Loan 3	US Dollar	4 December 2017	US$ LIBOR 6-month deposits + 8.37%	-	2,348,492
Interest payable				1,915,706	1,941,344
				520,476,966	523,208,820
Less current portion				(4,632,632)	(68,966,340)
				515,844,334	454,242,480

(in thousands of Tenge)

The table below shows the changes in liabilities as a result of financial activities, including changes due to cash flows and changes that are not related to cash flows. Liabilities arising from financial activities are the liabilities, cash flows from which were or future cash flows would be classified as cash flows from financing activities in the consolidated statement of cash flows.

			Non-monetary changes				
	1 January 2017	Cash flows from financing activities	Foreign exchange loss/(gain), net	Unwinding of discount	Other proceeds	Other changes	31 December 2017
Bank loans	32,666,012	(3,922,114)	(1,713,408)	(200,780)	3,441,038	(2,247,912)	28,022,836
Borrowings from related parties	490,542,808	170,000	2,341,230	(64,196)	33,563,722	(34,099,434)	492,454,130
	523,208,820	(3,752,114)	627,822	(264,976)	37,004,760	(36,347,346)	520,476,966

Loans according to maturity dates were represented as follows:

	31 December 2017	31 December 2016
1 to 2 years	3,714,533	2,623,585
2 to 3 years	3,714,535	2,623,585
3 to 4 years	3,714,535	2,623,585
4 to 5 years	65,779,522	2,623,585
over 5 years	438,921,209	443,748,140
	515,844,334	454,242,480

As at 31 December 2017, the Group's long-term loans were denominated in the following currencies:

	2017	2016
US Dollars	430,591,240	462,194,294
Tenge	26,394,925	61,014,526
Russian Rouble	63,490,801	-
	520,476,966	523,208,820

European Bank for Reconstruction and Development

In February 2017, the Group, within the framework of a Loan Restructuring Agreement with the EBRD from 22 December 2016, converted US Dollars 87,297,051 of its foreign currency debt into tenge. Due to a significant modification of the loan, the Group recorded the loan conversion transaction as the derecognition of an initial financial liability and the recognition of a new financial liability. As a result, the Group accrued financial costs of 887,162 thousand tenge and the new financial liability as at the conversion date amounted to 26,617,335 thousand tenge and US Dollars 5,283,335. Interest is paid semi-annually at 6 months LIBOR + 4.35% per annum for the US Dollar tranches and all-in cost[1] + 4.35% for the tenge tranche.

[1] "All-in cost" is the total cost of raising funds for the EBRD (expressed per annum) from any source identified by the EBRD at its discretion, and includes all commission, interest, fees, duties and expenses incurred in another currency available for the EBRD for the redenomination of the corresponding amounts as at the relevant date, or at a different rate determined as justified by the EBRD.

(in thousands of Tenge)

LLC KTZ Finance

On 20 June 2017, the Group received a long-term loan from LLC KTZ Finance, a subsidiary of JSC NC KTZ, of Russian Roubles 11 billion to refinance a loan from JSC Samruk-Kazyna, to be repaid by 1 June 2022. The effective interest rate was 10.03%. Interest is paid twice a year.

JSC Samruk-Kazyna

On 8 August 2017, the Company repaid its loan from JSC Samruk-Kazyna of 60,000,000 thousand tenge in full.

JSC ATF Bank

On 26 December 2017, the Group signed an additional agreement on the restructuring of the loan of a subsidiary LLP Kazakhstan Carriage Construction Company in JSC ATF Bank for a total of 2,992,826 thousand tenge. Under the new conditions, the following changes were introduced:

- the annual interest rate of 16%;
- maturity date of the loan according to the updated repayment schedule is 6 December 2021;
- the Group pledged a production facility and equipment for the production of freight cars belonging to a subsidiary LLP Kazakhstan Carriage Construction Company with a carrying value of 5,758,095 thousand tenge as of 31 December 2017;
- the Group converted a dollar denominated loan in tenge at the commercial rate of JSC ATF Bank at the date of conversion.

Credit agreements and its violations

The loan agreement with EBRD includes the obligations of the Parent Company to comply with the following financial indicators: interest coverage ratio and the ratio between the total debt amount and EBITDA. Monitoring of the financial performance on the loan from EBRD is performed on an annual basis.

