



ҚАЗТЕМИРТРАНС

**JOINT STOCK COMPANY
KAZTEMIRTRANS**

Separate Financial Statements
for the year ended 31 December 2016

JOINT STOCK COMPANY KAZTEMIRTRANS

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JOINT STOCK COMPANY KAZTEMIRTRANS

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

Management of Joint Stock Company Kaztemirtrans ("the Company") is responsible for the preparation of separate financial statements that present fairly the separate financial position of the Company as at 31 December 2016, and the separate 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 separate financial statements, management is responsible for:

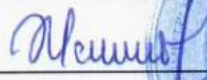
- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's separate financial position and separate financial performance;
- making an assessment of the Company'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 Company;
- maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the separate financial position of the Company, and which enable them to ensure that the Company's separate financial statements comply with IFRS;
- maintaining statutory accounting records in compliance with legislation of the Republic of Kazakhstan and IFRS;
- taking such steps as are reasonably available to them to safeguard the Company's assets; and
- detecting and preventing fraud and other irregularities.


The separate financial statements for the year ended 31 December 2016 were approved by management of Joint Stock Company Kaztemirtrans on 18 March 2017.

On behalf of Company's management:



E.B. Iskakov
Acting President

18 March 2017

Astana, Republic of Kazakhstan


E.M. Akhmurzin
Acting Vice-President of
Finance

18 March 2017


D.T. Kapizova
Acting Chief Accountant

18 March 2017



INDEPENDENT AUDITOR'S REPORT

To the Shareholder of JSC Kaztemirtrans

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company 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 separate 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

We draw attention to Note 2 to separate financial statements, which describes that these separate financial statements present financial statements of parent company JSC Kaztemirtrans. The Company also prepares the consolidated financial statements of the Company and its subsidiaries. These separate financial statements should be read in conjunction with the consolidated financial statements, which were authorised for issue on 20 February 2017.

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

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

In preparing the separate financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's separate financial reporting process.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate financial statements.


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

- identify and assess the risks of material misstatement of the separate 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 Company'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 Company'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 separate 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 Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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


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


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


Deloitte LLP
State audit license of the
Republic of Kazakhstan
No. 0000015, type MFU² issued by the
Ministry of Finance of the
Republic of Kazakhstan
on 13 September 2006


Nurlan Bekenov
General Director
Deloitte LLP

18 March 2017
Almaty, Republic of Kazakhstan

JOINT STOCK COMPANY KAZTEMIRTRANS

**SEPARATE STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016**

(in thousands of tenge)

	Notes	31 December 2016	31 December 2015
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	6	346,506,783	367,147,193
Intangible assets		258,888	370,417
Investments in joint ventures	7	-	800,690
Investments in subsidiaries	8	1,597,572	5,406,821
Other non-current assets	9	1,881,219	4,182,751
Total non-current assets		350,244,462	377,907,872
CURRENT ASSETS			
Inventories	10	4,752,300	4,076,961
Trade accounts receivable	11	13,065,648	8,405,531
Other financial assets	12	99,270	6,088,314
Prepaid income tax		130,044	72,867
Other prepaid taxes	13	2,102,881	2,646,935
Other current assets	14	1,366,136	7,022,520
Cash and cash equivalents	15	799,444	4,300,619
		22,315,723	32,613,747
Non-current assets held for sale	16	1,553,642	5,119,899
Total current assets		23,869,365	37,733,646
TOTAL ASSETS		374,113,827	415,641,518
EQUITY			
Share capital	17	67,726,866	67,726,866
Retained earnings		(232,757,954)	(219,104,927)
TOTAL (EQUITY DEFICIT)/EQUITY		(165,031,088)	(151,378,061)
NON-CURRENT LIABILITIES			
Long-term loans	19	454,242,480	526,717,958
Deferred income tax liabilities	18	7,475,803	10,368,220
Employee benefit obligations		290,307	269,360
Total non-current liabilities		462,008,590	537,355,538
CURRENT LIABILITIES			
Current portion of long-term loans	19	65,518,222	17,458,177
Current portion of employee benefit obligations		15,341	14,524
Trade accounts payable	20	8,101,157	5,955,322
Taxes payable and obligatory payments to budget	21	1,136,428	1,615,291
Other current liabilities	22	2,365,177	4,620,727
Total current liabilities		77,136,325	29,664,041
TOTAL LIABILITIES AND EQUITY		374,113,827	415,641,518

 E.B. Iskakov Acting President	 E.M. Akhmurzin Acting Vice-President of Finance	 D.T. Kapizova Acting Chief Accountant
18 March 2017	18 March 2017	18 March 2017


The notes on pages 10-41 are an integral party of these separate financial statements. The independent auditor's report is on pages 2-4.

JOINT STOCK COMPANY KAZTEMIRTRANS


**SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016**

(in thousands of tenge)

	Notes	2016	2015
Revenue from services provided	23	73,382,132	77,836,350
Cost of sales	24	(59,332,932)	(63,731,789)
Gross profit		14,049,200	14,104,561
General and administrative expenses	25	(8,562,678)	(7,915,532)
Finance income		565,077	456,427
Finance costs	26	(34,905,920)	(24,907,439)
Foreign exchange gain/(loss)	28	9,500,170	(224,646,570)
Other income		2,783,439	1,619,455
Loss before income tax		(16,570,712)	(241,289,098)
Corporate income tax benefit	18	2,892,417	2,276,605
Loss for the year		(13,678,295)	(239,012,493)
Other comprehensive income/(loss):			
<i>Other comprehensive income/(loss) that will not be reclassified subsequently to profit or loss:</i>			
Actuary gain/(loss) on a fixed payment pension plan		25,268	(17,554)
Other comprehensive income/(loss) for the year		25,268	(17,554)
Total comprehensive loss for the year		(13,653,027)	(239,030,047)


E.B. Iskakov
Acting President

18 March 2017


E.M. Akhmurzin
Acting Vice-President of
Finance

18 March 2017


D.T. Kapizova
Acting Chief Accountant

18 March 2017

The notes on pages 10-41 are an integral part of these separate financial statements. The independent auditor's report is on pages 2-4.

