



**KAZAKHSTAN  
RAILWAYS**

# ANNUAL REPORT 2017

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## Address of the Chairman of the Board of Directors

### ASKAR UZAKPAYEVICH MAMIN

Chairman of the Board of Directors  
NC KTZ JSC

Dear shareholders, partners,  
investors and readers  
of the Annual Report!

The policy of qualitative structural change of economy, business climate improvement and infrastructure development followed by the Government of Kazakhstan over the past years, backed by global economic recovery, encouraged a four-percent growth of the country's GDP in 2017.

A key driver of the economic growth was the transportation and logistics sector which yielded a 4.8% gain compared with the previous year.

This is to a great extent the result of systemic and balanced development of Kazakhstan's transportation industry of which key link is Kazakhstan Temir Zholy - the national railway company integrating in its business model logistics and transportation assets, terminals and basic infrastructure of all modes of transport (hereinafter referred to as the Company).

In a fairly short period of time the Company achieved a two-fold annual increase in the volume of container transport transiting in strategic China-Europe directions, integrated Kazakhstan infrastructure into global logistics chains, expanded the geography of Kazakhstan's exports, increased population mobility, and improved the country's logistics environment.



In 2017, the Company continued to actively take part in the implementation of projects under the State Programme of the Infrastructure Development "Nurly Zhol" and the Plan of the Nation - 100 Concrete Steps.

Thus, in 2017, the construction of a number of major infrastructure projects of the country: a railway station complex and a new airport terminal in Astana, the second main track on the Almaty-Shu section, an automobile ferry crossing in the Kuryk port on Caspian Sea, a transportation and logistics center in Shymkent, was completed.

I would like to note that the newly commissioned railway station complex and airport terminal were the key projects of transportation support of the International Exhibition EXPO-2017 held in Astana.

Furthermore, the Company made every effort to offer high-level transportation services for the international event: introduced new passenger train routes, updated the rolling stock, and increased security and service level at facilities of transportation and logistics infrastructure.

In 2017, the Company continued the work on the enhancement of business performance, optimization of corporate and debt portfolio and transformation of operations, resulting in the improvement of all the Company's key strategic indicators.

A significant event of the year was the acquisition of a share in the capital of the Dry Port of KTZE - Khorgos Gateway LLP by the world's largest marine operator Cosco Shipping and the Lianyungang port. This will provide additional conditions to increase the volume of transit traffic through Kazakhstan and serve as a catalyst to attract investments in industrial and logistical infrastructure of the Free Economic Zone Khorgos-Eastern Gate.

In 2017, Kazakhstan Temir Zholy continued to implement its corporate social policy, fulfilled all social obligations against its employees, including the provision of medical care for residents of remote stations and interstations.

Last year witnessed the completion of the work to draw and sign a new Collective Agreement which announced the increase in the size of social support and guarantees for the Company's employees and members of their households.

Thus, in 2017, Kazakhstan Temir Zholy fulfilled all objectives, achieved planned results, and to full extent met all obligations with respect to shareholders, clients, state, employees and partners.

More details on results of Kazakhstan Temir Zholy for 2017 can be found in the enclosed Annual Report which reflects the relevant figures and facts. ■

Best regards,  
Chairman of the Board of Directors  
of NC KTZ JSC  
A. Mamin

## Address of the Chairman of the Management Board

### KANAT KALIYEVICH ALPYSBAYEV

Chairman of the Management Board  
NC KTZ JSC

#### Dear readers of the Annual Report, colleagues, partners!

In 2017, the growth of economic activity in our republic stimulated the growth in the volume of transportation of 11% up to 272 million tons. It is the transportation of coal, iron ore, scrap, construction materials, oil products, fertilizers, grain and grocery products that has grown.

The volume of container traffic amounted to 348 thousand TEU, which is 42% more than in 2016. Thus, the volume of Europe-bound transit traffic from China almost 200 times exceeded that of 2011 and amounted to 201 thousand containers, while loading of China-bound freight trains from Europe was secured at the level of 60%.

This was achieved due to active marketing policy, strengthening of partnership and alliances with market participants, offering competitive terms and service cost.

In 2017, we expanded the geography and methods of supply, launched regular direct routes for grain shuttle trains on the Kazakhstan railway networks, as well as for those designed for export.

A significant event of the year was the involvement of the global shipping company COSCO and the port of Lianyungang into the development of Dry Port in the SEZ Khorgos Eastern Gate.



As a result, the share of revenues from transit traffic in the total revenue structure was 27%, with 13% in the total volume of freight turnover.

The Government has set ambitious objectives for NC KTZ JSC to promote trans-Kazakhstan routes and attract new freight flows with the transit of up to 2 million containers in 2020. This is a challenge for the Company, therefore, together with its partners, a complex work is carried out to increase rapidness of transportation, minimize costs, increase the level of service and form a customized product range.

An important component of this work was systemic measures to increase the efficiency of activities.

Increasing the efficiency of production processes and labor productivity, modernization and develop-

ment of the means of production, automation of process management, optimization of the structure of production assets, energy and resource saving ensured an economic effect of KZT 76 billion in 2017.

Approved strategy and implementation of measures to ensure financial sustainability can support the Company's performance indicators at a high level.

Thus, the EBITDA margin for the reporting period was 23.2%. This trend has been reliably continued since 2012. Net profit for the year amounted to KZT 11.4 billion.

In 2017, in the framework of the State Programs "Nurly Zhol" and The National Plan-100 Steps, the Company continued to implement infrastructure projects.

Prior to the International Exhibition EXPO-2017 held in Astana, the Company constructed and put into operation a passenger airport terminal with an area of 47 thousand square meters and a railway station Nurly Zhol in Astana, meeting the best world standards.

At the end of October 2017, the traffic on the second main track of the 113.7 km long Almaty-Shu railway section was opened.

In December 2017, an automobile ferry was launched in the Kuryk port with a capacity of 2 million tons per year and a transport and logistics center in Shymkent.

In addition, in order to meet the increased demand for transportation during EXPO-2017 more passenger trains were added and security was improved at railway stations.

Also, NC KTZ JSC organized its own exposition at the exhibition demonstrating the Company's input in the implementation of the policy of sustainable development of Kazakhstan.

In 2017, the work was continued on the optimization of the corporate portfolio and the implementation of the Comprehensive Plan of the Government of the Republic of Kazakhstan for privatization, within the framework of which 5 companies were sold.

In 2017, a new edition of the Collective Agreement for 2018-2020 between NC KTZ JSC and its personnel was signed. The Agreement comprised traditional aspects of social support and also introduced additional standards to improve the social status of workers.

To provide remote stations and interstations with quality medical care the Company continued the tradition of organizing medical trains "Densaulyk", "Zhardem", "Salamatty Kazakhstan".

In 2017, owing to a well-coordinated work of several thousands of employees, NC KTZ JSC fulfilled all its obligations towards the shareholder and all interested parties.

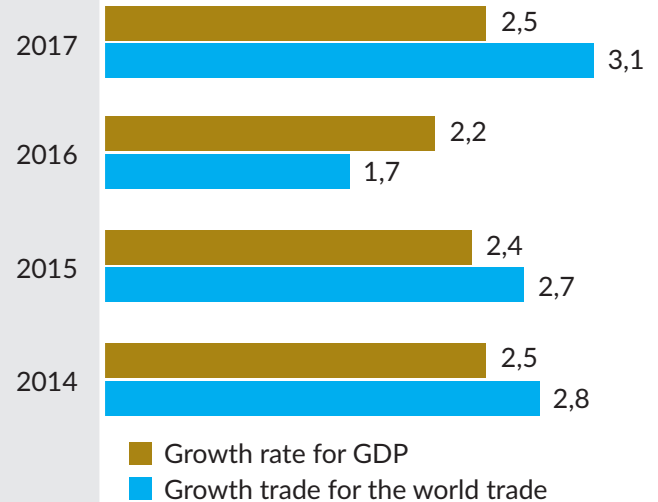
I express sincere gratitude to our partners and clients for successful joint activities. I am confident that our further cooperation will be more effective and fruitful. ■

Best regards,  
Chairman of the Management Board  
of NC KTZ JSC  
K. Alpysbayev

## Market review

### Rate of growth of the world trade and GDP, %

After a slight slowdown in the growth of the world economy, observed in 2015-2016, in 2017 there is again a positive trend. In turn, the revival of world trade had a favorable impact on the freight market in Kazakhstan.



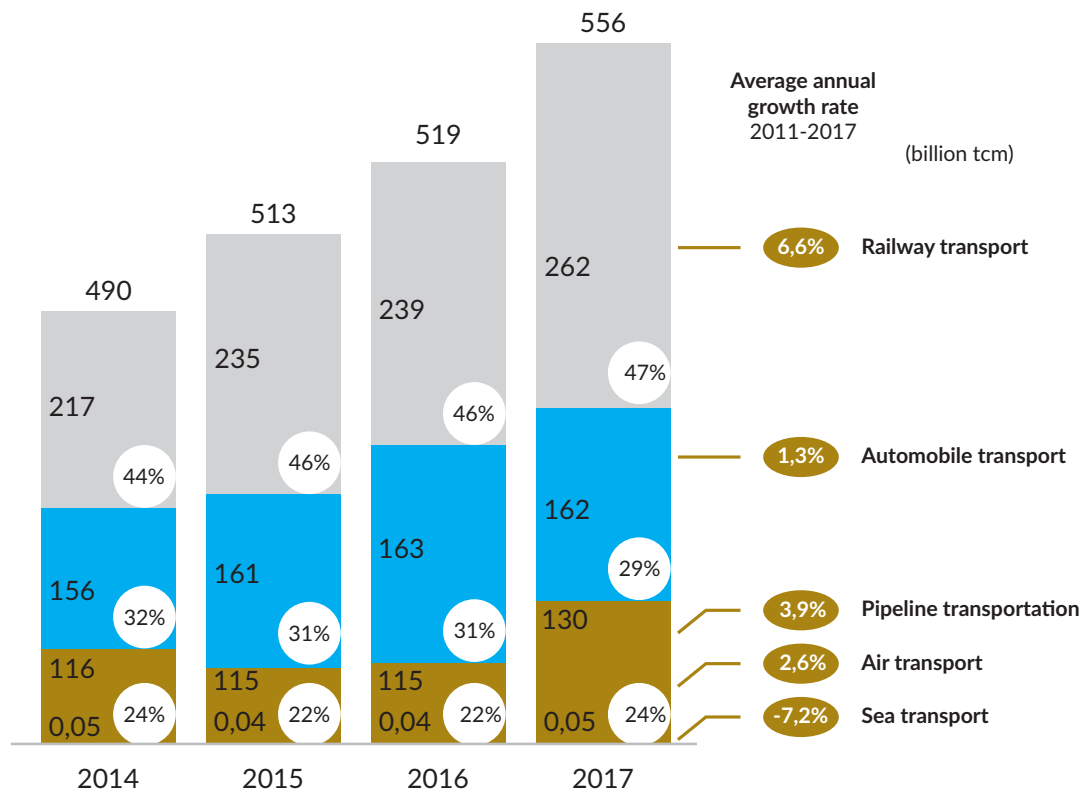
### Freight Transportation Market

Dynamics of freight turnover by means of transport for 2014-2017

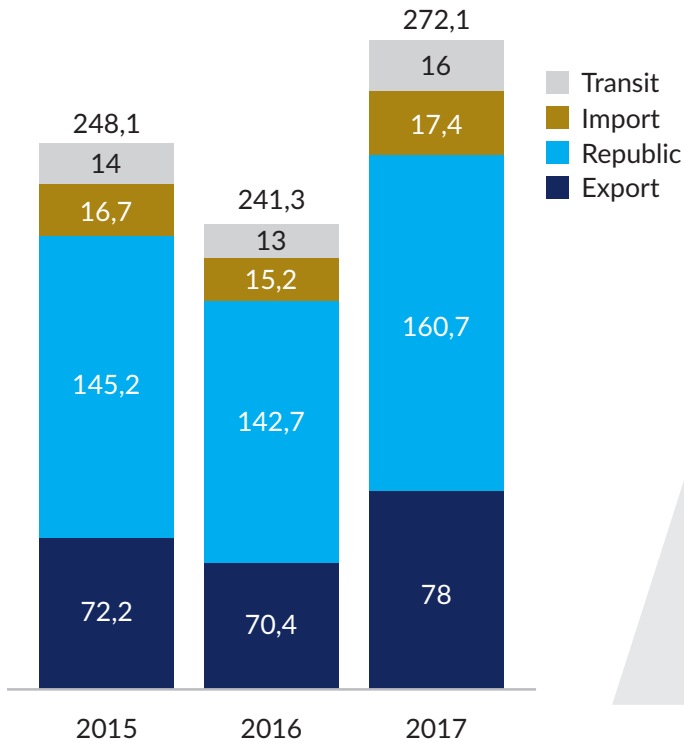
According to the Committee on Statistics of the Ministry of Energy of the Republic of Kazakhstan, the total cargo turnover in the country for 2017 increased by 7.1% against the previous year and amounted to 556 billion tons/km.

The highest growth for 2017 was shown by pipeline transport (+ 13%) and railway transport (+ 9.6%).

Rail transport has maintained its leading position in terms of cargo turnover, demonstrating a higher average annual growth rate than other modes of transport at 6.6%.



Dynamics of cargo turnover by sections for communications during 2015-2017



Transportations grew in all types of communications: in the republican communication by 12.6%, in the export message - by 10.8%, in import by 14.5%, transit increased by 23%.

The market of passenger transportations

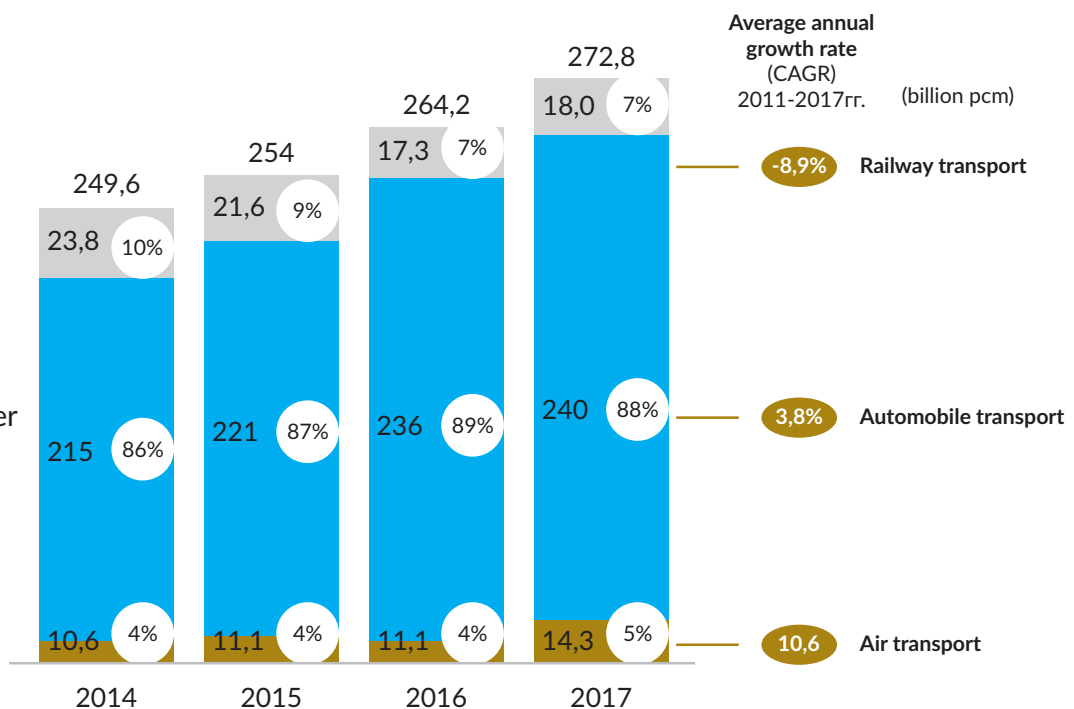
As a result of 2017, passenger turnover grew by 3% to 272.8 billion passenger/km.