In order to prevent defaults to the creditors, the Group agreed on a change in the threshold values of the financial covenants. Thus, as of 31 December 2017, a letter of consent was received on the temporary change in the threshold values of the financial covenants as of 31 December 2017, under a loan agreement with EBRD. As of 31 December 2017, the Parent Company has performed these financial covenants.

15. TRADE ACCOUNTS PAYABLE

	31 December 2017	31 December 2016
For services provided	7,238,670	5,376,540
For inventories	2,202,499	3,002,320
For supply of property, plant and equipment	721,208	857,429
	10,162,377	9,236,289

(in thousands of Tenge)

As at 31 December 2017 and 2016, the Group's trade accounts payable were denominated in the following currencies:

	31 December 2017	31 December 2016
Tenge	9,144,527	8,595,336
Russian Roubles	983,979	329,451
US Dollars	19,100	299,281
Euro	14,771	12,221
	10,162,377	9,236,289

As at 31 December 2017 and 2016, trade payables to the Group's related parties was 2,309,205 thousand tenge and 2,332,776 thousand tenge, respectively (Note 26).

16. TAXES PAYABLE AND OBLIGATORY PAYMENTS TO BUDGET

	31 December 2017	31 December 2016
Value added tax payable	2,520,673	93,679
Withholding tax on non-residents	950,729	962,846
Other	110,924	142,578
	3,582,326	1,199,103

17. OTHER CURRENT LIABILITIES

	31 December 2017	31 December 2016
Advances received	17,294,388	1,986,878
Deferred income	801,187	-
Provision for unused vacation	182,013	186,970
Current payroll liabilities	44,164	64,673
Other liabilities	291,294	269,523
	18,613,046	2,508,044

As at 31 December 2017, advances received for renting cars from customers amounted to 15,288,445 thousand tenge (31 December 2016: 506,054 thousand tenge).

As at 31 December 2017, advances received from related parties amounted to 318,241 thousand tenge (31 December 2016: 660,630 thousand tenge).

As at 31 December 2017 and 2016, the Group's other current liabilities were denominated in tenge.

(in thousands of Tenge)

18. REVENUE FROM SERVICES PROVIDED

	2017	2016
Revenue from rent of carriages	69,708,250	25,744,559
Revenue from carriage operator services	2,333,099	50,626,644
Other sales revenue	4,658,235	4,897,603
	76,699,584	81,268,806

Starting from January 2017, the Company transferred carriage operator services to JSC KTZ-Express, a subsidiary of JSC NC KTZ.

For the years ended 31 December 2017 and 2016, the Group's income received from related party transactions amounted to 74% and 36% of total income, respectively. This includes services provided by JSC KTZ-Express for the years ended 31 December 2017 and 2016 amounting to 65% and 32%, respectively.

An operating rent agreement with JSC KTZ-Express is valid for one year.

19. COST OF SALES

	2017	2016
Depreciation and amortisation	19,808,389	19,974,755
Materials and supplies	9,897,433	6,503,842
Freight carriages and spare parts repair expenses	9,551,590	10,656,547
Railway tariffs	4,609,864	26,739,021
Personnel costs, including short-term provisions	2,019,739	1,737,920
Other services	3,849,046	1,789,970
	49,736,061	67,402,055

A decrease of expenses on railways tariffs related to transfer of carriage operator services to JSC KTZ-Express, a subsidiary of JSC NC KTZ.

Personnel costs included the following:

	2017	2016
Salaries	1,773,866	1,543,138
Social tax	242,676	212,973
Unused vacation provision accrual/(recovery)	3,197	(18,191)
	2,019,739	1,737,920

(in thousands of Tenge)

20. GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Taxes	1,533,022	3,242,039
Personnel costs, including short-term provisions	1,551,050	1,806,833
Operating lease expenses	607,665	604,859
Allowances for doubtful debts	294,560	168,543
Depreciation and amortisation	166,202	185,389
Professional services (consulting, audit and legal)	93,805	127,413
Provision for actuary calculations of employee benefit obligation expenses	-	47,801
Loss on impairment of assets held for sale	-	1,975,884
Other services	1,770,932	1,444,103
	6,017,236	**9,602,864**