JOINT STOCK COMPANY KAZTEMIRTRANS

**SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016**

(in thousands of tenge)

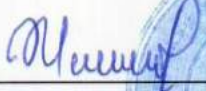
	Notes	2016	2015
Cash flows from operating activities:			
Loss before income tax		(16,570,712)	(241,289,098)
Adjustments for:			
Depreciation and amortisation	24,25	20,032,832	21,618,821
Finance costs	26	34,905,920	24,907,439
Finance income		(565,077)	(456,427)
Other income		(2,652,770)	(1,359,012)
Allowance for doubtful debts	25	(85,298)	1,059,814
Employee benefit expenses	25	47,032	99,466
Loss on impairment of investments in a subsidiary	25	3,219,849	-
Foreign exchange (gain)/loss	28	(9,500,170)	224,646,570
Operating income before changes in working capital:		28,831,606	29,227,573
Change in inventories		(675,339)	1,243,289
Change in trade accounts receivable		(4,296,608)	8,047,071
Change in other current assets		7,143,745	5,163,114
Change in trade accounts payable		2,436,214	(3,119,493)
Change in taxes payable, obligatory payments to budget and value added tax recoverable		(4,731,247)	3,175,322
Change in other current liabilities		(348,448)	-
Cash received from operating activities		28,359,923	43,736,876
Interest paid		(29,525,573)	(22,908,621)
Income tax paid		-	(3,292,170)
Net cash (used in)/generated by operating activities		(1,165,650)	17,536,085
Cash flows from investing activities:			
Purchase of property, plant and equipment, and advances paid for purchase of non-current assets		(367,682)	(12,074,419)
Deposits placed		(43,150,365)	(37,277,764)
Deposits withdrawn		48,753,290	41,347,933
Interest received		482,178	455,124
Proceeds from sale of other non-current assets		3,051,512	1,904,835
Dividends received from joint venture		2,022,737	1,358,688
Net cash inflow generated from/(used in) investing activities		10,791,670	(4,285,603)

JOINT STOCK COMPANY KAZTEMIRTRANS


**SEPARATE STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016**

(in thousands of tenge)

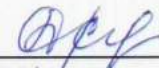
	Notes	<u>2016</u>	<u>2015</u>
Cash flows from financing activities:			
Repayment of long-term loans		(13,049,760)	(9,085,760)
Net cash used in financing activities		(13,049,760)	(9,085,760)
Net decrease/(increase) in cash and cash equivalents		(3,423,740)	4,164,722
Cash and cash equivalents at the beginning of the year		4,300,619	457,109
Effects of exchange rate changes on cash and cash equivalents held in foreign currencies		(77,435)	(321,212)
Cash and cash equivalents at the end of the year	15	<u>799,444</u>	<u>4,300,619</u>
Non-cash transactions:			
Payables and receivables offset for services received from/ to the Parent		7,503,014	7,444,480
Reclassification of property, plant and equipment to assets classified as held for sale	16	163,552	5,119,899
Investments classified as held for sale, reclassified as investments in subsidiaries		-	3,095,737
Contribution of property, plant and equipment to charter capital by Parent Company		-	273,417


E.B. Iskakov
Acting President

18 March 2017


E.M. Akhmurzin
Acting Vice-President of
Finance

18 March 2017


D.T. Kapizova
Acting Chief Accountant

18 March 2017


The notes on pages 10-41 are an integral party of these separate financial statements. The independent auditor's report is on pages 2-4.

JOINT STOCK COMPANY KAZTEMIRTRANS


**SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

(in thousands of tenge)

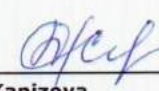
	Share capital	Retained earnings/ (accumulated deficit)	Total equity/ (equity deficit)
At 1 January 2015	67,726,866	19,925,120	87,651,986
Loss for the year	-	(239,012,493)	(239,012,493)
Other comprehensive loss for the year	-	(17,554)	(17,554)
Total comprehensive loss for the year	-	(239,030,047)	(239,030,047)
At 31 December 2015	67,726,866	(219,104,927)	(151,378,061)
Loss for the year	-	(13,678,295)	(13,678,295)
Other comprehensive income for the year	-	25,268	25,268
Total comprehensive loss for the year	-	(13,653,027)	(13,653,027)
At 31 December 2016	67,726,866	(232,757,954)	(165,031,088)


E.B. Iskakov
Acting President

18 March 2017


E.M. Akhmurzin
Acting Vice-President of
Finance

18 March 2017


D.T. Kapizova
Acting Chief Accountant

18 March 2017

The notes on pages 10-41 are an integral party of these separate financial statements. The independent auditor's report is on pages 2-4.

JOINT STOCK COMPANY KAZTEMIRTRANS

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

(in thousands of tenge)

1. GENERAL INFORMATION

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

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

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

The Company's sole shareholder is 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 29.