At the same time, air transport increased by 30% to 14.3 billion passenger/km.

Passenger turnover by rail increased by 3.7% to 18 billion passenger/km. The share of private companies increased from 13 to 16%.

Road transport increased by 2%.

Dynamics of passenger turnover by means of transport for 2014-2017



## NC KTZ JSC today

### History of NC KTZ JSC

Kazakhstan Temir Zholy Republican State Enterprise was created by the decree of the Government of the Republic of Kazakhstan dated January 31, 1997 No.129 "On reorganization of railway enterprises of the Republic of Kazakhstan" by merging the republican state enterprises: Almaty Railway Administration, Tselinnaya Railway Administration and Railway Department of the Western Kazakhstan. The purpose of the merger was the optimization of the structure of the transportation process management and the elimination of unnecessary links, the financial and economic recovery of the railway industry.

Based on the Decree of the Government of the Republic of Kazakhstan dated March 15, 2002 No.310 "On establishment of National Company Kazakhstan Temir Zholy joint stock company", National Company Kazakhstan Temir Zholy closed joint-stock company was established through the merger of the Kazakhstan Temir Zholy Republican State Enterprise and its subsidiaries state enterprises.

On 2 April 2004, in accordance with the Law of the Republic of Kazakhstan dated May 13, 2003, "On joint stock companies", the re-registration of NC KTZ CJSC into NC KTZ JSC was carried out.

At present, NC KTZ JSC has a holding structure based on ensuring the functional integrity and manageability of the railway industry in the transportation process.

The Sole Shareholder of NC KTZ JSC is National Welfare Fund Samruk-Kazyna JSC, the founder and sole shareholder of which is the Government of the Republic of Kazakhstan.

An ordinary share grants the Sole Shareholder the right to take decisions submitted for consideration to the Sole Shareholder, the right to receive dividends if there is a net income of NC KTZ JSC on the basis of the relevant decision of the Sole Shareholder, as well as part of the property of NC KTZ JSC upon its liquidation, in accordance with the procedure established by the legislation of the Republic of Kazakhstan.

As of January 1, 2018:

number of authorized shares – 502 040 458 (five hundred two million forty thousand four hundred fifty eight) ordinary shares;

number of placed shares – 496 157 572 (four hundred ninety six million one hundred fifty seven thousand five hundred seventy two) ordinary shares.

The nominal value of one common share is 1000 (one thousand) tenge.

In 2017, the Company offered 93 852 (ninety-three thousand eight hundred fifty-two) ordinary shares totaling 69 174 567 000 (sixty-nine billion one hundred seventy-four million five hundred sixty-seven thousand) tenge, including:

1) in accordance with the decisions of the Sole shareholder of KTZ NC JSC dated March 17, 2017 (Minutes No. 08/17) and the Board of Directors of KTZ NC JSC dated March 16, 2017 (Minutes No. 2) offered 50 000 (fifty thousand) ordinary shares at the offering price of 1 000 (one million) tenge per share in the amount of 50 000 000 (fifty billion) tenge, for shares funds were transferred, then the Company sent them for implementation of the Construction of the ferry complex in Kuryk port and operation of universal cargo and passenger ferries Investment Project;



As of January 1, 2018:  
number of authorized shares

**502 040 458**

ordinary shares

As of January 1, 2018:  
number of placed shares

**496 157 572**

ordinary shares

2) in accordance with the decisions of the Sole shareholder of KTZ NC JSC dated October 9, 2015 (Minutes No. 38/15) and the Board of Directors of KTZ NC JSC dated November 26, 2015 (Minutes No. 11) offered 27,000 (twenty seven thousand) ordinary shares at the offering price 86 021 (eighty six thousand twenty one) tenge per share in the amount of 2 322 567 000 (two billion three hundred twenty two million five hundred sixty seven thousand) tenge; for shares property in the form of Karabatan railway station was transferred property;

3) in accordance with the decisions of the Sole shareholder of KTZ NC JSC dated October 12, 2017 (Minutes No. 34/17) and the Board of Directors of KTZ NC JSC dated October 19, 2017 (Minutes No. 7) offered 16 852 (sixteen thousand eight hundred and fifty two) ordinary shares at the offering price of 1 000 (one million) tenge per share in the amount of 16 852 000 (sixteen billion eight hundred fifty two million) tenge; for shares funds were transferred, then they were transferred by the Company to implement of the Construction of the ferry complex in Kuryk port and operation of universal cargo and passenger ferries Investment Project. ►

In 2017, the dividend payment for 2016 was not made, because the Company had no net income based on 2016 outcomes.

No dividends were paid for 2017 at the time of approval of this report. At the same time, according to the results of activities for 2017, the Company plans to send funds in the amount of 1,709,910,150 (one billion seven hundred nine million nine hundred ten thousand one hundred fifty) tenge to pay dividends to the Sole shareholder. Thus, the amount of dividends per one ordinary share of KTZ NC JSC is 3 (three) tenge 45 (forty five) tiyn.

Since its inception until 2011, NC KTZ JSC has been a railway company providing services of the main railway infrastructure, railway freight and passenger transportation.

In accordance with the request of the Head of State N.A. Nazarbayev, a transport and logistics operator was established on the basis of NC KTZ JSC, which unites services and infrastructure of all types of transport.

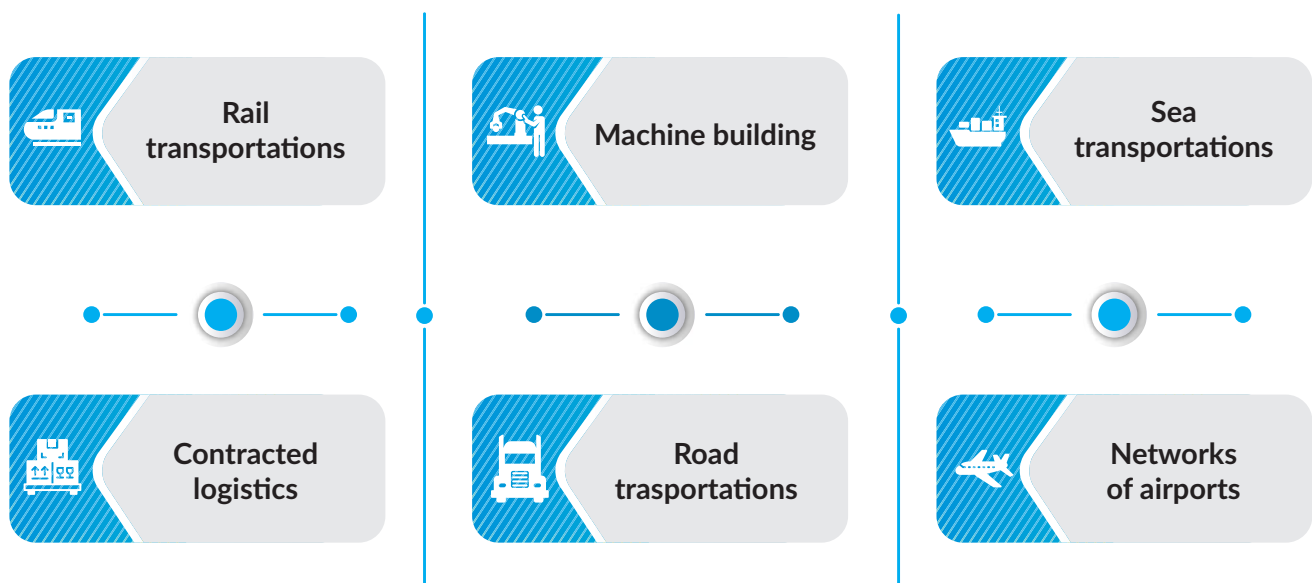
Today, NC KTZ JSC carries out rail and sea transportation, renders services of transport and logistics centers, as well as sea port, airport and road infrastructure.

Following the results of 2017, the group of companies of NC KTZ JSC includes 84 subsidiaries and affiliates.

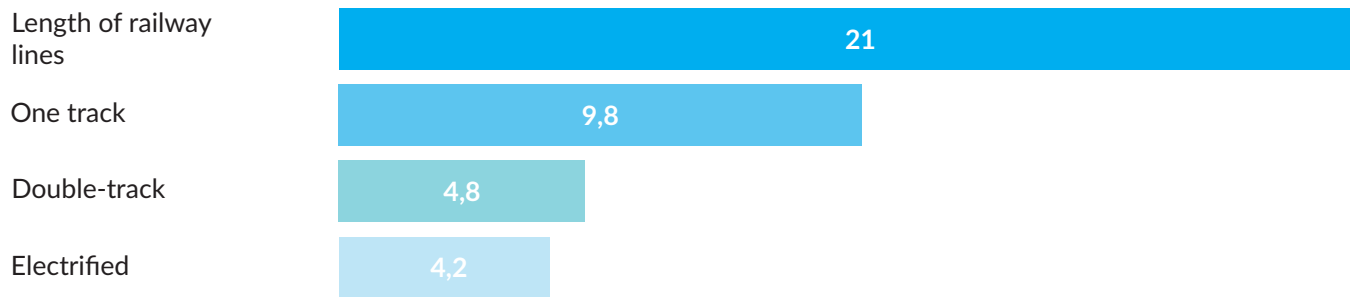
The main subsidiaries of the Company operate in the segments "Freight rail transportation", "Passenger railway transportation", "Multimodal transportation", "Operations with freight rail cars", "Railway engineering", etc.

A diversified portfolio, an effective strategy for the growth of transit rail transport, the development and introduction of new technologies, and the increase in efficiency of operations ensure the Company's continuous development and contribution to the country's sustainable development.

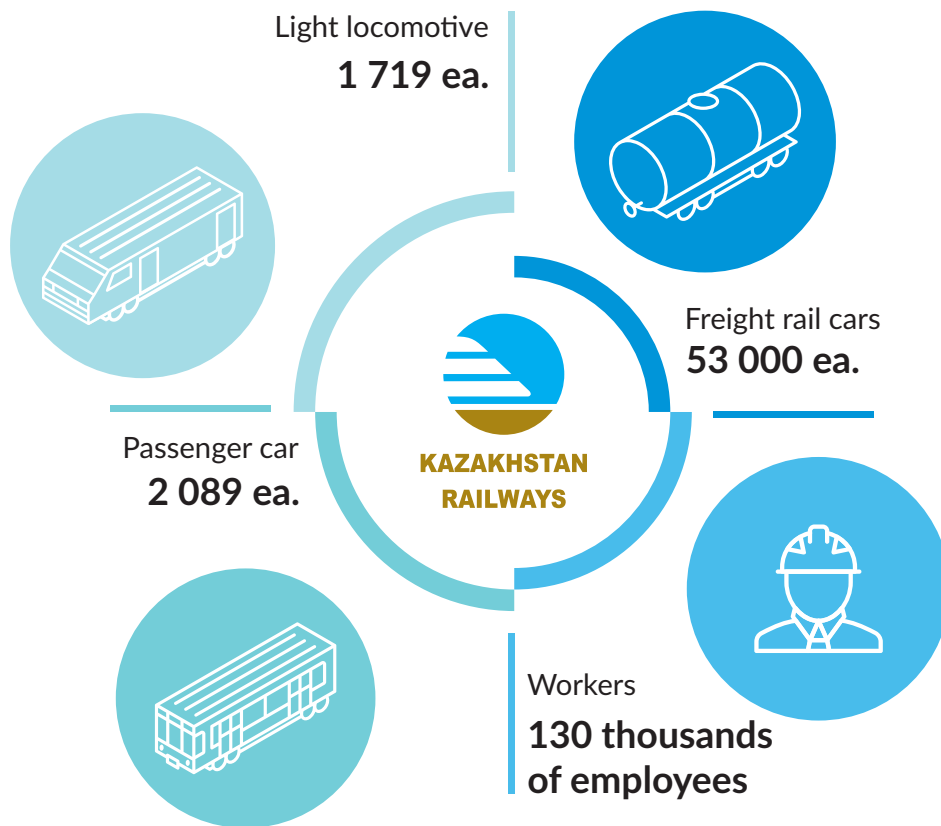
NC KTZ JSC is the largest employer and taxpayer of Kazakhstan. ■



### Length of railway tracks, thousand km



### Resources and assets



## Assets structure

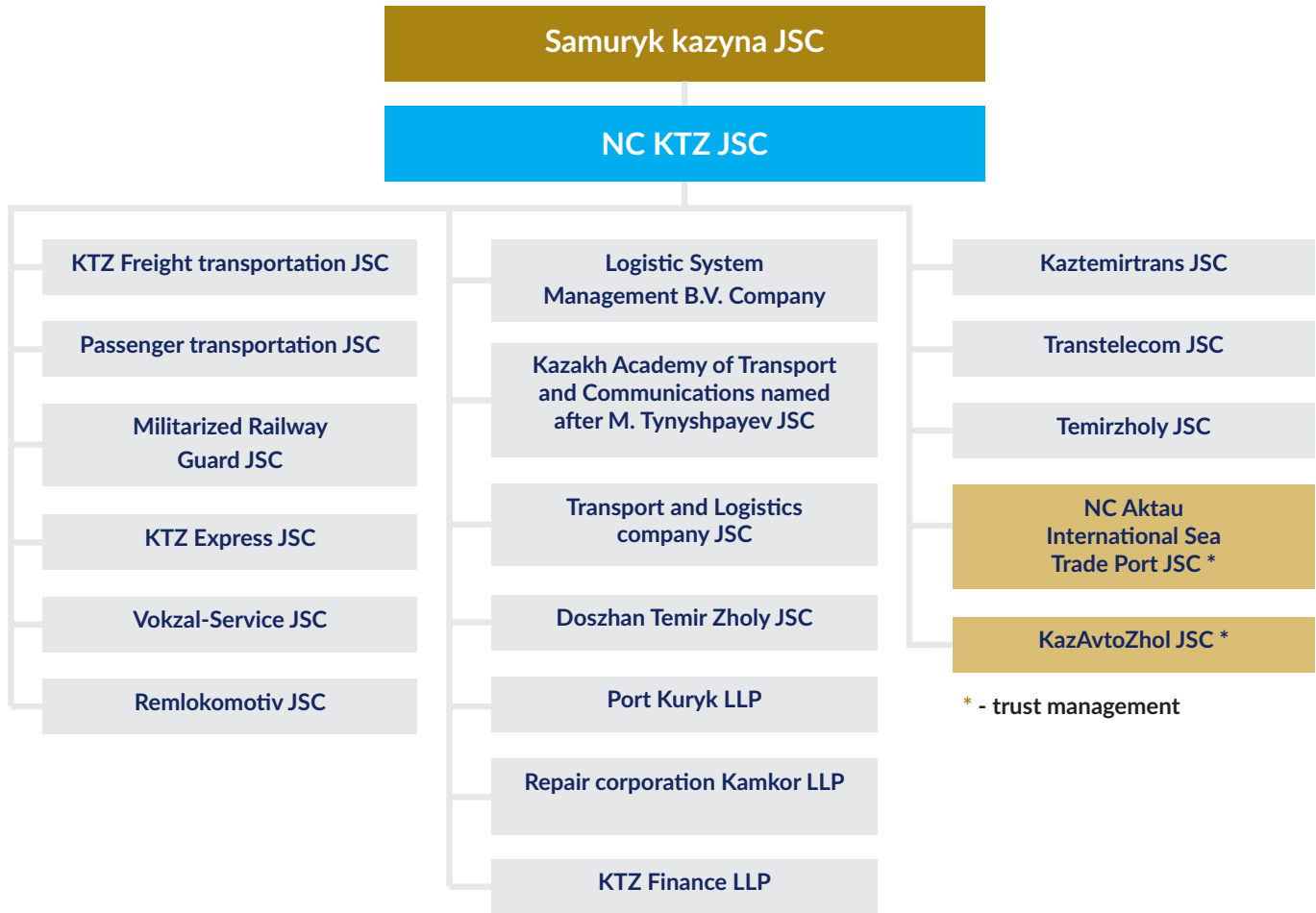
The corporate portfolio of assets of NC KTZ JSC includes 16 subsidiaries and 2 organizations in trust management. There are 84 organizations in the group.