Personnel costs included the following:

	2017	2016
Salaries	1,410,974	1,619,726
Social tax	148,230	193,722
Recovery of provision for unused vacation	(8,154)	(6,615)
	1,551,050	**1,806,833**

21. FINANCE INCOME

	2017	2016
Amortisation of fair value adjustment of financial aid granted to the shareholder (Note 26)	605,730	-
Finance income on long-term loans	-	3,361,926
Other income	583,988	688,387
	1,189,718	**4,050,313**

22. FINANCE COSTS

	2017	2016
Interest expenses on long-term loans	38,370,514	35,156,143
Interest expenses on debt securities	-	3,000,444
Interest expenses on finance leases	28,208	308,219
	38,398,722	**38,464,806**

23. FINANCIAL AND CONTINGENT LIABILITIES

Contractual liabilities

As at 31 December 2017, the Group had contractual commitments of 6,205,180 thousand tenge (31 December 2016: 6,662,217 thousand tenge). These commitments include amounts to acquire property, plant and equipment, inventories and services.

Contingent liabilities

Litigations

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.

Finance lease

On 25 August 2017, the Group entered into a 15-year financial lease agreement with JSC BRK-Leasing to purchase 1,000 low-sided carriages made by JSC ZIKSTO for 15,075,958 thousand tenge with interest rate of 15% per annum. According to the above agreement, during the period from November to December 2017, a delivery of 170 units of freight carriages was planned, but in fact, 81 units of freight cars were received. The Group plans to receive the remaining carriages in 2018.

The Group, JSC BRK-Leasing and the Ministry of Investment and Development of the Republic of Kazakhstan entered into a subsidy agreement from 4 September 2017 to subsidise interest in a financial lease agreement to 10% using budget funds of the Republic of Kazakhstan.

Compliance with legislation

According to the Entrepreneurial Code of the Republic of Kazakhstan, the state register of market entities with dominant or monopolistic market positions was abolished from 1 January 2017 (Letter of the Committee for the Regulation of Natural Monopolies, Protection of Competition and Consumer Rights №34-21-18/40 dated 9 January 2017). Thus, the Group may set its own prices for its car lease 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 2017 and 2016, 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
BNY Mellon Corporate trustee Services limited	Under a trust agreement, JSC Kaztemirtrans and JSC 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.	17 November 2017	17 November 2027	US Dollars 780,000,000
BNY Mellon Corporate trustee Services limited	Under a supplementary trust agreement, JSC Kaztemirtrans and JSC 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
BNY Mellon Corporate trustee Services limited	Under a supplementary trust agreement, JSC Kaztemirtrans and JSC 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
BNY Mellon Corporate trustee Services limited	Under the credit contract between JSC KTZ-Freight Transportations and US Export Import Bank, JSC Kaztemirtrans and the Parent provide a guarantee.	26 November 2012	26 November 2022	US Dollars 424,856,806
Credit Suisse Zurich Bank	Under a supplementary trust agreement, JSC "NC "Kazakhstan Temir zholy"", JSC Kaztemirtrans and JSC 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, JSC "NC "Kazakhstan Temir zholy"", 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 2017 and 2016, the Company had no liabilities related to these guarantees.

In November 2017, as part of the issue by the Parent of Eurobonds for a total amount of US Dollars 780,000 thousand with a term up to 2027 for refinancing Eurobonds issued in 2010 (with a term until 2020), the Company with JSC KTZ-Freight Transportation, acted as a guarantor for the Eurobonds. In connection with the refinancing of Eurobonds issued in 2010 and the issuance of a new guarantee, the Company's guarantee of US Dollars 700,000 thousand was cancelled.

24. SUBSIDIARIES

As at 31 December 2017 and 2016, the Group's subsidiaries and their operations were as follows:

Subsidiary	Nature of operations	Country	Ownership interest, % 31 December 2017	31 December 2016
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

As at 31 December 2017 and 2016, the Group sold its shares in JSC CTS and LLC RFL (Note 11).