In 2016, the Company's average number of employees was 1,592 people (in 2015: 1,580 people).

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

The separate financial statements were approved for issue by the Company's management presented by the Acting President, Acting Vice-President of Finance, and Acting Chief Accountant on 18 March 2017.

2. STATEMENT OF COMPLIANCE

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

These financial statements are the separate financial statements of the Joint Stock Company Kaztemirtrans. Subsidiaries were not consolidated in these separate financial statements. Investments in subsidiaries, associates and joint ventures were accounted for at cost method, net of impairment losses. These separate financial statements should be, considered together with the consolidated financial statements, which were approved by the Company's management on 20 February 2017.

3. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Adoption of new and revised standards

The following new and revised standards became effective from 1 January 2016:

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

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

JOINT STOCK COMPANY KAZTEMIRTRANS

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

(in thousands of tenge)

In particular, the Company has reconsidered:

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

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

Standards and Interpretations in issue but not yet effective

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

The separate 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 Company 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 separate financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

JOINT STOCK COMPANY KAZTEMIRTRANS

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

(in thousands of tenge)

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.

Going concern

The separate financial statements of the Company have been prepared on a going concern basis. However, as at 31 December 2016, the Company's negative working capital and accumulated deficit amounted to 53,226,960 thousand tenge and 165,031,088 thousand tenge, respectively. Also, for the year ended 31 December 2016, net loss and net cash used in operating activities of the Company amounted to 13,678,295 thousand tenge and 1,165,650 thousand tenge, respectively.

The management believes that the Company 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 Company has developed a debt portfolio management policy for 2016-2020, according to which the Company plans to refinance the loan of JSC National Welfare Fund Samruk-Kazyna for 10 years in 2017. Management of the Company has already restructuring arrangements with the Parent. Also management of the Company has reached an agreement to restructure EBRD loans, including a loan to the Parent. According to the agreement, EBRD loans issued to the Company and the Parent were restructured and combined into one. The loan interest rate is 4.35% + 6-month LIBOR, taking into account agreement adjustments. The loan repayment date is 24 July 2026;
- All loans of the Company are either guaranteed by the Parent or the Company, or together with its Parent, represent the borrowing parties in credit agreements;
- The Parent provided a support letter, which confirms the intention to provide financial and operational support to the Company. Management believes that with this support, the Company is able to achieve an adequate level of operational profit.

In assessing its going concern basis, the management have considered the Company'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 Company. Based on the analysis performed, management of the Company believes that the separate financial statements do not require any adjustments to the carrying amount of assets and liabilities, income and expenses and classifications of a separate statement of financial position, which may be requested as a consequence of the events in question.

Functional currency and presentation currency

The separate financial statements of the Company are presented in the currency of the economic environment in which the Company operates (its functional currency). For the purposes of these separate financial statements, the separate financial results of activities and separate financial position of the Company are expressed in Kazakhstan tenge ("tenge"), which is the functional currency of the Company and presentation currency for these separate financial statements.

JOINT STOCK COMPANY KAZTEMIRTRANS

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

(in thousands of tenge)

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 REUTERS' quotations.

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

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the reporting date of the separate 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.

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. Cost of inventories are determined on a weighted average cost method.

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

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

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

Property, plant and equipment

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

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs, which have been incurred in bringing the assets to the location and condition necessary for their intended use.

The value of assets constructed by the Company 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.

JOINT STOCK COMPANY KAZTEMIRTRANS

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

(in thousands of tenge)

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 Company's accounting policy.

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

Depreciation

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

Impairment of property, plant and equipment

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

Construction in progress

The cost of the Company'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 an asset is ready for its intended use.

Subsequent costs

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

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

Borrowing costs

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

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

JOINT STOCK COMPANY KAZTEMIRTRANS

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

(in thousands of tenge)

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 separate financial statements when they are proposed before the reporting date or proposed or declared after the reporting date but before separate 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 Company and revenue can be reliably measured as a fair value of remuneration received or receivable.

Revenue from carriage operator services

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

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

Revenue from rent of carriages

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

Recognition of expenses

Expenses are recognised as incurred and are reported in the separate 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 separate 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 separate financial statements and the relevant tax base used to calculate taxable profit, and is calculated using the liability method.

JOINT STOCK COMPANY KAZTEMIRTRANS

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

(in thousands of tenge)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the separate 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 separate statement of financial position if the temporary differences arise from goodwill or from initial recognition of other assets and liabilities in a transaction (except transactions on business combinations) that affects neither taxable profit nor accounting profit.

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 separate statement of financial position.

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

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

Leases

Operating lease

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

Financial instruments

Financial assets and financial liabilities are recognised in the separate statement of financial position of the Company when an 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.

JOINT STOCK COMPANY KAZTEMIRTRANS

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

(in thousands of tenge)

Effective interest method

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

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

HTM investments

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

Loans and receivables

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

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

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

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

JOINT STOCK COMPANY KAZTEMIRTRANS

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

(in thousands of tenge)

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 Company 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company 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 Company retains an option to repurchase part of a transferred asset), the Company 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 the Company 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 the Company 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'.

JOINT STOCK COMPANY KAZTEMIRTRANS

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

(in thousands of tenge)

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.

Contingent liabilities related to the Kazakhstan taxation system

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

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

The risk in the application of a reduced rate of withholding tax for non-resident is possible, in the cases, when the final (actual) recipient of the income may be other non-residents of Kazakhstan. In view of the uncertainties associated with the Kazakhstan tax system, potential taxes, penalties and interest, if any, may exceed the amount expensed to date and accrued as at 31 December 2016. It is not possible to determine the amount of unasserted claims that may arise, if any, or the likelihood of any unfavourable outcome.