In thirteen business units, NC KTZ JSC has controlling stakes and shares. In three organizations, NC

KTZ JSC has a nominal share (50% and less).

The information on the organizations, stake packages (participation shares) which are directly owned by NC KTZ JSC as of January 1, 2018:

Structure of the group of companies of the joint-stock company National Company Kazakhstan temir zholy

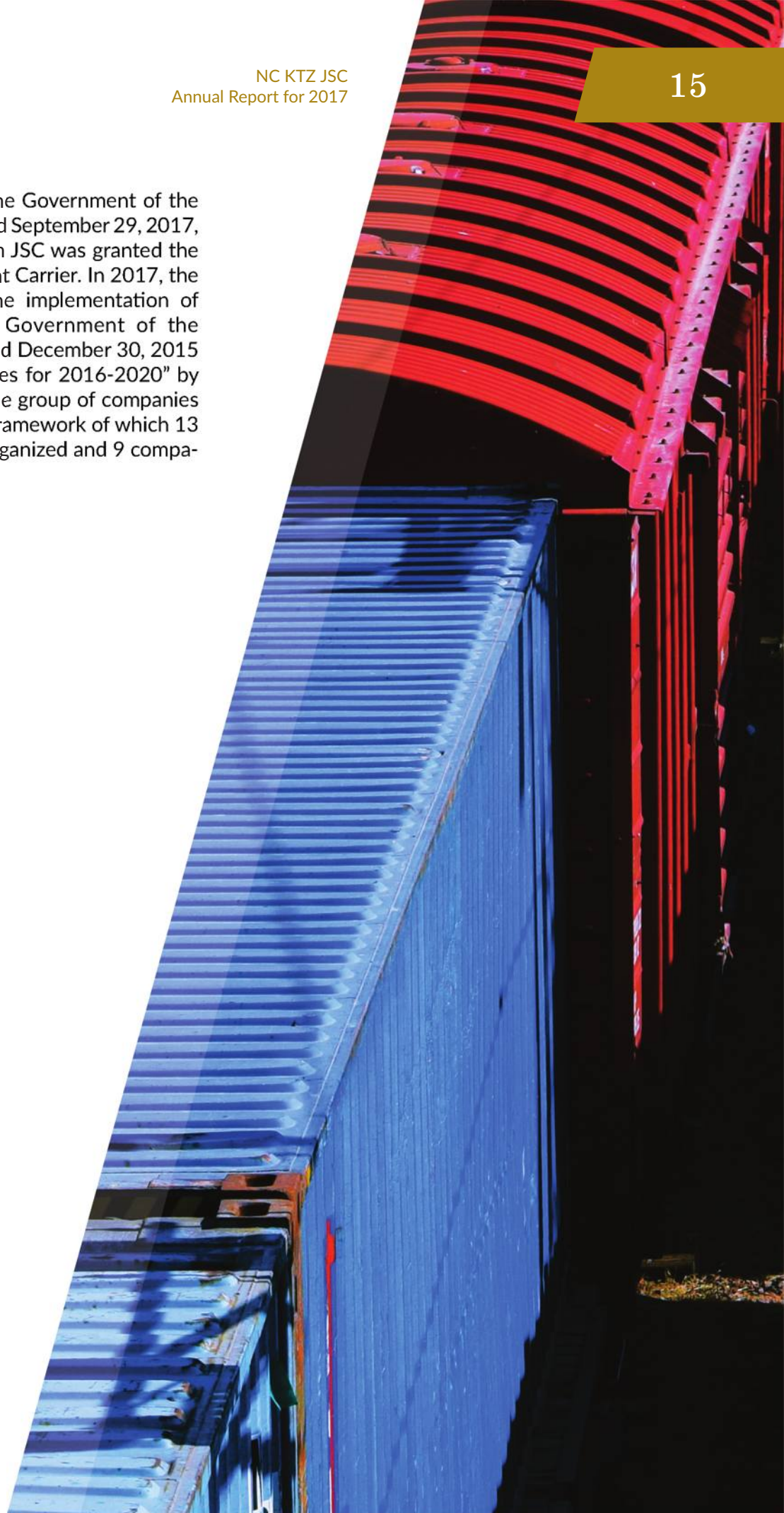


The structure of the group of companies of the National Company Kazakhstan Temir Zholy.

Sector of the core services of NC KTZ JSC is represented by the services of the main railway network represented by the branch "Directorate of the main

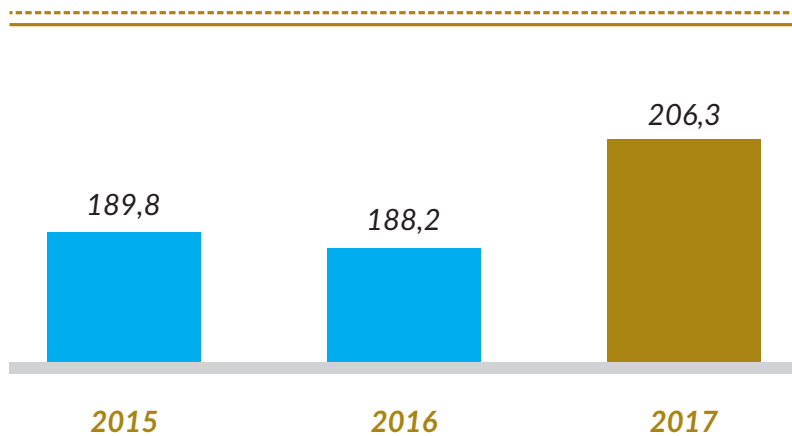
network" and services for the transportation of goods are represented by KTZ - Freight transportation JSC and transportation of passengers represented by Passenger transportations JSC.

By the Decree No.608 of the Government of the Republic of Kazakhstan dated September 29, 2017, KTZ - Freight Transportation JSC was granted the status of the National Freight Carrier. In 2017, the work was continued on the implementation of Decree No. 1141 of the Government of the Republic of Kazakhstan dated December 30, 2015 "On some privatization issues for 2016-2020" by selling non-core assets of the group of companies of NC KTZ JSC, within the framework of which 13 assets were sold, 1 was reorganized and 9 companies were liquidated. ■



## The main production and financial indicators of the group of companies of NC KTZ JSC.

*Freight turnover, billion ton/km*

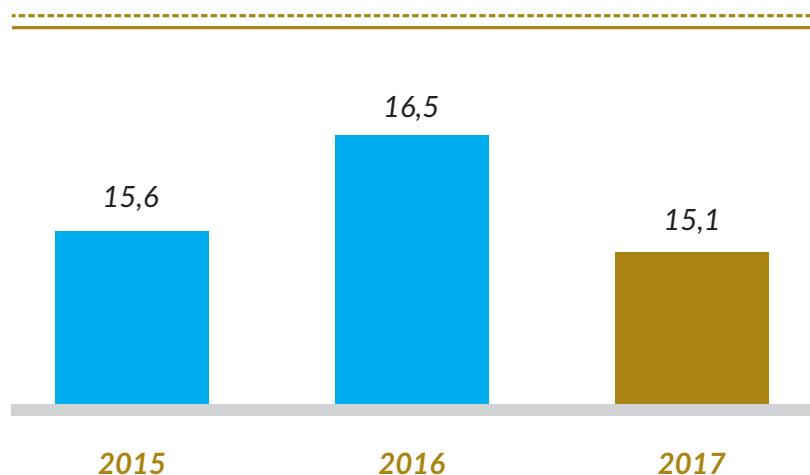


In 2017, the tariff freight turnover amounted to 206.3 billion tons/km, which is 9.6% more than in 2016. The growth is due to the increase in the transportation of goods in the republican communicating (coal, iron ore, scrap, construction cargoes), export communicating (coal, iron ore, chemicals, fertilizers) and import communicating (iron ore, fertilizers, construction materials, cement).

As a result of 2017, passenger turnover was at the level of the planned turnover and amounted to 15.1 million pass-km. The decrease to the level of the previous year by 8.1% is due to the transfer of 10 routes of trains to private carriers since January 2017, based on the results of the tender organized by the Ministry of Investments and Development of the Republic of Kazakhstan for transportation of socially significant subsidized routes.

In 2017, NC KTZ JSC in international traffic transported 2.2 million passengers, which is 3.9% more than the same indicator in 2016.

*Passenger turnover, billion pass/km*

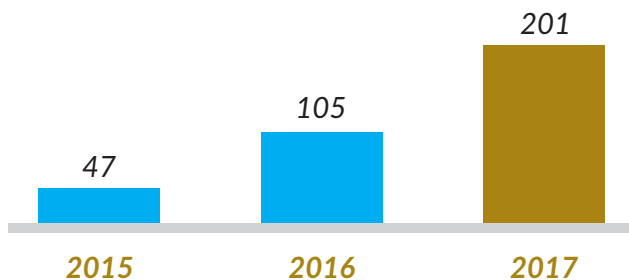


## Transit transportation

Development of container transportations in organized trains is a key direction of the business strategy of NC KTZ JSC, which provides for growth in the segment of transit and multimodal transportations and logistics services.

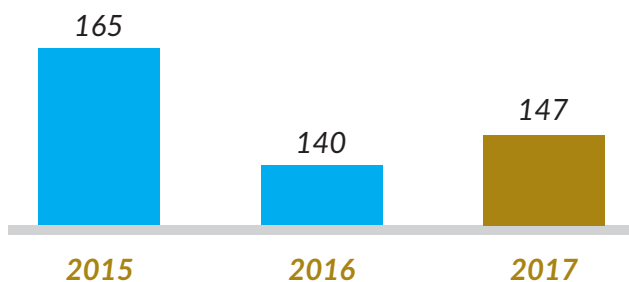
In 2017, the volume of traffic in the China to Europe direction was almost 200 times higher than that in 2011 and amounted to 201 thousand containers. In total, the volume of container traffic amounted to 348 thousand TEU, that is 42% more than in 2016. At the same time, the loading from Europe in the direction of China is ensured at the level of 60%.

*China-Europe-China, thousand of TEUs*



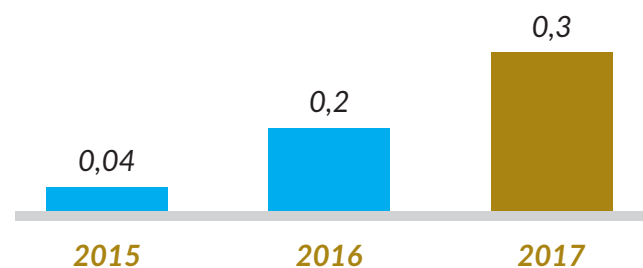
In the direction of China-Europe-China, 201 thousand TEU were transported, which is 91.4% more than the level of 2016

*Russia, China-Central Asia and other areas, thousand of TEUs*



In the direction of Russia, China-Central Asia and other regions, the volume of transit container transportation amounted to 147 thousand TEU, which is 5% more than in 2016.

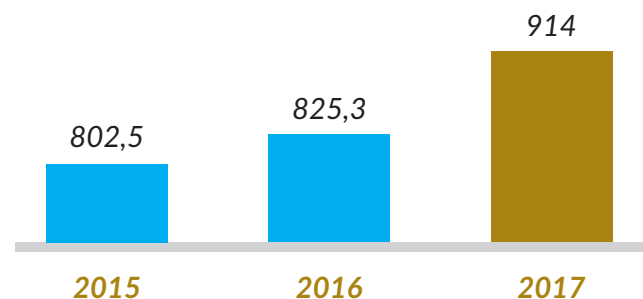
*China-Caucasus / Turkey (+ Southern Europe), thousand of TEUs*



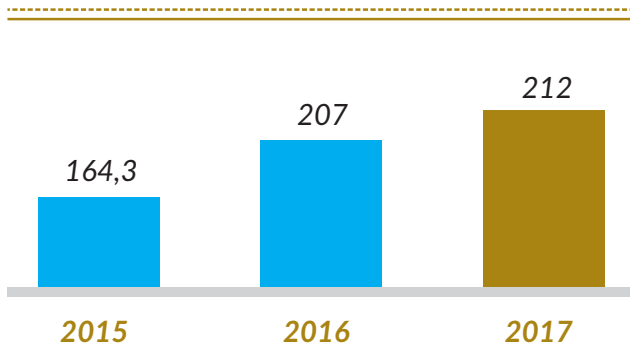
In the direction of China-Caucasus / Turkey (+ Southern Europe), 0.3 thousand TEU were transported, which is 50% more than in 2016.

## Finance indicators

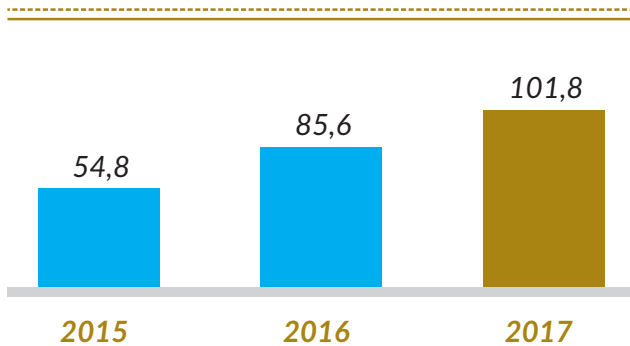
*Revenues from the core activities, KZT billion*



In whole, revenues from the core activities for 2017 amounted to KZT 101.8 billion, which is 18.9% higher than the actual figures of 2016, mainly due to an increase in revenue from freight traffic by 9.6%.

**EBITDA, KZT billion**

EBITDA for 2017 amounted to 212 billion tenge, which is higher than the fact of 2016 by 2.4%, mainly due to the growth of revenues from core activities by 10.8%.

**Operating profit , billion tenge**

Operating profit from the core activities for 2017 amounted to KZT 101.8 billion, which is 18.9% higher than the actual figures of 2016, mainly due to an increase in core activities for 10.8%.

**Revenues from basic activities**

# 914.1 billion tenge

Following the results of 2017, revenues from transit traffic amounted to KZT 209.4 billion, which is 15% lower than the level of 2016 (KZT 247 billion in 2016), the difference was mainly due to a decrease in the actual exchange rate.

As a result, revenues from transit traffic in 2017 accounted for 27% of the total revenue structure of the Company, while holding 13% of the total freight turnover.

For comparison: in 2011, revenues from transit accounted for 22% of the Company's revenue structure (KZT 126.4 billion). Net profit for the year of 2017 amounted to KZT 11.4 billion, which is lower by the fact of 2016 by KZT 29.6 billion, mainly due to growth of negative exchange rate difference (balance) by KZT 28.5 billion.

Within the frames of debt management, work on loan servicing is constantly being conducted. To date, the Company has not allowed a single violation of credit obligations. In addition, work is underway to reduce currency risks. Thus, in the first half of 2017, the Company converted tenge loans borrowed by NC KTZ JSC and Kaztemirtrans JSC in US dollars from the European Bank for Reconstruction and Development for a total of about 54.9 billion tenge.

It is necessary to note a successful transaction for the issue of bonds worth 15 billion Russian rubles, with a term of 5 years, with a rate of 8.75 percent, which is the debut issue of a foreign issuer from among CIS companies on the Russian market, level of major players in the Russian market.

This issue has allowed not only to repay the large liabilities of the group of the Company, but also has a strategic importance in expanding the markets for attracting long-term funding and, given the high correlation of the Russian ruble with the Kazakhstani tenge, will allow using this instrument in order to further reduce currency risks.

The issue in Russian rubles was recognized as the best deal of a foreign issuer on the Russian stock market in 2017.

Moreover, in October 2017, within the first bond program with a volume of KZT 200 billion, the Company carried out the second bond issue in the domestic market with a nominal volume of KZT 25 billion for refinancing loans of the group of NC KTZ JSC.