(in thousands of Tenge)

On 9 January 2017, the Group, represented by JSC Kaztemirtrans, and LLP Consonance entered into an agreement for the sale of 69.94% interest in the charter capital of KCCC, with the payment of purchase price within three years. Until the full payment of the purchase price, the ownership and control over LLP KCCC remains with the Group.

25. 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, retained earnings and minority interest 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 of the Group. The Group limits the interest rate risk by monitoring changes in interest rates in currencies in which cash, investments and borrowings are denominated, and through the receipt of borrowings with fixed interest rates.

The Group's exposure to the interest rate risk relates mainly to other financial assets and long-term borrowings (Notes 9 and 14). The weighted average effective interest rates were as follows:

	31 December 2017 (% per year)	31 December 2016 (% per year)
Deposits: tenge	9.1%	-
Deposits: US Dollars	3.5%	3%-4%
Long-term loans: US Dollars	4.3%-6.5%	4.3%-9.73%
Long-term loans: Russian roubles	9.85%	-
Long-term loans: tenge	5.58%-16%	7.20%-19.5%

(in thousands of Tenge)

Sensitivity analysis of interest rate

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 interest 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 2017 and retained earnings as at 31 December 2016 would decrease/increase by 2,372,471 thousand tenge (2016: 5,419,945 thousand tenge).

Currency risk

The Group carries out transactions in foreign currency. As at 31 December 2017, loans denominated in foreign currency, as well as loans received from JSC "NC "KTZ" and "EBRD" that are subject to indexation (Note 14) amounted to 430,591,290 thousand tenge.

As at 31 December 2017, foreign exchange loss was 412,189 thousand tenge (2016: foreign exchange gain of 9,670,999 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 and Russian Rouble exchange rates.

The following table reflects the Group's sensitivity to increases and decreases in the value of the tenge by 17% (2016: 40%) with respect to US Dollar and by 5% (2016: 40%) with respect to Russian roubles. These are the sensitivity rates 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 US Dollar and Russian rouble and adjusts their balance at the end of the period taking into account changes in exchange rates.

The following table indicates changes in financial liabilities, if the tenge strengthens by 17% and 5% with respect to US Dollar and Russian Rouble, respectively. A positive figure indicates an increase in profits for the reporting period and negative indicates a decrease in profits. If tenge weakens by 17% and 5% with respect to US Dollar and Russian rouble, there will be an equal and opposite effect on profit.

	Effect US Dollars	
	31 December 2017	31 December 2016
Financial liabilities	(72,694,985)	(184,997,430)
Net effect	**(72,694,985)**	**(184,997,430)**

(in thousands of Tenge)

	Effect Russian rouble	
	31 December 2017	**31 December 2016**
Financial liabilities	(3,174,538)	(131,780)
Net effect	**(3,174,538)**	**(67,055)**

The carrying amount of financial liabilities denominated in foreign currencies is presented below:

	31 December 2017	31 December 2016
Financial liabilities		
US Dollars	427,617,564	462,493,575
Russian rouble	63,490,751	-

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, 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 2017, 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.

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)

	Effective 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 2017								
Non-interest bearing:								
Trade accounts payable	-	10,162,377	-	-	-	-	-	**10,162,377**
Other current liabilities	-	335,458	-	-	-	-	-	**335,458**
Interest-bearing:								
Long-term loans with a floating interest rate	3.6%-23.7%	7,129,899	5,878,848	5,478,298	5,084,881	4,677,198	17,380,480	**45,629,604**
Long-term loans with a fixed interest rate	5.6-16%	31,300,265	30,448,635	37,116,545	37,026,816	36,796,930	977,987,730	**1,150,676,919**
Finance lease liabilities (Note 23)	15%	400,528	2,489,872	2,261,544	2,261,544	2,261,544	29,842,349	**39,517,380**
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**

(in thousands of Tenge)

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.

	Effective weighted average interest rate	Up to 1 year	Indefinite	Total
31 December 2017				
Non-interest bearing:				
Cash and cash equivalents	-	128,522	-	**128,522**
Trade and other receivables	-	24,395,295	1,610,100	**26,005,395**
Financial aid	-	2,000,000	-	**2,000,000**
Interest-bearing:				
Cash and cash equivalents	7.5%-9.5%	725,453	-	**725,453**
Other financial assets	3.5%-9.1%	148,321	-	**148,321**
31 December 2016				
Non-interest bearing:				
Cash and cash equivalents	-	1,229,829	-	**1,229,829**
Trade and other receivables	-	9,288,175	1,470,718	**12,218,409**
Interest-bearing:				
Cash and cash equivalents	-	3,349	-	**3,349**
Other financial assets	3%-4%	99,270	-	**99,270**

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.