Provisions

Provisions are recognised in the separate financial statements when the Company 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.

Subsequent events

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

5. SIGNIFICANT ASSUMPTIONS AND SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company'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.

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

(in thousands of tenge)

Key sources of estimation uncertainty

Impairment of assets

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

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

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

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

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

Capitalisation of expenses

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

Depreciation of property, plant and equipment

Depreciation of property, plant and equipment is calculated using the straight-line method over estimated useful lives of assets. The Company 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 Company are presented below (in years):

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

JOINT STOCK COMPANY KAZTEMIRTRANS

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

(in thousands of tenge)

Allowances

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

JOINT STOCK COMPANY KAZTEMIRTRANS

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(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:								
At 1 January 2015	38,844	6,783,302	4,581,564	468,255,546	297,766	170,893	2,000,787	482,128,702
Additions	-	-	6,704	-	-	4,061	12,124,635	12,135,400
Internal transfer	-	502,990	697,424	11,354,134	-	69,067	(12,623,615)	-
Joint venture share capital contribution	-	-	-	(1,016,795)	-	-	-	(1,016,795)
Transfer to assets classified as held for sale	(30,702)	(5,628,104)	-	(2,987,615)	-	-	-	(8,646,421)
Disposals	-	(382)	(61,206)	(98,015)	(2,800)	(14,572)	(1,360,480)	(1,537,455)
At 31 December 2015	8,142	1,657,806	5,224,486	475,507,255	294,966	229,449	141,327	483,063,431
Accumulated depreciation:								
At 1 January 2015	-	(809,910)	(1,579,836)	(96,113,517)	(144,181)	(100,608)	-	(98,748,052)
Charge for the year	-	(146,235)	(480,536)	(20,857,499)	(25,322)	(17,565)	-	(21,527,157)
Joint venture share capital contribution	-	-	-	743,378	-	-	-	743,378
Transfer to non-current assets classified as held for sale	-	661,303	-	2,865,219	-	-	-	3,526,522
Disposals	-	36	58,862	13,572	2,800	13,801	-	89,071
At 31 December 2015	-	(294,806)	(2,001,510)	(113,348,847)	(166,703)	(104,372)	-	(115,916,238)
Net book value at 31 December 2015	8,142	1,363,000	3,222,976	362,158,408	128,263	125,077	141,327	367,147,193

JOINT STOCK COMPANY KAZTEMIRTRANS

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of tenge)

	Land	Buildings and constructions	Machinery and equipment	Railway transport	Other transport	Other	Construction in progress	Total
Historical cost:								
At 1 January 2016	8,142	1,657,806	5,224,486	475,507,255	294,966	229,449	141,327	483,063,431
Additions	-	29,968	2,150	-	-	131	46,249	78,498
Internal transfer	-	74,571	9,736	-	-	37,633	(121,940)	-
Disposals	-	-	(7,773)	(4,820,264)	(2,800)	(7,279)	(44,509)	(4,882,625)
At 31 December 2016	8,142	1,762,345	5,228,599	470,686,991	292,166	259,934	21,127	478,259,304
Accumulated depreciation:								
At 1 January 2016	-	(294,806)	(2,001,510)	(113,348,847)	(166,703)	(104,372)	-	(115,916,238)
Charge for the year	-	(57,077)	(508,960)	(19,377,547)	(23,786)	(21,399)	-	(19,988,769)
Disposals	-	-	7,641	4,134,897	2,800	7,148	-	4,152,486
At 31 December 2016	-	(351,883)	(2,502,829)	(128,591,497)	(187,689)	(118,623)	-	(131,752,521)
Net book value at 31 December 2016	8,142	1,410,462	2,725,770	342,095,494	104,477	141,311	21,127	346,506,783

JOINT STOCK COMPANY KAZTEMIRTRANS

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

(in thousands of tenge)

During the year ended 31 December 2015, the Company purchased 857 freight carriages for 11,354,134 thousand tenge.

As at 31 December 2016 and 2015, the cost of fully depreciated property, plant and equipment was 3,791,799 thousand tenge and 5,712,000 thousand tenge, respectively.

In 2016, the Company revalued the liquidation cost of freight carriages. The effect of revaluation of the liquidation cost of freight carriages has led to decrease of depreciation for 2016 by 158,416 thousand tenge.

7. INVESTMENTS IN JOINT VENTURES

	31 December 2016	31 December 2015
Cost of investments at 1 January	800,690	527,273
Contribution to the share capital in the form of property, plant and equipment	-	273,417
Cost of investments at 31 December	800,690	800,690
Reclassification of investments in assets held for sale (Note 16)	(800,690)	-
Cost of investments at 31 December	-	800,690

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

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

8. INVESTMENTS IN SUBSIDIARIES

Subsidiary	Nature of operations	Country	Ownership interest, %		Cost of investments	
			31 December 2016	31 December 2015	31 December 2016	31 December 2015
Kazakhstan Carriage Construction Company LLP	Manufacture of freight carriages	Kazakhstan	69.94	69.94	1,586,781	3,095,737
Kazakhstan Temir Zholy Finance B.V.	Financing of the Parent and its subsidiaries	The Netherlands	100.00	100.00	10,791	10,791
JSC Centre of Transportation Services	Transportation and freight forwarding services	Kazakhstan	100.00	100.00	-	2,300,247
LLC Regional Forward Logistics	Transportation and freight forwarding services	Russia	90.00	90.00	-	46
					<u>1,597,572</u>	<u>5,406,821</u>

As at 31 December 2016, the Company reclassified its share in JSC CTS and LLC RFL into assets held for sale (Note 16). The Company recognised loss on investments in subsidiary KCCC LLP of 1,508,956 thousand tenge.