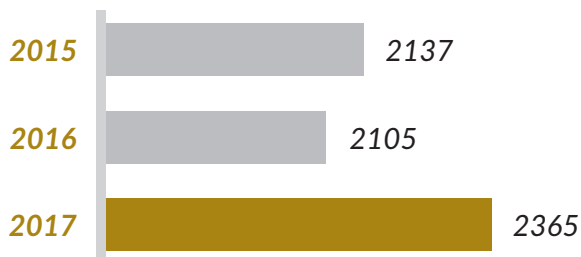
In addition, in November 2017, NC KTZ JSC placed ten-year Eurobonds amounting to \$780 million with a yield to maturity of 4.8% per annum to finance the purchase of existing Eurobonds of the Company, which allowed to reduce the Company's debt burden in 2020 by extending the maturity of Eurobonds, as well as reduce their maintenance costs by reducing the coupon rate from 6.375% to 4.85% per annum.

### Increasing operational efficiency

The company on a regular basis conducts complex work to increase labor productivity and production assets:

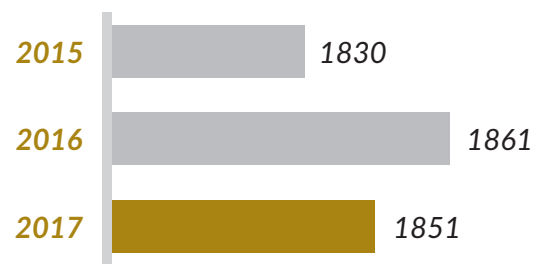
In 2017, the efficiency improvement program which included measures to improve the effectiveness of production processes, modernization and development of means of production, labor productivity increase, automation of process management, optimization of production assets structure, energy- and resource saving generated 76 billion tenge.

*Labor productivity,  
thousand tons-km/person*



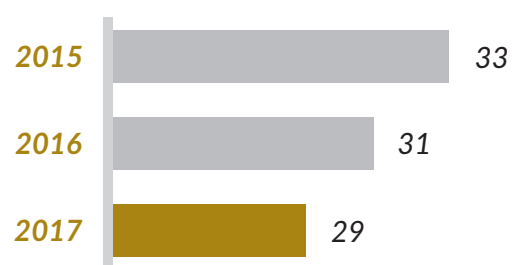
Labor productivity in 2017 increased by 12% from 2,105 to 2,365,000 pref. t-km / person

*Average daily productivity of the locomotive,  
thousand t-km gross*



The decrease in locomotive productivity by 0.5% in 2017 is due to a decrease in the average daily run of the locomotive by 1% and the weight of the train by 1.4%.

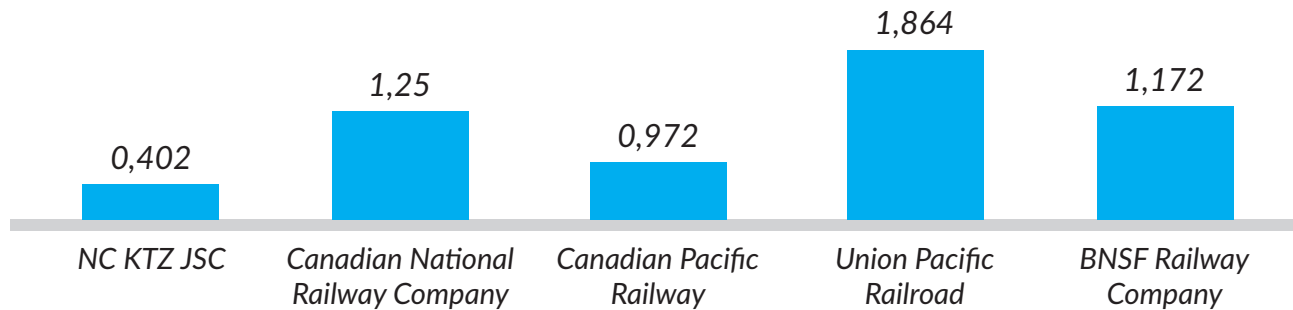
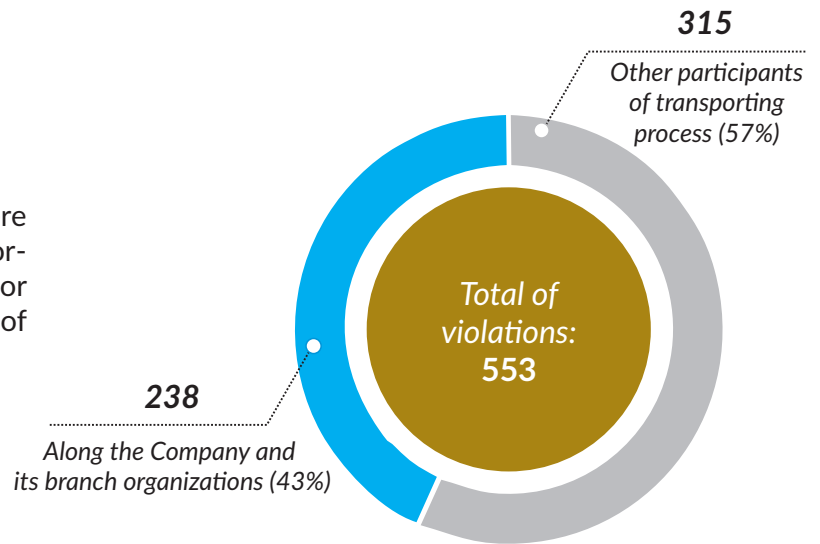
*Specific costs of diesel fuel,  
kg/10000 tons km gross*



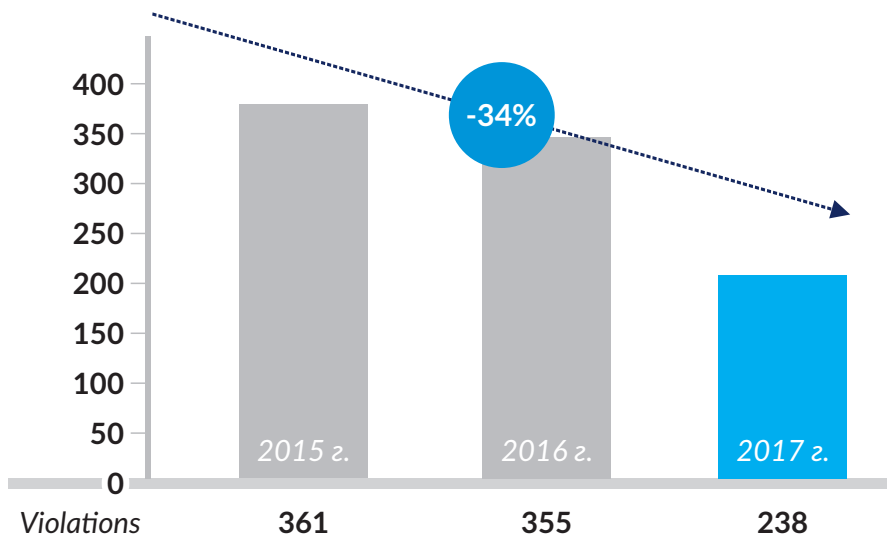
In 2017, the specific costs of diesel fuel fell by 7.3% from 31.5 in 2016 to 29.2 kg / 10,000 tkm gross.

### Traffic safety

In 2017, 553 violations of traffic safety were committed by all participants of the transportation process, including - 238 violations or 43% of the total number by structural units of the Company and its subsidiaries.



At the same time, it should be noted that the Company's traffic safety indicators, expressed in the number of traffic safety violations per million train km, are significantly lower than those of other railway administrations:



At the same time, over the past 3 years, the Company has been demonstrating a persistent tendency to reduce the number of traffic safety violations by 34%.

Reduction of traffic safety violations was achieved through the implementation of a set of measures, including:

- ▶ overhaul and modernization of the superstructure of the track, and construction of new railwaylines;
- ▶ renovation and overhaul of the fleet of loco-

motives, freight car fleet, renovation and overhaul of passenger cars.

New diagnostic tools were introduced, with the help of which more than 90 thousands of faulty parts of the car were identified, which prevented the coming-off of rolling stock.

## Large investment projects

The investment activity of NC KTZ JSC is aimed at implementing a set of measures to ensure the sustainable operation of rail transport, improving the quality and safety of transportation services.

In 2017, investments in the amount of KZT 256 billion were allocated for development of the railway infrastructure, renewal of the rolling stock.

At the expense of these funds, the following major events were carried out:

### Projects within the State Program of the Infrastructure Development Nurly Zhol:



under the project Construction of the second track on the Almaty-Shu section, the whole length of the second main track of the Almaty-Shu section was opened for trains on November 27, 2017;



under the project Construction of a ferry crossing to Kuryk port, on the Day of Industrialization during the open teleconference the Head of the State of the Kazakhstan started the work of a logistics facility (automobile crossing) of the multi-functional ferry complex Kuryk on December 6, 2017;



the project Creation and integrated development of SEZ Khorgos - Eastern Gates was implemented;



the work on the implementation of the project Development of the railway node of Astana station, including construction of a railway station complex was continued;



the work on modernization and repair of the upper track structure in the volume of 708 km had been carried out.

### Work on rolling stock renewal:



renovation of 52 units of locomotives;



renovation of 3949 units of wagons and 115 units of passenger cars;



the activities aimed at renovation and rehabilitation of railway infrastructure, development of transport logistics and increasing the level of safety traffic were implemented.

In 2018, investments in the amount of KZT 361 billion will be allocated for development of the railway infrastructure, renewal of the rolling stock.

It is planned to invest these funds in the completion of projects under the State Program of the Infrastructure Development “Nurly Zhol”, including Construction of the second track on the Almaty-Shu section, Construction of a ferry bridge in the port of Kuryk.

Special attention of NC KTZ JSC will be focused on investments into new sectors with high growth potential and profitability. Thus, within the “100 Concrete Steps”, the Company intends to create transport and logistics centers and terminals both inside the country and outside in order to integrate Kazakhstan into international transport and communication flows.

One of the drivers for increasing the Company's efficiency is the digitalization and automation of the Company's processes. In accordance with the instructions of the Head of State and Government, the Company developed the Digital Railroad Strategy for 2018-2022, which provides for the

implementation of 21 projects, 2 of which are implemented under the state program Digital Kazakhstan. This strategy covers all key areas of the Company's activities: passenger, cargo and multimodal transport, railway infrastructure and corporate governance.

In particular, it is provided to create a high-speed wireless data network on the entire length of the railways. The introduction of satellite Internet in passenger trains, equipping of stations with digital technologies and services, automation of the development of forecast timetables for the movement of trains, creation of integrated platforms for managing multimodal transportations and much more are provided for.

In addition, NC KTZ JSC is considering the implementation of a large-scale program to modernize the railway infrastructure, which should result in an increase in the speed of container trains to 1,500 km/day.

In addition, in order to ensure the demand of shippers and passengers in rail transport services, investments will continue to be made in the deve-

lopment of the railway infrastructure, implementation of measures aimed at improving the safety of train traffic, and the renewal of the rolling stock fleet, including:

- ▶ Modernization of superstructure and the change of rails in the volume of 869 km;
- ▶ Purchase of 36 units and overhaul of 46 units of locomotives;
- ▶ Purchase of 3 594 units and overhaul of 5 290 units of freight cars;
- ▶ Purchase of 91 units of passenger cars.

### Social and labor relations

In 2017, the Industry Agreement on Social and Labor Issues and the Collective Agreement for 2018-2020 were developed and signed.

The new version of the Collective Agreement preserves traditional social guarantees for the protection of labor rights, payment, labor protection, health and recreation for employees and their children, as well as additional standards to improve the social status of workers.

Annually from 2013, on the group of portfolio companies of Samruk-Kazyna JSC the study of the Social Stability Rating - SSR is conducted.

The SSR for the group of companies of NC KTZ JSC in 2017 increased (in 2013 - 58%, 2016 - 65%) and amounted to 70%, which according to the Ranking Scale of the SSR assessment of the Fund is estimated as "above average".

NC KTZ JSC has employment commissions, whose functions include resolving issues arising from the employment of released employees, promoting the employment of discharged workers, observing established procedures for approving employment, and extending the employment relationship with workers who have reached retirement age. One of

the main tasks of the above-mentioned commissions is to address employment issues and provide social support for the discharged employees of NC KTZ JSC and its subsidiaries.

As a result of the work of the commissions on employment in 2017, out of 394 redundant employees, 332 were employed (84%).

Within the framework of the Agreement with National Chamber of Entrepreneurs of the Republic of Kazakhstan Atameken, all interested employees and their families were trained in the basics of doing business. In total, in 2017, 48 employees of the group of companies of NC KTZ JSC were trained, incl. 36 - in the regional centers of NCE Atameken.

### Material motivation

In 2017, the indexation of salaries to employees of line branches was no less than 5%, introduced a new mechanism for quarterly bonuses to employees of the Company's branches. In fact, in 2017, bonuses were paid to employees of the branches of NC KTZ JSC, whose activities are coordinated by the branch of NC KTZ JSC - "Directorate of Railway Trunk Network", for a total of KZT 491.7 million, by subsidiaries of NC KTZ JSC - in KTZ-Freight transportation JSC the premiums in the amount of KZT 113.9 million were paid and in Kaztemirtrans JSC - in the amount of KZT 22.6 million.

In addition, in 2017, employees of the group of companies of NC KTZ JSC were paid lump sum bonuses: for the professional holiday - the Day of Transport and Independence day.

At the same time, the actual labor productivity calculated from revenues in 2017 was KZT 7.2 thousand per capita, which is 16.9% higher than the level of 2016.

## Increasing the level of professional knowledge of employees

The branch "Center for Assessment and Development of Railway Transport Personnel" carries out activities to upgrade the skills of administrative personnel and to organize the activity of training centers to upgrade the skills of production personnel, for the continuous expansion and deepening of professional knowledge.

In 2017, 23 739 employees were trained within the advance training of the personnel of the group of companies of NC KTZ JSC, including:

- ▶ Advanced training in third-party organizations: 22,714 workers.
- ▶ Educational grants (master's degree/doctoral program) - 22 employees.
- ▶ Teaching the state language - 200 employees.
- ▶ Teaching the English language - 803 employees.

The cost of training the personnel of the group of companies of NC KTZ JSC in 2017 amounted to KZT 880 070 thousand.

In 2017, 12 480 employees passed vocational training in the branches of NC KTZ JSC - Training Centers for Railway Transport Workers, including:

- ▶ Pavlodar Training Center - 2 185 employees.
- ▶ Karaganda Training Center - 2 593 employees.
- ▶ Aktobe Training Center - 2 425 employees.
- ▶ Taraz Training Center - 2 382 employees.
- ▶ The Human Resources Department of the city of Astana - 2 895 employees.

## Risk management

NC KTZ JSC realized the importance of risk management as a key component of the corporate governance system of the Company and its subsidiaries aimed at timely identification and taking measures to reduce the level of risks that may negatively affect its value and reputation.

The introduction of the corporate risk management system in NC KTZ JSC is carried out within the framework of the implementation of the recommendations of Samruk-Kazyna JSC, according to which the introduction of the corporate risk management system should be implemented in accordance with the COSO model "Corporate Risk Management - "Integrated Model" (2004).

In 2017, the level of effectiveness of the risk management system based on the results of the assessment conducted by the Internal Audit Service of NC KTZ JSC (in accordance with the Methodology for assessing the effectiveness of the corporate risk management system of NC KTZ JSC made "BBB", which means "The risk management system of the Company corresponds in all material respects to the majority of established criteria and there is sufficient evidence that the system is effective".

In 2017, the work of the Risk Committee, the Management Board and the Board of Directors of the Company was aimed at further improving the corporate risk management system and aligning it with the best global practices.