Trade 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:

	2017 (% per annum)	2016 (% per annum)
Tenge		
1 to 5 years	14.0	12.8
Over 5 years	14.5	14.4
Foreign currency		
1 to 5 years	5.0	7.0
Over 5 years	7.0	8.7

The fair value hierarchy of the long-term loans is level 2. As at 31 December 2017 and 2016, 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.

(in thousands of Tenge)

26. 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.

		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 2017	1,152,296	21,424,628	-	4,030	**22,580,954**
	31 December 2016	476,546	7,447,199	1,538,135	4,509	**9,466,389**
Including allowance for doubtful debts	31 December 2017	-	-	-	-	**-**
	31 December 2016	-	239,915	167,416	625	**407,956**
Due to related parties for goods and services	31 December 2017	115,966	2,145,512	-	47,727	**2,309,205**
	31 December 2016	1,477,968	575,760	19,139	259,909	**2,332,776**
Financial aid granted	31 December 2017	1,918,219	-	-	-	**1,918,219**
	31 December 2016	-	-	-	-	**-**
Loans received	31 December 2017	428,053,557	-	63,062,596	-	**491,116,153**
	31 December 2016	429,264,608	-	-	60,000,000	**489,264,608**
Interest payable	31 December 2017	909,772	-	428,295	-	**1,337,977**
	31 December 2016	1,086,200	-	-	192,000	**1,278,200**

(in thousands of Tenge)

During 2017, the Group granted to the Parent Company an interest-free financial aid of 8,500,000 thousand tenge for the purpose of replenishment of working capital for the period until 31 December 2017. For the year ended 31 December 2017, 6,500,000 thousand was repaid. The Group recognized fair value adjustment of issued financial aid of 687,511 thousand tenge less income tax of 137,503 thousand tenge in the Group's equity. In order to calculate the fair value of financial aid, the Company applied an effective interest rate of 14.5%. For the year ended 31 December 2017, the Group recognized amortization of the discount in the amount of 605,730 thousand tenge in finance income (Note 21).

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

		Share-holder	Entities of the Share-holder's Group	Joint ventures, in which the group is partici-pant	Other related parties	Total
Sale of goods and services	2017	1,285,702	49,704,702	-	5,632,903	**56,623,307**
	2016	9,499,821	12,476,500	-	7,650,680	**29,627,001**
Accrued allowance for doubtful debts	2017	-	-	-	-	**-**
	2016	-	(21,239)	-	-	**(21,239)**
Purchase of goods and services	2017	86,083	3,061,900	-	43,522	**3,191,505**
	2016	3,877,127	4,678,395	-	189,049	**8,744,571**
Finance income	2017	605,730	-	-	-	**605,730**
	2016	3,248,322	260,668	-	-	**3,508,990**
Finance costs	2017	30,959,722	-	-	2,604,000	**33,563,722**
	2016	21,893,781	-	-	3,240,000	**25,133,781**
Income from dividends declared	2017	-	-	-	-	**-**
	2016	-	-	708,718	-	**708,718**

Compensation to key management personnel of the Group

As at 31 December 2017 and 2016, key management personnel consisted of 7 people. Compensation for key management personnel was as follows:

	2017	2016
Salary	55,187	50,244
Pension contributions	5,165	4,761
Income tax	4,932	4,475
Social tax	4,626	4,290
Social contributions	728	651
Obligatory medical contribution	102	-
	70,740	64,421

27. SUBSEQUENT EVENTS

On 31 January 2018, the Group completed the sale of the property of the Group's branches – Car repair depo (Arys, Balkhash and Kushmurun) and the production facility in Astana station for a total of 3,939,776 thousand tenge, due to the payment by LLP Astana Railway Services of property cost (Note 11). The ownership of this property is transferred to the buyer.

28. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements was confirmed and approved for issue by the management of the Group on 26 February 2018.