JOINT STOCK COMPANY KAZTEMIRTRANS

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

(in thousands of tenge)

During 2015, there were no changes in the Company structure.

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

9. OTHER NON-CURRENT ASSETS

	31 December 2016	31 December 2015
Value added tax recoverable	965,906	2,965,906
Prepaid expenses	489,019	483,861
Non-current receivables	426,294	474,194
Advances to suppliers and contractors	-	258,790
	<u>1,881,219</u>	<u>4,182,751</u>

10. INVENTORIES

	31 December 2016	31 December 2015
Spare parts	4,254,495	3,528,861
Materials and supplies	197,101	198,531
Other	300,704	349,569
	<u>4,752,300</u>	<u>4,076,961</u>

11. TRADE ACCOUNTS RECEIVABLE

	31 December 2016	31 December 2015
Trade accounts receivable	13,686,429	9,398,554
Less: Allowance for doubtful debts	(620,781)	(984,023)
	<u>13,065,648</u>	<u>8,405,531</u>

As at 31 December 2016 and 2015, trade receivables mainly comprised of receivables from debtors from the Republic of Kazakhstan.

The allowance for doubtful debts relates to the amount of trade receivables from third parties. Trade receivables from related parties are represented by debts with a maturity of less than one year.

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

	31 December 2016	31 December 2015
Less than 60 days	9,502,971	4,263,366
60-90 days	2,915,080	2,546,039
91-120 days	647,597	1,596,126
	<u>13,065,648</u>	<u>8,405,531</u>

JOINT STOCK COMPANY KAZTEMIRTRANS

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

(in thousands of tenge)

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
91-120 days	432,726	366
over 121 days	188,055	983,657
	<u>620,781</u>	<u>984,023</u>

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
Tenge	11,344,390	8,405,531
US Dollars	1,657,638	-
Russian Rouble	63,620	-
	<u>13,065,648</u>	<u>8,405,531</u>

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

	<u>2016</u>	<u>2015</u>
Allowance for doubtful debts at the beginning of the year	(984,023)	(364,991)
Reversal/(accrued) for the year	363,242	(619,032)
Allowance for doubtful debts at the end of the year	<u>(620,781)</u>	<u>(984,023)</u>

12. OTHER FINANCIAL ASSETS

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

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

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

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

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(in thousands of tenge)

13. OTHER PREPAID TAXES

	31 December 2016	31 December 2015
Value added tax recoverable	2,100,132	2,644,019
Taxes recoverable other than income tax	2,749	2,916
	<u>2,102,881</u>	<u>2,646,935</u>

14. OTHER CURRENT ASSETS

	31 December 2016	31 December 2015
Other accounts receivable	1,121,941	5,060,914
Advances paid	713,945	2,727,255
Prepaid expenses	205,854	139,277
	2,041,740	7,927,446
Less: Allowance for doubtful debts	<u>(675,604)</u>	<u>(904,926)</u>
	<u>1,366,136</u>	<u>7,022,520</u>

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

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

	2016	2015
Allowance for doubtful debts at the beginning of the year	(904,926)	(464,144)
Reversal/(accrued) for the year	<u>229,322</u>	<u>(440,782)</u>
Allowance for doubtful debts at the end of the year	<u>(675,604)</u>	<u>(904,926)</u>

15. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash in bank accounts in tenge	652,680	252,436
Cash in bank accounts in Russian Rouble	138,632	507,978
Cash in bank accounts in US Dollar	8,132	123,365
Short-term deposits in tenge	-	3,416,840
	<u>799,444</u>	<u>4,300,619</u>

JOINT STOCK COMPANY KAZTEMIRTRANS

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

(in thousands of tenge)

16. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	<u>31 December 2016</u>	<u>31 December 2015</u>
100% share in JSC Centre of Transportation Services (JSC CTS)	2,300,247	-
50% share in JSC Astyk Trans (Note 7)	800,690	-
Freight carriages held for sale	163,552	122,397
90% share in LLC Regional Forward Logistics (LLC RFL)	46	-
Emerald Quarter administrative building	-	4,997,502
	<u>3,264,535</u>	<u>5,119,899</u>
Less: impairment loss	<u>(1,710,893)</u>	<u>-</u>
	<u>1,553,642</u>	<u>5,119,899</u>

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

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

17. SHARE CAPITAL

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

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

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**NOTES TO THE SEPARATE FINANCIAL STATEMENTS
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18. INCOME TAX

	<u>2016</u>	<u>2015</u>
Adjustment in respect of prior years	-	742,936
Deferred income tax benefit	<u>(2,892,417)</u>	<u>(3,019,541)</u>
	<u>(2,892,417)</u>	<u>(2,276,605)</u>

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

	<u>2016</u>	<u>2015</u>
Loss before income tax	(16,570,712)	(241,289,098)
Official tax rate	<u>20%</u>	<u>20%</u>
Theoretical tax benefit at the statutory income tax rate	(3,314,142)	(48,257,820)
Tax effect of expenses that are not deductible for tax purposes:		
Adjustment in respect of previous years	-	742,936
Non-deductible expenses	9,327,883	4,046,064
Change in unrecognized deferred tax assets	<u>(8,906,158)</u>	<u>41,192,215</u>
Income tax benefit	<u>(2,892,417)</u>	<u>(2,276,605)</u>