Within the framework of increasing the effectiveness of the system of corporate risk management in 2017, a number of the following key events were conducted:

- ▶ The Action Plan for the improvement of the internal control system of NC KTZ JSC for 2017 was approved;
- ▶ the Action Plan for the improvement of the corporate risk management system of NC KTZ JSC for 2017 was approved;

- ▶ the limits on balance sheet and off-balance liabilities to counterparty banks of NC KTZ JSC (on a consolidated basis) were established;
- ▶ the Rules for determining risk appetite, risk tolerance, key risk indicators of the Company and risk appetite at the consolidated level were approved;
- ▶ the report on risk management of NC KTZ JSC for the year 2017 was taken into account;
- ▶ the risk register and risk map of NC KTZ JSC, key risk indicators and levels of tolerance to key risks of NC KTZ JSC were approved;
- ▶ the Action Plan for the improvement of the corporate risk management system of NC KTZ JSC for 2018 was approved;
- ▶ the Rules for the identification and assessment of risks in NC KTZ JSC in a new wording were approved.

The company may be exposed to the following key risks that may adversely affect its operations and strategic objectives:

***Decrease in the level of freight transportation (market risk) due to the resumption of the crisis in the world economy and the decline in raw material prices.***

Deterioration of economic conditions may lead to a decrease in the volume of services provided for the transportation of goods by rail, a decline in labor productivity, an increase in the cost of sales and services, and negatively affects performance of the planned indicators. The Company implements measures to increase the efficiency of its operations, increase transit traffic, and implement anti-crisis measures (additional cost reductions).

***Operational risks (risks of traffic safety, occupational safety and environmental protection)***

The Group is the owner and operator of the railway infrastructure of Kazakhstan, as well as the largest owner and operator of passenger and freight rolling stock, locomotives in Kazakhstan. In this regard, the Group may be exposed to traffic safety risks,

including collisions, coming-off of rolling stock in freight and/or passenger trains on trunk, station and access roads and/or in shunting operations with rolling stock at stations, natural disasters. To manage this risk, NC KTZ JSC implements measures to strengthen preventive work to organize and ensure the safety of train traffic associated with the movement of trains. Within the framework of occupational injury risk management, NC KTZ JSC implements measures to ensure occupational health and safety, prevent occupational injuries and improve working conditions, ensure compulsory insurance of employees against accidents in the performance of their work (service) duties.

***Currency risk***

The Company is mainly exposed to the risk associated with a change in the US dollar rate due to the fact that the Company attracts borrowings mainly in the US dollars and the weakening (devaluation) of the tenge against the US dollar means an increase in foreign exchange losses. In order to control the currency risk associated with the management of temporarily redundant cash, to reduce the impact of currency risk on the financial result of the Company, monitoring of the financial markets, management of the currency distribution of the temporarily redundant cash are carried out, as well as measures to refinance loans in foreign currency.

***Information and technology risks***

The Group uses telecommunications networks and computer systems to coordinate the timetable and other aspects of its railway operations, as well as for bookkeeping, ticket sales for passenger trains, freight tracking, and many other functions. The equipment and software used by the Group may be potentially damaged by operator error, computer viruses, power outages and other circumstances. To reduce the risk of information technology malfunction and information security breach, in order to comply with the requirements of local acts and corporate policy in the field of information security and protection of official, commercial and other secrets protected by the legislation of the RK, inspections are held annually in the structural units of the audit Group.

## Benchmarking

NC KTZ JSC is one of the 15 largest railway companies in the world in terms of cargo turnover and revenues.

The company has high production and financial performance in comparison with the railway companies of the CIS but lags behind a number of indicators from world leaders for objective reasons.

When comparing with other companies, it is necessary to take into account the principal differences in the institutional environment, as well as factors such as: traffic density, the degree of use of available technical means, primarily rolling stock, the level of technological development, climatic conditions, social factors and so on.

Performance indicators are influenced by technology, rolling stock (the degree of moral and physical deterioration) and standards used in the industry.



Прибытие / Отправление поездов со станции						
Номер	Маршрут	Проб. Отпр. Путь	Платформа	Опозд.	О.С.П.К.М.С.В.	
833	КАРАГАНДЫ - АСТАНУЛЬЖОЛ	10:04		5		
854	АСТАНУЛЬЖОЛ - КАРАГАНДЫ	11:10		5		
708	АСТАНУЛЬЖОЛ - АНЦ	13:26		6		
240	АСТАНУЛЬЖОЛ - АНЦ	14:30		4		
219	АСТАНУЛЬЖОЛ - АНЦ	16:35		5		
702	АСТАНУЛЬЖОЛ - АНЦ	18:47		6		

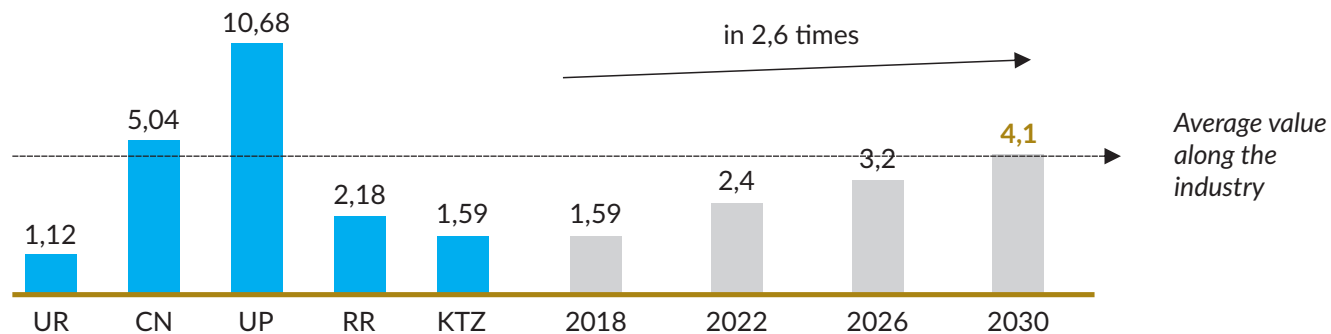




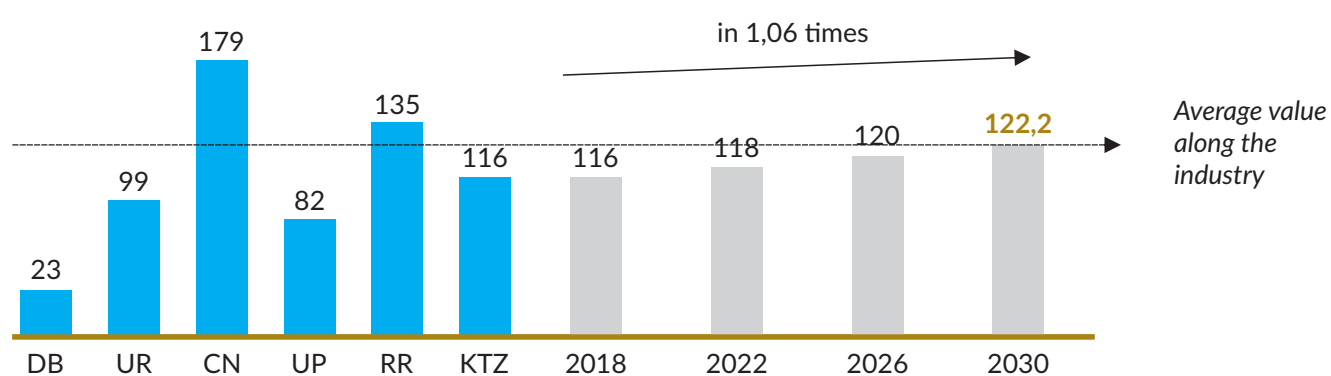
## Freight transportation



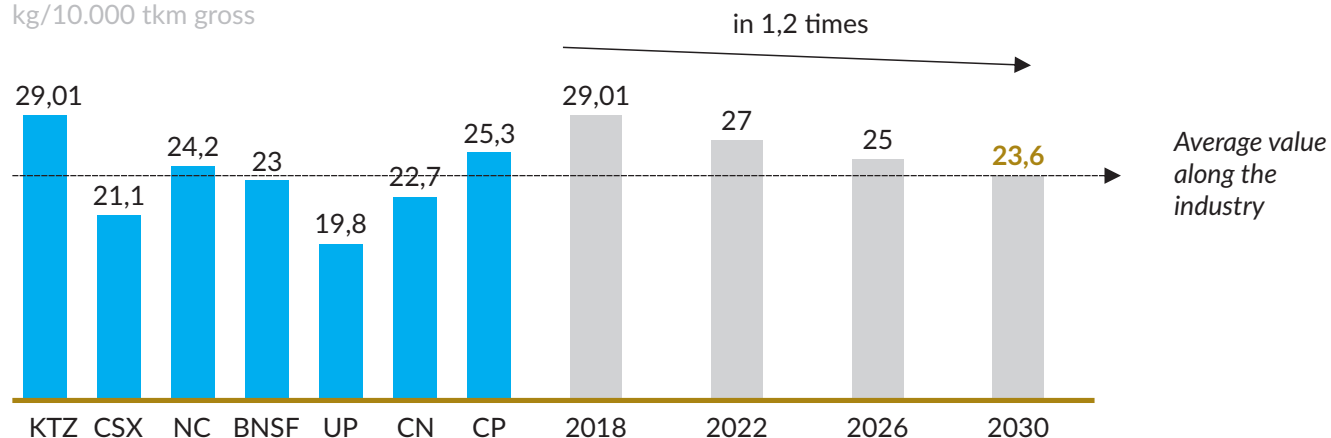
Operation efficiency of rail cars, million tcm/km wagon



Operation efficiency of Locomotives, million tcm/km locomotive



Specific consumption of diesel fuel for hauling operations, kg/10.000 tkm gross

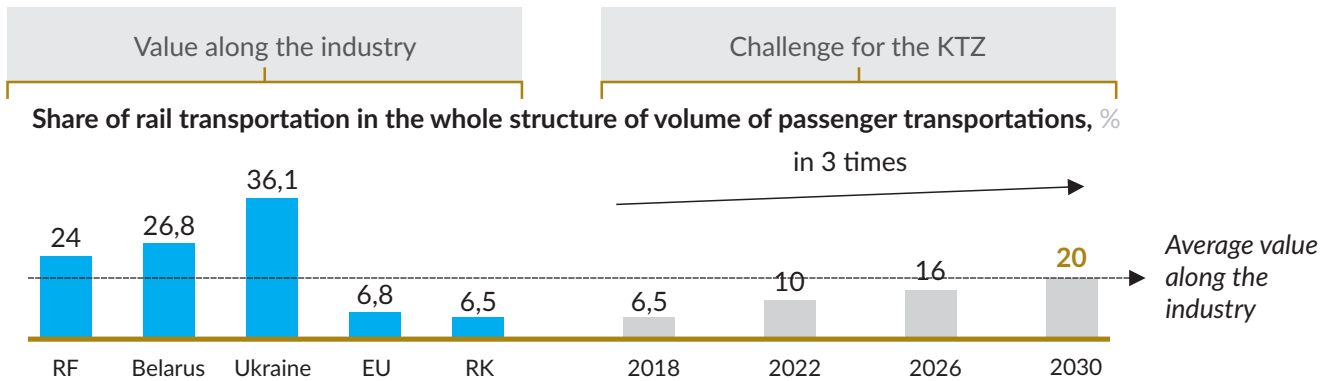


The performance indicator of the KTZ locomotive exceeds that of DB, Union Pacific and UZD,

however, being second only to that of RZD and Canadian National.



## Passengers transportation



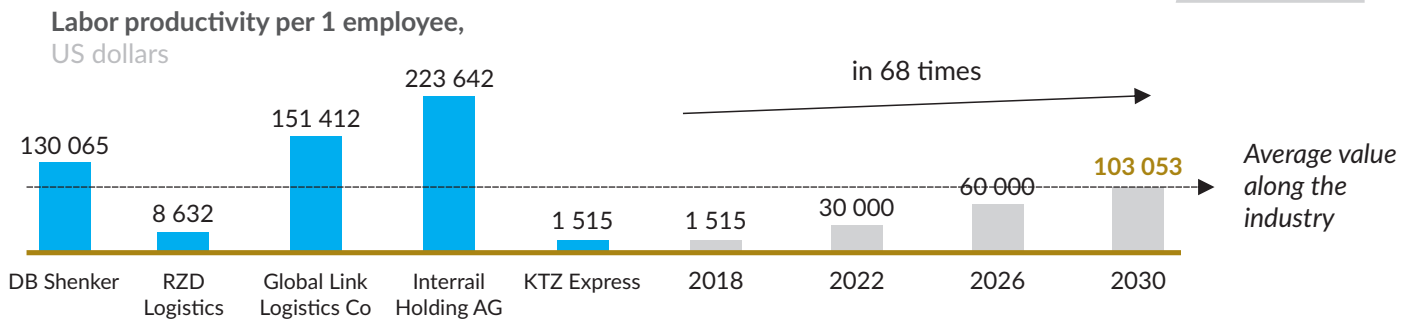
Despite the similarity of common passenger trends, the share of railway transport in Kazakhstan is 3-4 times lower than in the CIS countries.

to 2015, the share of railway passenger transportation fluctuated within 5.7-6.8%.

It should be noted that in the EU in the period from 1995

KTZ intends to increase the share of passenger rail transportation to 16-20% in the long term.

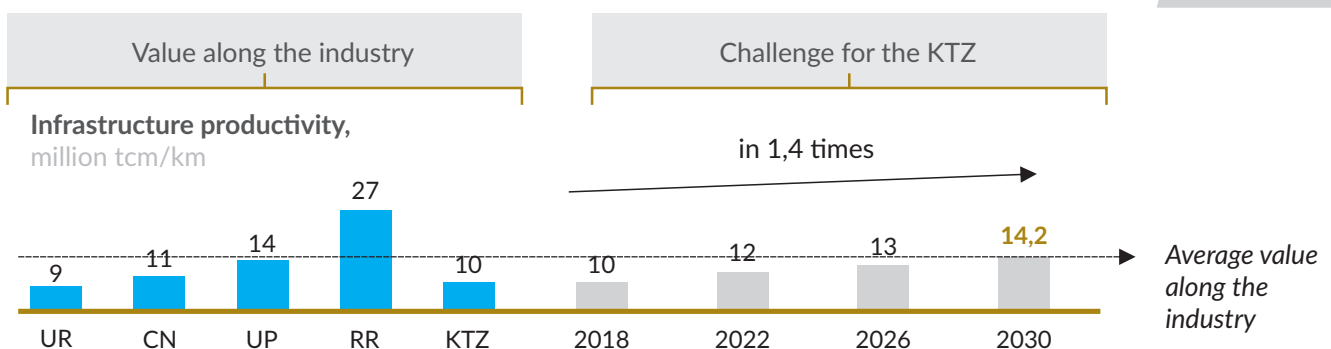
## Multimodal transportation



Multimodal transport is a relatively "new" segment of the Group's business. Taking into account the process of increasing the experience, establishing and optimizing

business processes, in the future the company intends to increase labor productivity 68 times in this segment.

## Infrastructure



The performance efficiency of the main railway network of KTZ exceeds the level of the similar indicator of DB

and UZD, conceding, at the same time, to RZD, Union Pacific and Canadian National.