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 separate financial statements, are as follows at 31 December:

	<u>2016</u>	<u>2015</u>
Deferred tax assets:		
Tax losses carried forward	43,355,891	37,828,121
Trade accounts receivable	124,156	196,805
Discount on loan receivables	185,105	151,236
Accrued liabilities to employees	31,705	32,159
Other	<u>211,975</u>	<u>21,088</u>
	<u>43,908,832</u>	<u>38,229,409</u>
Deferred tax liabilities:		
Property, plant and equipment and other non-current assets	(51,259,583)	(48,474,395)
Prepaid expenses	<u>(125,052)</u>	<u>(123,234)</u>
	<u>(51,384,635)</u>	<u>(48,597,629)</u>
Total net deferred tax liabilities	<u>(7,475,803)</u>	<u>(10,368,220)</u>

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

JOINT STOCK COMPANY KAZTEMIRTRANS

**NOTES TO THE SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

(in thousands of tenge)

19. LONG-TERM LOANS

	Maturity date	Interest rate	31 December 2016	31 December 2015
Long-term loans:				
JSC NC KTZ				
Loan 1	10 July 2042	6.95%	266,020,915	270,956,396
Loan 2	10 July 2042	5.578%	66,658,000	67,894,000
Loan 3	6 October 2020	6.375%	96,585,693	98,359,671
JSC NWF Samruk-Kazyna				
	15 September 2017	7.2%	60,000,000	60,000,000
European Bank for Reconstruction and Development ("EBRD"):				
Loan	24 July 2026	LIBOR + 4.35%	29,011,520	-
		US Dollars LIBOR 6-month deposits + 3.25%	-	10,159,499
Loan 1	13 April 2020	US Dollars LIBOR 3-month deposits + 2.95%	-	32,544,245
Loan 2	10 November 2018		-	4,262,324
Interest payable			1,484,574	
			519,760,702	544,176,135
Less current portion			(65,518,222)	(17,458,177)
			454,242,480	526,717,958

As at 31 December, loans are repaid as follows:

Within:	2016	2015
1 to 2 years	2,623,585	171,401,507
2 to 3 years	2,623,585	13,084,934
3 to 4 years	2,623,585	2,254,081
4 to 5 years	2,623,585	1,127,040
over 5 years	443,748,140	338,850,396
Total	454,242,480	526,717,958

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

	2016	2015
US Dollar	459,568,702	483,984,135
Tenge	60,192,000	60,192,000
	519,760,702	544,176,135

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

(in thousands of tenge)

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

20. TRADE ACCOUNTS PAYABLE

	<u>31 December 2016</u>	<u>31 December 2015</u>
For services provided	6,323,320	4,970,052
For inventories	1,742,955	688,030
For supply of property, plant and equipment	6,856	281,499
For other services	28,026	6,741
	<u>8,101,157</u>	<u>5,955,322</u>

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

	<u>31 December 2016</u>	<u>31 December 2015</u>
Tenge	6,261,795	4,338,561
Russian Rouble	1,831,018	1,098,637
US Dollar	7,940	518,124
Euro	374	-
	<u>8,101,157</u>	<u>5,955,322</u>

21. TAXES PAYABLE AND OBLIGATORY PAYMENTS TO BUDGET

	<u>31 December 2016</u>	<u>31 December 2015</u>
Withholding tax on non-residents	962,846	1,046,146
Social insurance liabilities	93,679	9,760
Pension fund contributions	27,321	22,129
Individual income tax	22,489	17,852
Social tax	16,614	12,856
Other	13,479	506,548
	<u>1,136,428</u>	<u>1,615,291</u>

22. OTHER CURRENT LIABILITIES

	<u>31 December 2016</u>	<u>31 December 2015</u>
Advances received for carriage operator services	1,986,173	4,266,720
Provision for unused vacation	158,526	160,793
Current payroll liabilities	44,565	22,364
Other	175,913	170,850
	<u>2,365,177</u>	<u>4,620,727</u>

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**NOTES TO THE SEPARATE FINANCIAL STATEMENTS
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(in thousands of tenge)

23. REVENUE FROM SERVICES PROVIDED

	<u>2016</u>	<u>2015</u>
Revenue from carriage operator services	42,973,383	43,210,947
Revenue from rent of carriages	25,744,559	29,163,790
Revenue from freight forwarding	3,125,222	3,074,544
Other revenue from sales of inventories	906,358	1,508,891
Penalties, received	323,188	520,227
	<u>309,422</u>	<u>357,951</u>
	<u>73,382,132</u>	<u>77,836,350</u>

For the year ended 31 December 2016, 91.6% of revenue from carriage operator services were generated from companies – residents of the Republic of Kazakhstan (2015: 86%).