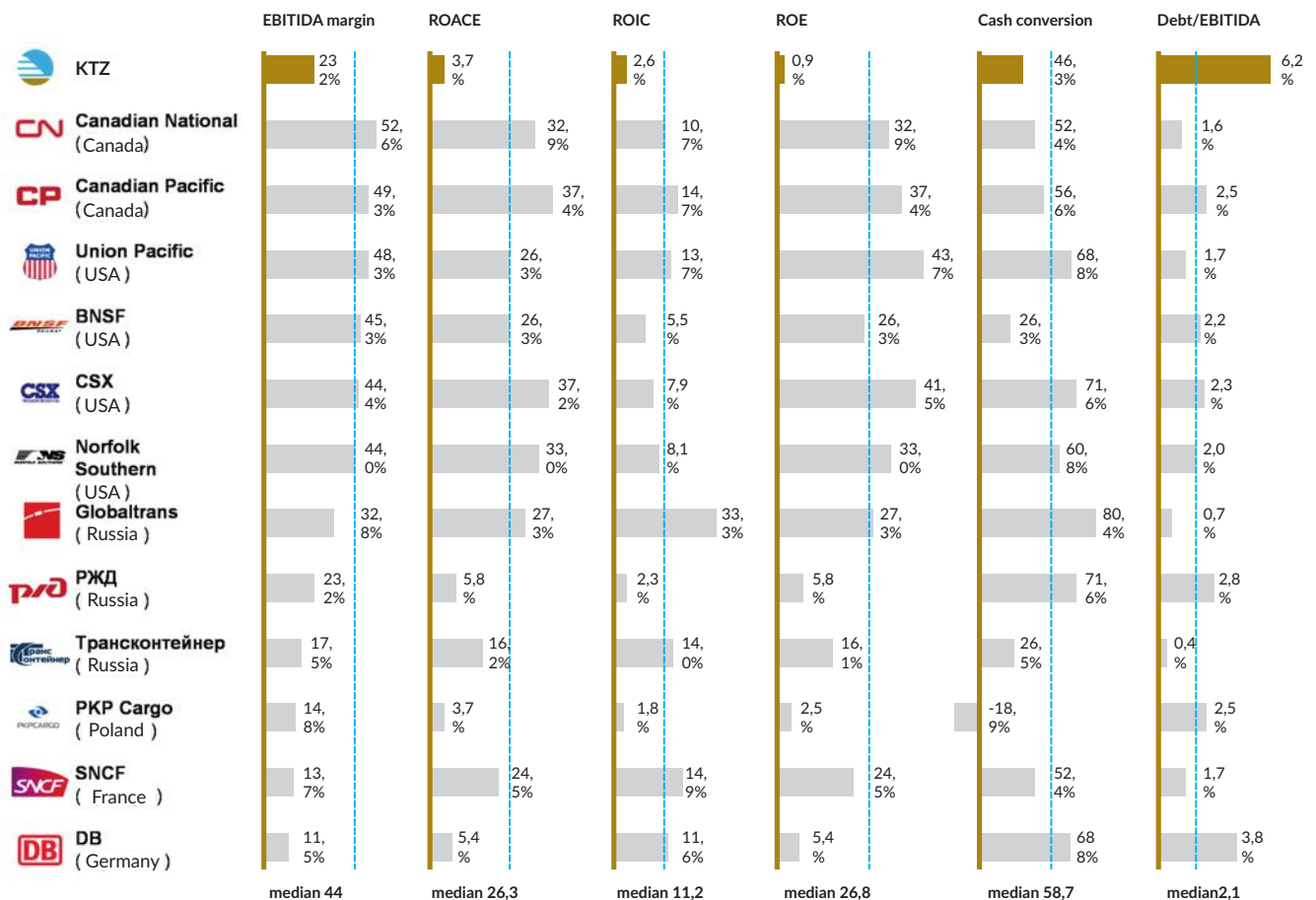
Taking into account the forthcoming mid-term placement of the Company's shares for an IPO, the Company implements measures to increase investment attractiveness and strives to achieve the median values of the main financial indicators of the world's largest companies.

Following the results of 2017, NC KTZ JSC in terms of EBITDA margin exceeds DB and SNCF, in terms of ROIC - RZD and RRC Cargo.

At the same time, it is necessary to take into account radically different institutional conditions for the operation of railway companies, especially North American ones.

In accordance with the instructions of the Head of State and the Government of the Republic of Kazakhstan, work is being carried out to liberalize the railway transportation market in Kazakhstan, which significantly expands the Company's ability to improve financial performance and bring it to the level of advanced transport companies.

### BENCHMARKING OF FINANCIAL INDICATORS FOR 2017





## Outstanding events in 2017

**On January 5**

the first container train from China to the Great Britain passed the Dostyk station.

**On January 5**

KTZ Express JSC jointly with RTSB GmbH, Belintertrans-Germany and Euro-BRICS launched the first refrigerated container train on the route Herne (Germany) - Lanzhou (PRC).

**On January 19**

the first shipment of Kazakh grain was transferred to the port of Ho Chi Minh City (Vietnam).

**On January 31**

the fruit and vegetable products of Uzbek producers were delivered to the Russian market in the experimental refrigerated container of NC KTZ JSC through the territory of Kazakhstan.

**On February 13**

a container train with grain was transferred from the Tonkeris station of the Akmola branch of the railway to Xi'an (China).

**On March 21**

On March 21- the high-speed international train "Almaty-Tashkent" started from the Almaty-2 railway station.

**On April 3**

within the official visit of the President of the Republic of Kazakhstan to Azerbaijan, a Memorandum on the establishment of a joint venture Ferry Express Logistics between KTZ Express Shipping LLP and ACSC Logistics LLC was signed.

**On April 25**

the first container train on the route London - Yiwu passed through Kazakhstan.

**On May 31**

the Head of the State opened a new railway station complex "Nurly Zhol" in Astana.

**On June 8**

teleconference "Kazakhstan-China - Transit Bridge of Eurasia" was held with the participation of the President of RoK Nursultan Nazarbayev, and Chairman of the People's Republic of China Xi Jinping. During the teleconference, the Heads of State launched a new container service in the Eurasian space - from the Kazakh-Chinese Lianyungang terminal on the one hand, and the Dry port of the SEZ "Khorgos - Eastern Gates" on the other.

**On June 28**

Elektrovoz Kurastyru Zauyty LLP, the electric locomotive production plant, received an international IRIS certificate.

**On August 15**

Memorandum of cooperation was signed between NC Kazakhstan Temir Zholy JSC, KTZ Express JSC and Nippon Express Co., Ltd.

**On May 15**

within "One Belt and One Road" International Cooperation Forum in Beijing, NC KTZ JSC signed an Investment Agreement with COSCO Shipping Corporation and Lianyungang Port on the joint development of the SEZ "Khorgos-Eastern Gates".

**On May 31**

the Head of the State opened a new terminal of Astana International Airport.

**On June 13**

NC KTZ JSC successfully issued bonds in the Russian market in the amount of 15 billion Russian rubles for a period of 5 years with a yield of 8.75% per annum. August 7, 2017 repaid a loan of Samruk-Kazyna JSC for the amount of KZT 75 billion.

**On June 29**

NC KTZ JSC and the Chinese company Sinotrans & CSC Holdings agreed to launch route container trains through the territory of the RK.

**On September 7**

Astana hosted the first International passenger forum with the participation of representatives of the railways of the Commonwealth countries, Georgia, Ukraine, Moldova, Latvia, Lithuania, and Estonia.

**On September 26**

the high-speed trains "Tulpar-Talgo" were launched along new routes: "Astana-Uralsk" and "Almaty-Uralsk".

**On October 19**

the millionth ton of freight was shipped to the Azerbaijani port of Baku from the berth of the Kazakhstan port of Kuryk.

**On November 8**

the first container train from Kokshetau station arrived in the Turkish city of Mersin on the new Baku-Tbilisi-Kars connecting route.

**On August 17**

Memorandum between NC Kazakhstan Temir Zholy JSC and SANY Group Co., LTD was signed on long-term strategic cooperation.

**On September 16**

within the Kazakh-Uzbek business forum, NC KTZ JSC and Uzbekiston Temir Yollari JSC signed the Contract for supply of 5 thousand tons of rail; an agreement was reached to conclude a long-term contract for supply of 40 thousand tons of high-quality rail, including for high-speed traffic, by 2020.

**On September 29**

the Agreement on strategic partnership between NC Kazakhstan Temir Zholy JSC and Latvijas dzelzceļš JSC (Latvian Railway) was signed in Riga.

**On November 8**

KTZ - Freight transportation JSC launched regular direct routes of grain shuttles through Kostanay-Galab (IRA) route.

**On November 10**

the rail transport consisting of wagons of the KTZ Express JSC, subsidiary of NC KTZ JSC, was sent from the Finnish Kouvola station to Chinese Xian.

**On November 16**

NC KTZ JSC placed 10-year Eurobonds with a volume \$780 million with a yield of 4,8% per annum.

**On November 27**

traffic on the second tracks on the railway section of Almaty-Shu was opened and overpass through the railway on the highway of Almaty-Chemolgan.

**On December 6**

The Head of State opened a transport and logistics center in Shymkent during the Industrialization Day.

**On December 6**

an automobile pier with hydraulic structures was launched in the test mode to perform a call at the port of Kuryk in the Caspian Sea during the Day of Industrialization in the mode of the National TV space bridge with the participation of the Head of State.

**On December 8**

the first ferry with Kazakhstan and transit freight was sent from the port of Kuryk.

**On December 15**

a collective agreement for 2018-2020 was signed between NC KTZ JSC and the Company's labor collective.

**On December 20**

an Agreement for sale and purchase of the 25% share in Elektrovoz Kurastyru Zauyty LLP (subsidiary of Remlokomotiv JSC) was concluded between the Alstom consortium and Remlokomotiv JSC (subsidiary of NC KTZ JSC) within the Privatization Program in Paris.



*China-Caucasus / Turkey  
(+ Southern Europe), thousand of TEUs*

In the direction of China-Caucasus / Turkey (+ Southern Europe), 0.3 thousand TEU were transported, which is 50% more than in 2016.

Belarus

Ukraine

Kazakhstan

Uzbekistan

Turkmenistan

Turkey

Iran

India

*Russia, China-Central Asia and other areas,  
thousand of TEUs*

In the direction of Russia, China-Central Asia and other regions, the volume of transit container transportation amounted to 147 thousand TEU, which is 5% more than in 2016.

Russia

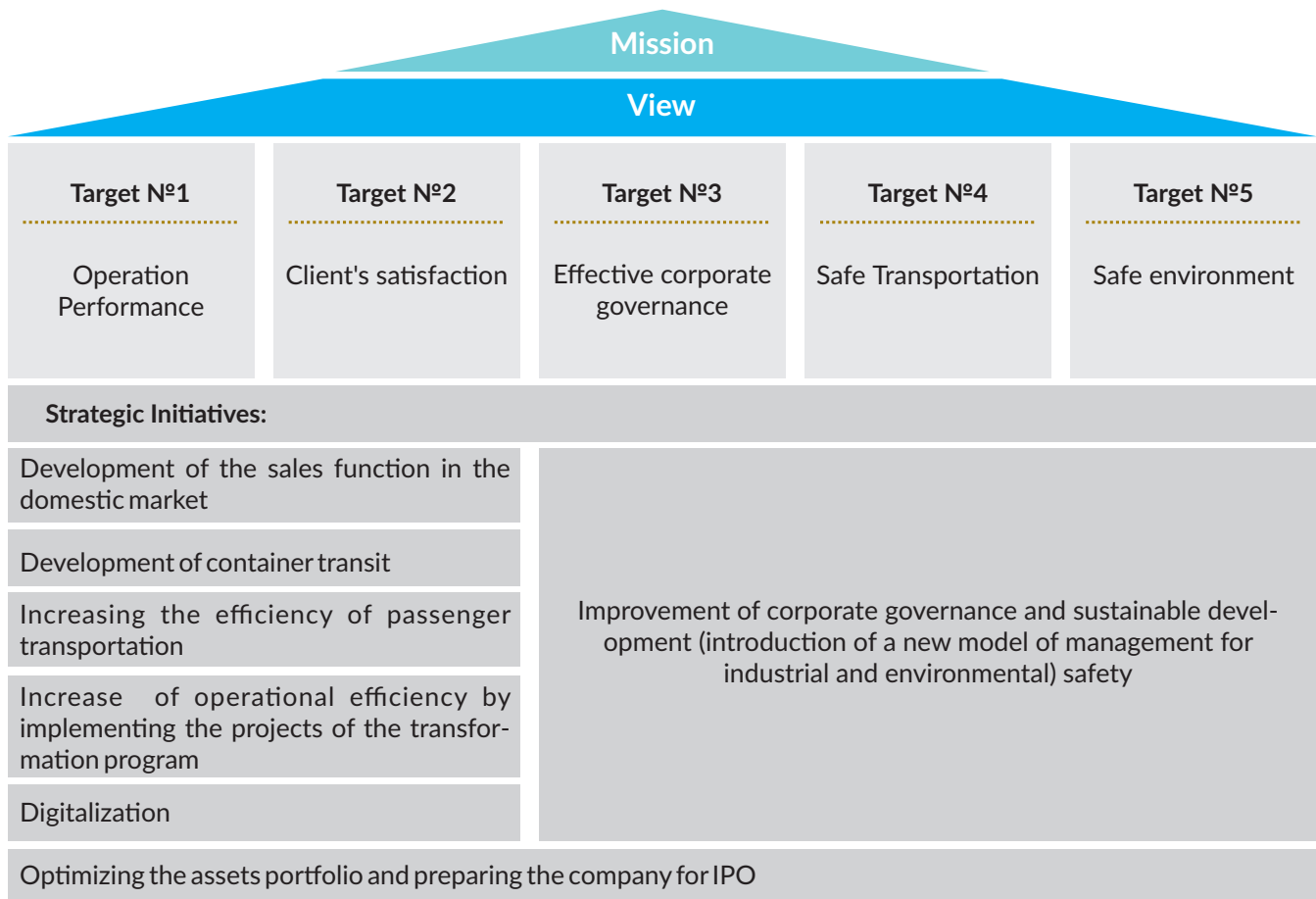
Mongolia

China

*China-Europe-China, thousand of TEUs*

In the direction of China-Europe-China, 201 thousand TEU were transported, which is 91.4% more than the level of 2016.

## Goals and plans for future periods



### Company's Mission

As a systemic infrastructure company, we provide a quality transport base for sustainable growth of the economy of the Republic of Kazakhstan, using the principles of sustainable development, create value for the Shareholder, and benefit consumers and society as a whole, through provision of demanded and competitive transport and logistics services

## Company's Vision

The Company sees itself as an efficient and innovative transport and logistics company operating in accordance with best business practices.

The Company positions itself as a supplier of the following services:

- ▶ mainline railway network services;
- ▶ transport and logistics services with a full range of logistics services from door to door;
- ▶ services for the transportation of passengers and cargo;
- ▶ repair of infrastructure facilities.

The Company intends to become a leader in both quality and cost effectiveness of the services due to high professionalism of its employees, high technical standards, as well as advanced management and production processes.

## Strategic objectives and initiatives

The development strategy until 2025 was approved by the Board of Directors of NC KTZ JSC on November 26, 2015, with amendments and additions as of February 11, 2016.

To effectively achieve the Mission and Vision, NC KTZ JSC intends to act systematically on the following strategic objectives:

- ▶ Maximizing the total cost of share capital;
- ▶ Transport safety;
- ▶ Customer satisfaction
- ▶ Effective corporate governance;
- ▶ Social stability;
- ▶ Environmental safety

NC KTZ JSC focuses on 7 blocks of strategic initiatives:

### 1. Development of the function of sales in the domestic market

**Objective:** retention and increase of freight turnover in the market, tied to the country, thanks to the focus on competition in the segments that are most susceptible to switching to truck hauling.

### 2. Development of container transit

**Objective:** Increase in transit freight turnover by attracting container freights between China, Europe, the Middle East and Russia as a segment with the highest growth potential.

### 3. Increasing the efficiency of passenger transportation

**Objective:** decrease in the amount of destructible costs by the directions, as well as a decrease in the volume of subsidies to cover the losses of Passenger transportation JSC on regulated routes. At the same time, this result may be achieved simultaneously with the preservation of the supply of railway services, the growth of traffic and the quality of services provided.

### 4. Increasing operational efficiency

**Objective:** provision of conditions for business growth of NC KTZ JSC in foreign and domestic markets. In particular, in order to implement the potential of transit traffic, NC KTZ JSC needs to achieve a leading position in optimizing the costs for infrastructure and locomotive facilities.

### 5. Digitalization

**Objective:** digitalization and automation of the key activities of the Company: passenger, freight and multimodal transport, railway infrastructure and corporate governance.

### 6. Optimization of the asset portfolio and preparation of the Company for IPO

**Objective:** to build an optimal portfolio of assets through the disposal of non-core assets and the consolidation of core and core service assets, preparation for a successful offering on IPO.

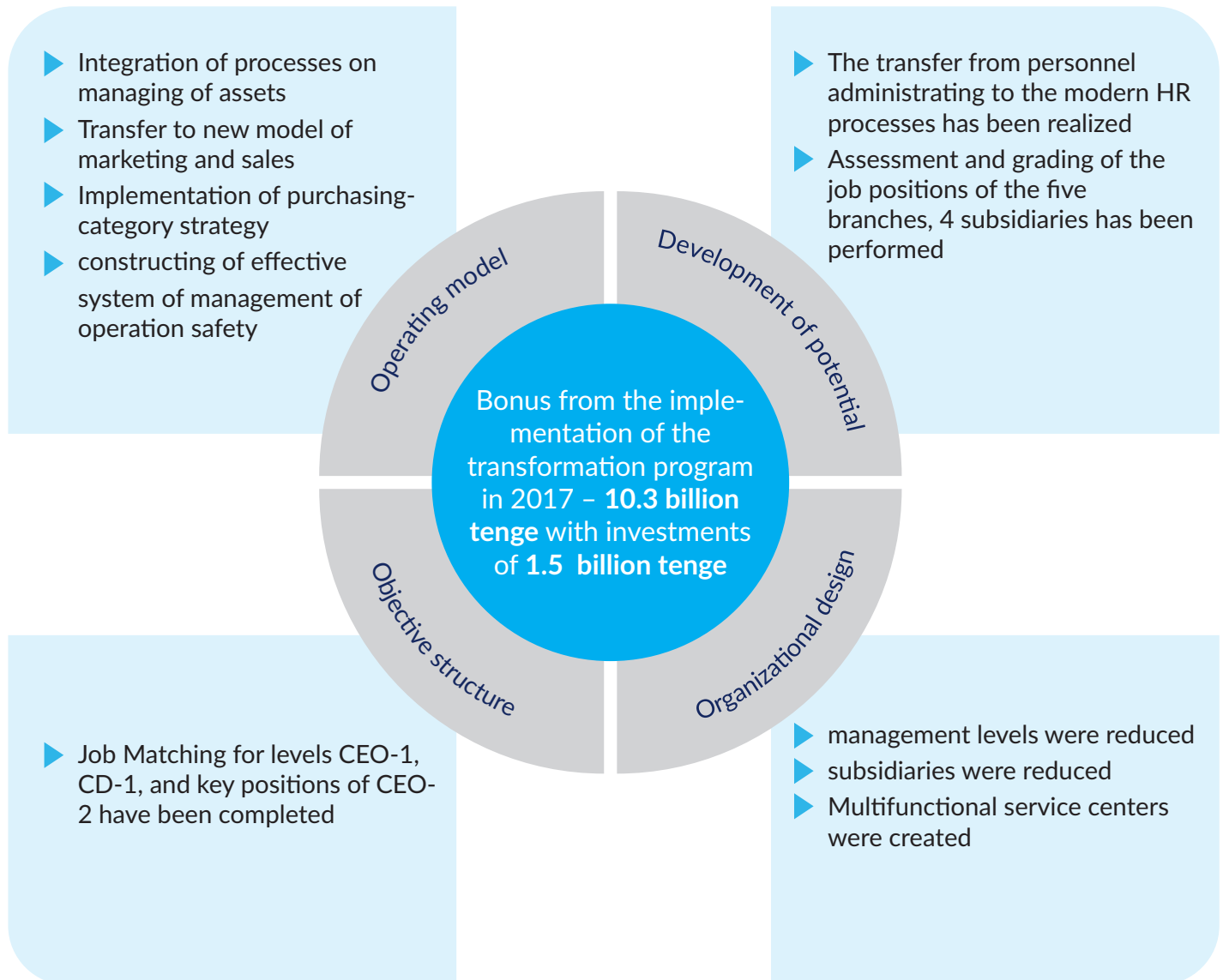
### 7. Improvement of corporate governance

**Objective:** to obtain an A rating in 2022.

A key strategic initiative is the Business Transformation Program of NC KTZ JSC, which aggregates a set of directions for restructuring the portfolio of assets, introduces a new operating model and organizational structure.

## Implementation of business transformation program of nc ktz jsc

### Basic outcomes



According to the approved work plans, following the results of 2017 significant results have been achieved - both financial and qualitative.

In general, in 2017, the benefits from the implementation of Transformation projects amounted to about KZT 10.3 billion with investments of KZT 1.5 billion.

The further focus of the Transformation Program is directed to 4 areas:

- 1) Reengineering and digitization of business processes;
- 2) Simplification of ownership structure and legal forms in NC KTZ JSC;
- 3) Entry of Portfolio companies to IPO;
- 4) Implementation of change management and project approach.

## Corporate governance

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NC KTZ JSC realizes the importance of improving corporate governance and strives to ensure openness and transparency of activities, as well as practical implementation of the basic principles of the Corporate Governance Code.

By the decision of the Sole Shareholder (minutes of the meeting of the Management Board of Samruk-Kazyna JSC dated May 27, 2015 No.22/15), the Corporate Governance Code of NC KTZ JSC was approved in a new edition.

Corporate governance of NC KTZ JSC is annually assessed for compliance with best practices in accordance with the methodology for diagnosing corporate governance in the companies of the group of Samruk-Kazyna JSC.

The assessment indicator is the corporate governance rating.

In 2017, Samruk-Kazyna National Welfare Fund attracted consultants from PricewaterhouseCoopers LLP (Pwc) to conduct independent diagnostics of the level of corporate governance in six subsidiaries, including NC KTZ JSC. Based on the results of the performed diagnostics, the corporate management rating of NC KTZ JSC is determined at the level of "B", that is according to the specified Methodology corresponds to an average level of corporate management.

### Sole Shareholder

The supreme body is the Sole Shareholder - Samruk-Kazyna JSC, which delegates to the Board of Directors the overall management of the company's activities.

Corporate governance in the Company is based on the principle of protecting and respecting the rights and legitimate interests of the Sole Shareholder. The Sole Shareholder has the rights stipulated by the Legislation and the Charter.

The exclusive competence of the Sole Shareholder includes the following issues:





- ▶ introduction of amendments and additions to the Charter of the Company or its approval in a new edition;
  - ▶ approval of the corporate governance code, as well as amendments and additions to it;
  - ▶ voluntary reorganization or liquidation of the Company;
  - ▶ approval of the Company's annual financial statements;
  - ▶ approval of the procedure for distributing the Company's net income for the reporting financial year, deciding on the payment of dividends on common stakes and approving the dividend amount per one common stake of the Company;
- ▶ other issues, the adoption of decisions on which is attributed by the Legislation and (or) the Charter to the exclusive competence of the Company's Sole Shareholder.

The Sole Shareholder is in the right to cancel any decision of other bodies of the Company on issues related to the Company's internal activities.

## Board of Directors

The Board of Directors is the management body of NC KTZ JSC, which exercises general management of the Company's activities, with the exception of resolving issues referred by the Law "On the joint-stock companies" and by the Company's Charter to the exclusive competence of the Company's Sole Shareholder.

The Board of Directors determines the strategic objectives, priority development directions and sets the main guidelines for the Company's activities in the long term, ensures the availability of the necessary financial and human resources for the implementation of the set objectives. The Board of Directors exercises control over the activities of the executive body of NC KTZ JSC.

The structure of the Board of Directors composition ensures a fair and objective representation of the interests of the Sole Shareholder.

The quantitative composition of the Board of Directors is determined by the Sole Shareholder. Only an individual can be a member of the Board of Directors.

**When making decisions on the election (appointment) of members of the Board of Directors, the Sole Shareholder is guided by the following requirements for the selection of candidates for the Board of Directors:**

- ▶ trust of the Sole Shareholder and other members of the Board of Directors of the Company to the candidate;
- ▶ positive achievements and an impeccable reputation of the candidate in the business and industrial environment;
- ▶ professional knowledge and qualification of the candidate, allowing him to make informed decisions that maximally meet the interests of the Sole Shareholder and the Company. At that, the additional advantage of the candidate is availability of an academic degree in the field corresponding to the main activities of the Company;

- ▶ availability of experience of supervisory work for at least 3 (three) years, preferably in the field corresponding to the main activities of the Company;
- ▶ availability of sufficient time, allowing to effectively perform the functions assigned to him.

### THE DIRECTOR IS RECOGNIZED AS NON-EXECUTIVE DIRECTOR IN CASES IF HE:

- ▶ is not an affiliated person of the Company and has not been an affiliated person of the Company for the 3 (three) years preceding his election to the Board of Directors (with the exception of his position as a non-executive director of the Company);
- ▶ is not an affiliated person in relation to the affiliated persons of the Company;
- ▶ is not bound by subordination to the officials of the Company or organizations – the affiliated persons of the Company and was not bound by subordination with these persons during the 3 (three) years preceding his election to the Board of Directors;
- ▶ is not a civil servant.
- ▶ is not a representative of the shareholder at the meetings of the Company's bodies and had not represented him within 3 (three) years preceding his election to the Board of Directors;
- ▶ does not participate in the audit of the Company as an auditor working in the audit organization and had not participated in such audit for 3 (three) years preceding his election to the Board of Directors.

The non-executive directors of NC KTZ JSC meet the specified requirements.

The members of the Management Board, with the exception of the Chairman of the Management Board of the Company, cannot be elected to the Board of Directors. The Chairman of the Management Board of the Company cannot be elected to the Chairman of the Board of Directors.



**As of January 1, 2017, according to the decision of the Sole Shareholder, the Board of Directors of NC KTZ JSC was represented in the following composition:**

- ▶ Askar Uzakpayevich Mamin - First Deputy Prime Minister of the Republic of Kazakhstan - Chairman of the Board of Directors;
- ▶ Kanat Kaliyevich Alpysbayev, Chairman of the Management Board of NC KTZ JSC;
- ▶ Adamas Ilkyavichius - Managing Director for Transformation and Special Projects of Samruk-Kazyna JSC (representative of the interests of the Sole Shareholder);
- ▶ Berik Tursynbekovich Beysengaliyev - Managing Director for Asset Optimization - member of the Management Board of Samruk-Kazyna JSC (representative of the interests of the Sole Shareholder);
- ▶ Christian Kuhn - Non-executive director;
- ▶ Tito Uakhapovich Syzdykov - Non-executive director;
- ▶ Serik Amanzholovich Svyatov - Non-executive director;
- ▶ Wilhelm Bender - Non-executive director.

In 2017, the Board of Directors of the Company consisted of 8 members, 4 of whom were non-executive directors.



### ASKAR UZAKPAYEVICH MAMIN

the Chairman of the Board of Directors of NC KTZ JSC

He was born in 1965. He graduated from the Tselinograd Engineering and Construction Institute, the G.V. Plehanov Russian Academy of Economics under the specialty of Civil Engineer, Economist.

He began his labor activity as an installer of the business organizations Tselintyazhstroy. Worked as Deputy General Director of the Union of Innovative Enterprises of Kazakhstan.

From 1996 through 2008 - First Deputy Mayor of Astana city, Vice Minister of Transport and Communications, First Vice Minister of Industry and Trade, Minister of Transport and Communications of the Republic of Kazakhstan, Akim of Astana.

From April 2008 through September 2016 - Chairman of the Management Board - President of NC KTZ JSC, member of the Board of Directors of NC KTZ JSC.

From September 2016 - First Deputy Prime Minister of the Republic of Kazakhstan.

From October 2016 he was elected as the Chairman of the Board of Directors of NC KTZ JSC.

A citizen of the Republic of Kazakhstan. He does not own shares in the Company, suppliers or competitors. He was first elected to the Board of Directors on April 4, 2008.



### KANAT KALIYEVICH ALPYSBAYEV

the Chairman of the Management Board (President) of NC KTZ JSC, member of the Board of Directors

He was born in 1972. He graduated from the Alma-Ata Institute of Railway Transport Engineers, University of Kentucky (USA), Moscow International Higher Business School. He has a master's degree.

From 1994 through 2002 he worked at the enterprises of the Tselina Railway, Kazakhstan Temir Zholy RSE, joint-stock companies of various profiles.

In 2002-2003 - Director for Finance and Management, Vice President for Finance and Information Technologies at AirAstana CJSC.

From November 2005 through June 2008 - Director of Business Development branch of the corporation General Electric.

From 2008 to 2012 he worked as Vice President for Economics and Finance of NC KTZ JSC.

From January 2013 through December 2014 - Vice President for Logistics of NC KTZ JSC.

From December 2014 through April 2016 - Vice President of NC KTZ JSC.

From April, 2016 - Vice President for Coordination of Operations of NC KTZ JSC.

From September 15, 2016 - President of NC KTZ JSC.

A citizen of the Republic of Kazakhstan. Does not own shares in the Company, suppliers or competitors.



### **ADAMAS ILKYAVICHIOUS**

represents the interests of the Sole Shareholder of NC KTZ JSC

He was born in 1975.

He started his career in 1996 at Digital Equipment Corporation (DEC), which he continued with Compaq (successor to DEC).

Starting from 2001 through 2008, he held senior positions in companies - leaders in the technology market, such as HP, Siemens and IBM, as well as worked as a consultant in international organizations of the private, public and non-profit sectors.

From 2008 through 2013 he was the General Director of ENRC BTS.

From 2013 - Senior Director for Business Transformation of National Welfare Fund Samruk-Kazyna JSC, Managing Director for Transformation and Special Projects of Samruk-Kazyna JSC.

A citizen of the Republic of Lithuania. He does not own shares in the Company, suppliers or competitors. He was first elected to the Board of Directors on August 1, 2014.



### **BERIK TURSYNBEKOVICH BEYSENGALIYEV**

representative of the interests of the Sole Shareholder

He was born in 1966. He graduated from Karaganda State University. Doctor of Economic Sciences.

He started his career in 1990 as a professor at the Karaganda State University.

Then, from 1995 through 2006 he worked in various banking structures.

From 2006 through 2009 he was the General Director of the investment company Astana Capital Investment Group.

From 2009 through 2012 - Deputy Chairman of the Management Board, Chairman of the Management Board of National Managing Holding KazAgro JSC.

From 2012 to present - Managing Director, Senior Director for Business Development - Member of the Management Board, Managing Director for Asset Optimization - Member of the Management Board of Samruk-Kazyna JSC. He was first elected to the Board of Directors on July 5, 2016.

A citizen of the Republic of Kazakhstan. He does not own shares in the Company, suppliers or competitors.



### TITO UAKHAPOVICH SYZDYKOV

is a Non-executive director of the Board of Directors of NC KTZ JSC

He was born in 1948. He graduated from the Semipalatinsk Zootechnical and Veterinary Institute, Pavlodar University. Master of Science in Economics and Management in the branches and social sphere. Candidate of economic sciences.

He worked in the farms of the Pavlodar region for about twenty years. For more than ten years he was taking party office.

From 1992 to 1997 - Head of Administration, Akim of Irtysh district of Pavlodar region.

From 1997 through 1999 he worked as Akim of the city of Aksu in the Pavlodar region.

From 1999 to 2012 - Deputy of the Mazhilis of the Parliament of the Republic of Kazakhstan.

From 2012 - a Non-executive director, a member of the Board of Directors of NC KTZ JSC.

A citizen of the Republic of Kazakhstan. He does not own shares in the Company, suppliers or competitors. He was first elected to the Board of Directors of NC KTZ JSC on October 2, 2012.



### SERIK AMANZHOLOVICH SVYATOV

Non-executive director the Board of Directors of NC KTZ JSC

He was born in 1954. He graduated from Lomonosov Moscow State University. Doctor of Economic Sciences, Professor. He began his career in 1976 with research and teaching activities.

From 1986 through 1991 he worked in various positions in Alma-Ata Regional Committee of the Communist Party of Kazakhstan, the Central Committee of the Communist Party of Kazakhstan, the Executive Office of the President and Cabinet of Ministers of the Kazakh SSR.

From 1991 through 2017 he worked in leading commercial banks of Kazakhstan on the positions of Deputy, First Deputy Chairman of the Management Board.

From 2006 through 2012 - Chairman of the Board of Directors of Kazakh Economic University named after T. Ryskulov JSC.