24. COST OF SALES

	<u>2016</u>	<u>2015</u>
Depreciation and amortisation	19,854,109	21,325,740
Railway tariffs	17,660,589	24,091,650
Freight carriages and spare parts repair expenses	9,758,458	8,404,718
Materials and supplies	6,503,645	5,186,082
Personnel costs, including short-term provisions	1,600,851	1,473,863
Security expenses	233,088	234,821
Other services	3,722,192	3,014,915
	<u>59,332,932</u>	<u>63,731,789</u>

Personnel costs for the year ended 31 December included:

	<u>2016</u>	<u>2015</u>
Salaries	1,418,065	1,317,171
Social tax	177,396	162,606
Unused vacation provision accrual/(recovery)	5,390	(5,914)
	<u>1,600,851</u>	<u>1,473,863</u>

25. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2016</u>	<u>2015</u>
Loss on impairment of investments in subsidiaries (Notes 8, 16)	3,219,849	-
Taxes	2,775,776	4,088,401
Personnel costs, including short-term provisions	1,525,008	1,390,651
Operating lease expenses	504,478	233,215
Depreciation and amortisation	178,723	293,081
Professional services (consulting, audit and legal)	87,381	54,458
Allowances for employee benefit obligations	47,032	99,466
Allowances for doubtful debts	(85,298)	1,059,814
Other services	309,729	696,446
	<u>8,562,678</u>	<u>7,915,532</u>

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Personnel costs for the years ended 31 December included:

	<u>2016</u>	<u>2015</u>
Salaries	1,383,360	1,232,224
Social tax	149,307	146,312
(Recovery)/accrual of provision for unused vacation	<u>(7,659)</u>	<u>12,115</u>
	<u>1,525,008</u>	<u>1,390,651</u>

26. FINANCE COSTS

	<u>2016</u>	<u>2015</u>
Interest expense on long-term loans	30,470,145	19,360,866
Interest expense on long-term loans from the Parent	4,320,000	5,460,057
Amortisation of discount on long-term loans	<u>115,775</u>	<u>86,516</u>
	<u>34,905,920</u>	<u>24,907,439</u>

27. FINANCIAL AND CONTINGENT LIABILITIES

Contractual liabilities

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

Litigation

The Company is subject to various legal proceedings related to business operations, such as property damage claims. The Company 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 Company's separate financial position or results of operations.

Compliance with legislation

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

The Company assesses the likelihood of occurrence of material liabilities and accrues provisions in its separate 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 separate financial statements for any of the contingent liabilities mentioned above.

Insurance

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

In 2016 and 2015, a significant portion of the Company'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.

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(in thousands of tenge)

Guarantees

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

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

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28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Capital risk management

The Company 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 Company's capital structure includes share capital and retained earnings as disclosed in the separate 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 separate financial statements.

Objectives of financial risk management

Risk management is an essential element of the Company's operations. The Company 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 Company's risk management policies in relation to those risks follows.

Interest rate risk

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

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

	2016 (% per year)	2015 (% per year)
Deposits: tenge	-	13.5%
Deposits: US Dollar	3%-4%	5.3%
Long-term loans: US Dollar	4.31%-6.7%	3.58-6.95%
Long-term loans: tenge	7.2%	7.2%

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Interest rate risk, sensitivity analysis

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

The analysis below presents sensitivity in terms of fluctuation of interest rates on non-derivative instruments as at the reporting date. As for the liabilities with floating interest rates, the analysis was prepared based on the assumption that the amount of outstanding liabilities remained outstanding for the whole year. In preparation of management reports on interest rate risks for the key management of the Company, 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 Company's profit for the year ended 31 December 2016 and retained earnings as at 31 December 2016 would decrease/increase by 5,390,032 thousand tenge (2015: 425,460 thousand tenge).

Currency risk

The amounts of short-term and long-term debt of the Company expressed in US dollars are accounted for in tenge. The decrease in the tenge exchange rate against the US dollars may cause increase in the Company's expenses due to the growth of the exchange rate. The Company limits foreign exchange risk by monitoring changes in foreign exchange rates, in which cash and loans are denominated.

For the year ended 31 December 2016, foreign exchange gain was 9,500,170 thousand tenge (2015: foreign exchange loss of 224,646,570 thousand tenge).

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

Foreign currency sensitivity analysis

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

The following table reflects the Company's sensitivity to 40% (2015: 40%) increases and decreases in the value of the tenge with respect to the relevant foreign currencies. 40% - is the sensitivity rate used in the preparation of internal currency risk reports for key management and represents management's evaluation of reasonably possible changes in exchange rates. The sensitivity analysis includes only outstanding monetary positions in foreign currency and adjusts their balance at the end of the period taking into account a 40% change in exchange rates. The sensitivity analysis includes a) cash, b) other financial assets, c) long-term loans when cash, other financial assets and long-term loans are issued in US dollars. The following table indicates changes in financial assets and liabilities, if the tenge strengthens by 40% with respect to the relevant currency. A positive figure indicates an increase in profits for the reporting period and negative indicates a decrease in profits. If tenge weakens by 40% with respect to the relevant currency, there will be an equal and opposite effect on profit.

	Effect US Dollars	
	2016	2015
Financial assets	(706,016)	(2,482,648)
Financial liabilities	183,830,657	193,800,903
Net effect	183,124,641	191,318,255

JOINT STOCK COMPANY KAZTEMIRTRANS

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

(in thousands of tenge)

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

	<u>2016</u>	<u>2015</u>
<i>Financial assets</i>		
US Dollars	1,765,040	6,206,621
<i>Financial liabilities</i>		
US Dollars	459,576,642	484,502,259

Credit risk

The credit risk arising from counterparties' failure to meet the terms of agreements with the Company's financial instruments is usually limited to the amounts, if any, by which counterparty liabilities exceed the Company's liabilities to these counterparties. The Company'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.

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

As at 31 December 2016, the Company 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 Company 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 Company's shareholder who created the necessary liquidity risk management system for the Company's management in accordance with liquidity management requirements and short-, medium- and long-term financing.

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

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(in thousands of tenge)

Liquidity risk tables

The following table reflects the Company'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 Company will be required to pay. The table includes cash flows for both interest and principal.

	Weighted average interest rate	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
31 December 2016								
<i>Non-interest bearing:</i>								
Trade accounts payable	-	8,101,157	-	-	-	-	-	8,101,157
Other current liabilities	-	220,478	-	-	-	-	-	220,478
<i>Interest-bearing:</i>								
Long-term loans with a floating interest rate	4.31%-5.71%	5,503,279	3,996,066	3,851,564	3,709,635	3,562,559	15,646,251	36,269,354
Long-term loans with a fixed interest rate	5.58%-7.2%	91,494,851	28,410,851	28,410,851	28,410,851	28,394,016	908,898,976	1,114,020,396
31 December 2015								
<i>Non-interest bearing:</i>								
Trade accounts payable	-	7,622,187	-	-	-	-	-	7,622,187
Other current liabilities	-	443,093	-	-	-	-	-	443,093
<i>Interest-bearing:</i>								
Long-term loans with a floating interest rate	3.58%-4.13%	14,645,785	14,186,709	13,651,543	2,351,987	1,141,752	-	45,977,775
Long-term loans with a fixed interest rate	5.58%-7.2%	33,303,689	92,055,689	28,983,689	28,983,689	126,092,391	828,621,861	1,138,041,008

The following table reflects the expected maturity dates of the Company'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 Company expects the cash flow in a different period.

	Weighted average interest rate	Up to 1 year	Indefinite	Total
31 December 2016				
<i>Non-interest bearing:</i>				
Cash and cash equivalents	-	799,444	-	799,444
Trade accounts receivable	-	13,065,648	(620,781)	12,444,867
Other current assets	-	1,121,941	-	1,121,941
<i>Interest-bearing:</i>				
Other financial assets	3%-4%	99,270	-	99,270
31 December 2015				
<i>Non-interest bearing:</i>				
Cash and cash equivalents	-	883,779	-	883,779
Trade accounts receivable	-	8,405,531	(984,023)	7,421,508
Other current assets	-	1,121,250	-	1,121,250
<i>Interest-bearing:</i>				
Cash and cash equivalents	40%-44.5%	3,451,286	-	3,451,286
Other financial assets	5.3%-13.5%	6,242,643	-	6,242,643

JOINT STOCK COMPANY KAZTEMIRTRANS

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

(in thousands of tenge)

Fair value of financial instruments

The following methods and assumptions were used by the Company 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 and other accounts receivable and payable

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

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

Loans

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

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

The fair value hierarchy of the long-term loans is level 2. During the year, there were no transfers between hierarchy levels.

29. RELATED PARTY TRANSACTIONS

For the purposes of these separate 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 Company 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.

JOINT STOCK COMPANY KAZTEMIRTRANS

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

(in thousands of tenge)

		Shareholder	Associated entities of the Company	Entities of the Shareholder's Group	Subsidiaries of the Company	Other related parties	Total
Due from related parties for goods and services	31 December 2016	476,546	1,538,135	7,447,199	4,411,280	4,509	13,877,669
	31 December 2015	9,512,556	4,360,601	54,826	167,416	117,830	14,213,229
Including allowance for doubtful debts	31 December 2016	-	-	239,915	167,416	625	407,956
	31 December 2015	-	-	261,154	167,416	625	429,195
Due to related parties for goods and services	31 December 2016	1,391,586	19,139	582,814	1,801,681	250,525	4,045,745
	31 December 2015	476,852	2,004,860	87,531	-	74,554	2,643,797
Loans received	31 December 2016	429,264,608	-	-	-	60,000,000	489,264,608
	31 December 2015	437,210,067	-	-	-	60,000,000	497,210,067
Interest payable	31 December 2016	1,086,200	-	-	-	192,000	1,278,200
	31 December 2015	3,826,918	-	-	-	192,000	4,018,918

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

		Shareholder	Associated entities of the Company	Entities of the Shareholder's Group	Subsidiaries of the Company	Other related parties	Total
Sale of goods and services	2016	9,499,700	5,610,749	27,911,667	6,244,282	12,777	49,279,175
	2015	21,385,963	-	172,849	6,804,385	8,550,586	36,913,783
Accrued allowance for doubtful debts	2016	-	-	-	167,416	-	167,416
	2015	-	-	-	-	-	-
Purchase of goods and services	2016	1,309,086	611,732	11,382,736	4,512,424	22,162	17,838,140
	2015	14,187,624	-	2,350,422	5,695,316	77,980	22,311,342
Finance expenses	2016	29,057,129	-	-	-	4,320,000	33,377,129
	2015	19,386,995	-	-	-	4,320,000	23,706,995
Dividends declared	2016	-	708,718	-	1,314,019	-	2,022,737
	2015	-	-	-	1,358,688	-	1,358,688

Outstanding balances at year-end are unsecured, interest free, while settlement is made in cash. For the years ended 31 December 2016 and 2015, the Company did not make any allowance for doubtful debts relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Compensation to key management personnel of the Company

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

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

JOINT STOCK COMPANY KAZTEMIRTRANS

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

(in thousands of tenge)

30. SUBSEQUENT EVENTS

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

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

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

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

31. APPROVAL OF THE SEPARATE FINANCIAL STATEMENTS

These separate financial statements were approved for issue by the management of the Company 18 March 2017.