From 2015 up to the present - Chairman of the Board of Directors of ForteBank JSC, Chairman of the Board of Directors of Narhoz University JSC.

A citizen of the Republic of Kazakhstan. He does not own shares in the Company, suppliers or competitors. He was first elected to the Board of Directors on July 5, 2016.



### WILHELM BENDER

Non-executive director of the Board of Directors of NC KTZ JSC

Dr. Wilhelm Bender studied law and economics, holds a Doctor of Law.

From 1974 through 1984, he held various positions in Deutsche Bahn.

From 1990, he was the Chairman of the Board of the international transport company Schenker and later he was a member of the Management Board of Schenker-Rhenus and Chairman of the Board of SchenkerWaggon-undBeteiligungs AG.

From 1993 through 2009 - Chairman of the Board of Fraport AG and was the CEO in Fraport Group. In addition, Dr. Bender is Chief Adviser in private equity company Advent International, as well as in the international partnership of lawyers Norton Rose Fulbright; he is a member of the Board of Directors of The Germany Funds (New York/Boston, the USA).

A citizen of Germany. He does not own shares in the Company, suppliers or competitors. He was first elected to the Board of Directors of NC KTZ JSC on July 5, 2016.



### CHRISTIAN KUHN

is a non-executive director of the Board of Directors of NC KTZ JSC

He was born in 1965.

From 1992 - 1996 - activities at University of Hanover as a research fellow at the Institute for Transport, Construction of Railways and Operations, Doctor of Science at the University of Hanover (Candidate of Technical Science);

1996 - 1999 - the project leader, the head of the freight transportation department of Deutsche Eisenbahn Gesellschaft GmbH (DEG).

1996 - 2005 - Connex (Veolia group).

2000 - 2005 - Managing Director Connex Cargo Logistics GmbH (CCL);

1998 - 2005 - Managing Director, Industriebahn-Gesellschaft Berlin GmbH (IGB) and a member of the Management Board of Niederbarnimer Eisenbahn AG (NEB).

2005 -2011-Managing Director of Deutsche Bahn AG

2005-2009 - Head of the Steel and Coal Industry Division of Stinnes Freight Logistics/Railion Deutschland AG.

2006 - 2016 - various managerial positions in international logistics companies, and also worked as an independent consultant and independent director in rail and logistics companies.

A citizen of Germany. He does not own shares in the Company, suppliers or competitors. He was first elected to the Board of Directors on August 1, 2014.

## Information on the activity of the Board of Directors, Board of Management and internal Audit Service

### Information on the activity of the Board of Directors

The Board of Directors is responsible to the Sole Shareholder for effective management and proper control over the Company's activities.

In 2017, the Board of Directors NC KTZ JSC held 8 meetings in person which considered 136 issues related to the following:

- ▶ Board of Directors – 9;
- ▶ Board of Management – 7;
- ▶ transformation – 10;
- ▶ operation and economy – 32;
- ▶ human resources – 13;
- ▶ transactions – 7;
- ▶ reports on the activities – 33;
- ▶ other issues – 25.

*For the reporting period, the following main documents were approved by the Board of Directors:*

- ▶ Road maps for the implementation of Business Transformation Program of NC KTZ JSC in 2017 and 2018.
- ▶ Tax accounting policy of NC KTZ JSC.
- ▶ Revised Development Plan of NC KTZ JSC for 2017-2021.
- ▶ Action Plan of NC KTZ JSC on implementation of expectations of the Shareholder of NC KTZ JSC for 2017-2022.
- ▶ Amendment to the Charter of KTZ-Freight transportation JSC.
- ▶ The issue on placement of common shares of NC KTZ JSC.
- ▶ Separate and consolidated financial statements of NC KTZ JSC for 2016 (preliminary);

- ▶ Regulation for provision with corporate housing by NC KTZ JSC;
- ▶ Methodology for assessing the effectiveness of the corporate risk management system of NC KTZ JSC;
- ▶ Regulations for determining risk appetite, risk tolerance, key risk indicators of NC KTZ JSC and risk appetite of NC KTZ JSC at the consolidated level;
- ▶ Risk register, risk map of NC KTZ JSC as well as key risk indicators and tolerance levels for key risks of NC KTZ JSC;
- ▶ Job descriptions of CEO-1 and BoD-1 levels of NC KTZ JSC;
- ▶ Standard unified rules for the sale of assets of a group of companies of NC KTZ JSC;
- ▶ Methodology for assessing the effectiveness of the internal control system of NC KTZ JSC;
- ▶ Regulation on the Compliance Service of NC KTZ JSC;
- ▶ Action plan for withdrawal of NC KTZ JSC to the green zone of credit risk;
- ▶ Action plan to improve the corporate risk management system of NC KTZ JSC for 2018;
- ▶ Succession plan of the central office of NC KTZ JSC till 2020 (strategic personnel reserve);
- ▶ Regulations on the Audit Committee of the Board of Directors of NC KTZ JSC;
- ▶ Operating plan of the Board of Directors of NC KTZ JSC for 2018.

In addition, the structural units reports on the Company's current activities were heard.

## Execution of resolutions adopted by the Board of Directors:

As of 31 December, since the beginning of the year, the Board of Directors considered **136 issues** in total, where 132 are assignments of which:

- ▶ 116 assignments or 88% were implemented;
- ▶ 16 assignments or 12% is under implementation; and
- ▶ no assignments with expired deadlines.

## Information on the committees of the Board of Directors

In order to increase the effectiveness of the Board of Directors and to improve the structure of corporate governance, the Board has four committees: Committee on Personnel and Remuneration, Committee on Strategic Planning and Innovation, Committee on Safety and Environmental Protection and the Audit Committee. The Chairmen of the Committees of the Board of Directors are non-executive directors.

In 2017, the Committees of the Board of Directors held in total 31 meetings, in which, according to the competence of each committee, 221 issues were considered and discussed, including those submitted to the meetings of the Board of Directors and those having relevant recommendations prepared.

## Committee on Personnel and Remuneration

The Committee on Personnel and Remuneration is a consultative and an advisory body of the Board of Directors. The Committee was established to develop and submit recommendations to the Board of Directors on the issues of election or appointment of candidates for independent directors, the composition of the Management Board, the Corporate Secretary taking into account the provisions of the Company's internal documents;

appropriate remuneration of directors, members of the Management Board, the Corporate Secretary, the Office of the Corporate Secretary in accordance with the goals, objectives and current status of the Company and the level of remuneration in similar by type and scope companies; introduction of a structured and open remuneration system for directors, members of the Management Board and the Corporate Secretary.

### *Composition of the Committee on Personnel and Remuneration:*

By the decision of the Board of Directors of NC KTZ JSC dated August 8, 2016 (Minutes No.8) the following Committee members were elected:

- ▶ **T.U. Syzdykov** – Senior Non-executive director, the Chairman of the Committee;
- ▶ **S.A. Svyatov** – Non-executive director, the member of the Committee;
- ▶ **B.T. Beysengaliyev** – the Representative of the interests of the Sole Shareholder, the member of the Committee.

### *Number of meetings and participation of members of the Committee:*

In 2017, the Committee on Personnel and Remuneration held 8 in-person meetings which considered 44 issues.

## Committee for Strategic Planning and Innovation

The Committee for Strategic Planning and Innovation is a consultative and advisory body of the Board of Directors. The competence of the Committee includes: development of the Company's strategic and innovation policy; preparation of recommendations on reforming the Company's operations in order to increase innovation activity; preparation of recommendations on increasing competitiveness and stimulating the innovation activity of the Company on the basis of the analysis of the status of scientific, technical and innovation spheres of the Company; preliminary review and monitoring of the implementation of the following types of investment projects.

### *Composition of the Committee for Strategic Planning and Innovation:*

By the decision of the Board of Directors of NC KTZ JSC dated August 8, 2016 (Minutes No.8) the following Committee members were elected:

- ▶ **C. Kuhn** - Non-executive director, the Chairman of the Committee;
- ▶ **S.A. Svyatov** - Non-executive director, the member of the Committee;
- ▶ **W. Bender** - Non-executive director, the member of the Committee;
- ▶ **A. Ilkyavichius** - Representative of the interests of the Sole Shareholder, the member of the Committee.

### *Number of meetings and participation of members of the Committee:*

In 2017, the Committee for Strategic Planning and Innovations held 9 in-person meetings, which considered 105 issues.

## Committee for Safety and Environmental Protection

The Committee for Safety and Environmental Protection is a consultative and advisory body of the Board of Directors. The competence of the Committee includes: analysis of the state of

business, risks and preparation of recommendations for improving safety in the activities of the Company, mainly in the aspects of traffic safety of railway transport, transportation of dangerous goods, preventing the occurrence and elimination of consequences of emergency situations and disasters associated with rail transport; development of the Company's environmental protection policy as a component of sustainable development - focused on minimizing the impact on natural systems, optimizing the use of resources, applying environmentally friendly, energy and material-saving technologies, creating environmentally acceptable products, minimizing, processing and destroying waste.

### *Composition of the Committee for Safety and Environmental Protection:*

By the decision of the Board of Directors of NC KTZ JSC dated August 8, 2016 (Minutes No.8) the following Committee members were elected:

- ▶ **W. Bender** - Non-executive director, the Chairman of the Committee;
- ▶ **C. Kuhn** - Non-executive director, the member of the Committee;
- ▶ **T.U. Syzdykov** - Non-executive director, the member of the Committee.

### *Number of meetings and participation of the members of the Committee:*

In 2017, the Committee for Safety and Environmental Protection held 6 in-person meetings which considered 20 issues.

## Audit Committee

The Audit Committee is a standing advisory and consulting body accountable toward the Board of Directors of the Company and operates within the authority granted to it by the Board of Directors.

The main task of the Audit Committee is a preliminary comprehensive study of the issues assigned to its competence and the preparation of recommendations for the adoption by the Board of Directors of sound and informed decisions. The Audit Committee acts in the interests of the Company's shareholder and its work is directed to establishing

the personal awareness of the members of the Board of Directors regarding the establishment of an effective system for monitoring the completeness, accuracy and reliability of the Company's financial statements and providing financial and other reports, ensuring the independence and objectivity of external auditing, reliability and efficiency of risk management systems and internal control, ensuring the development of the corporate system management, ensuring independence and objectivity of the internal audit function, monitoring the practice of fulfilling the compliance function.

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

By the decision of the Board of Directors of NC KTZ JSC dated August 8, 2016 (Minutes No.8) the following Committee members were elected:

- ▶ **S.A. Svyatov** - Non-executive director, the Chairman of the Committee;
- ▶ **T.U. Syzdykov** - Non-executive director, the member of the Committee;
- ▶ **W. Bender** - Non-executive director, the member of the Committee.

#### **Number of meetings and participation of members of the Committee:**

In 2017, the Audit Committee held 8 in-person meetings which considered 52 issues.

Over 2017, the Audit Committee issued 40 recommendations to the Board of Directors of NC KTZ JSC, which were entirely adopted.

#### **Interaction of the members of the Board of Directors with the Company**

In 2017, the members of the Board of Directors took an active part in the events initiated by the Company.

Within the project "Job matching" the Commission of the Board of Directors of NC KTZ JSC has started work on assessing the staff's compliance with the position of the CEO-1 and the key positions of the CEO-2 for the transition to the target organiza-

tional structure of NC KTZ JSC. In this regard, the members of the Board of Directors of the Company took part in the activities of "Job Matching" project, including in meetings and interviews with the top managers of the Company holding the positions of CEO-1 and BoD-1.

During the reporting year, the members of the Board of Directors visited Aktobe Rail and Beam Plant LLP, where they demonstrated the process of manufacturing rails, from heating to final rolling, and also showed the laboratory and conducted experiments with rails. Following the inspection of the rail production process, a meeting was held at which representatives of the plant answered the questions of the members of the Board of Directors.

Apart from that, the members of the Board of Directors participated in Town Hall meeting of Samruk-Kazyna JSC on May 26 this year, where they discussed important intermediate results of the Transformation Program and transition of the Corporate Center of the Fund to a new organizational model Strategic Holding - Active Investor. At the extended session of the Town Hall meeting, Non-executive director Christian Kuhn made a presentation on Transformation as a prerequisite for a successful IPO. Representatives of state agencies and mass media were invited to the event.

In addition, at the initiative of the members of the Board of Directors of the Company, a number of working meetings were held, such as:

- ▶ meeting of the members of the Board of Directors with the Chief Engineer of the Company on the issues of traffic safety management and benchmarking system (comparison of traffic safety indicators in NC KTZ JSC with safety indicators of the European railway administrations);
- ▶ meetings of working groups to discuss controversial points of items included in the agendas of the meetings of the BoD and its Committees.

In Q4 of 2017, the members of the Board of Directors took part in the seminars on the "Effectiveness of the Board of Directors" and "Transparency".

## Activities of the Office of the Corporate Secretary

In accordance with the Regulation on the Corporate Secretary, the position of the Corporate Secretary is introduced in order to ensure compliance by the bodies and officials of the Company with corporate governance rules and procedures that guarantee the implementation of the rights and interests of the Company's Sole Shareholder.

The Corporate Secretary is accountable in his/her activity to the Board of Directors of the Company and is independent of the executive body of the Company.

To ensure the fulfillment by the Corporate Secretary of its functions in the Company, the Office of the Corporate Secretary has been created. The Office is a structural unit of the Company.

In 2017, the Office of the Corporate Secretary organized 8 in-person meetings of the Board of Directors and 31 meetings of the BoD Committees.

During the reporting period, the Office of the Corporate Secretary ensured the analysis of materials submitted for consideration of the Board of Directors/ Committees by the Company's structural units for compliance with the legislation of the Republic of Kazakhstan in the field of corporate governance and internal documents of the Company regulating corporate governance.

Also, in 2017, the Corporate Secretary and the staff of the Office of the Corporate Secretary took part in the meetings held by Samruk-Kazyna JSC on corporate governance, the transformation program and the meetings of the management of NC KTZ JSC.

In general, during the reporting period, the Corporate Secretary and staff of the Office of the Corporate Secretary ensured the implementation of a wide range of tasks and functions provided for by internal documents of NC KTZ JSC, including tasks to ensure the effective operation of the Board

of Directors, as well as clear and effective interaction between the Board of Directors, the Sole Shareholder and management of NC KTZ JSC.

## The Board of Management

The Management Board is a collective executive body of the Company, whose competence includes resolving all issues of the Company's activities that are not covered by the Law, other legislative acts of the Republic of Kazakhstan and the Charter to the competence of other bodies and officials of the Company.

According to the Charter of NC KTZ JSC, the determination of the number of members, the term of the office of the Management Board, election of the Chairman of the Management Board and members of the Management Board, as well as the early termination of their powers lie within the competence of the Board of Directors of NC KTZ JSC.

In accordance with the decisions of the Board of Directors of NC KTZ JSC, the current composition of the Management Board of NC KTZ JSC as of December 31, 2017 includes:

1. Kanat Kaliyevich Alpysbayev – the Chairman of the Management Board (decision of the Board of Directors of NC KTZ JSC dated 15.09.2016, Minutes No.9);
2. Erik Yerkinovich Imashev – the member of the Management Board (decision of the Board of Directors of NC KTZ JSC dated 26.05.16, Minutes No.6);
3. Sanzhar Bakhytovich Yelyubayev – the member of the Management Board (decision of the Board of Directors of NC KTZ JSC dated 09.02.17, Minutes No.1);
4. Arman Turlykhanovich Sultanov - member of the Management Board (decision of the Board of Directors of NC KTZ JSC dated 09.02.17, Minutes No.1);
5. Bauyrzhan Pazylbekovich Urynbassarov – the member of the Management Board (decision of the Board of Directors of NC KTZ JSC dated 19.03.13,

Minutes No.2. Extension of powers by decision of the Board of Directors of NC KTZ JSC dated 17.03.16, Minutes No.3);

6. Zhaslan Khassenovich Madiyev – the member of the Management Board (decision of the Board of Directors of NC KTZ JSC dated 06.04.17, Minutes No.3);

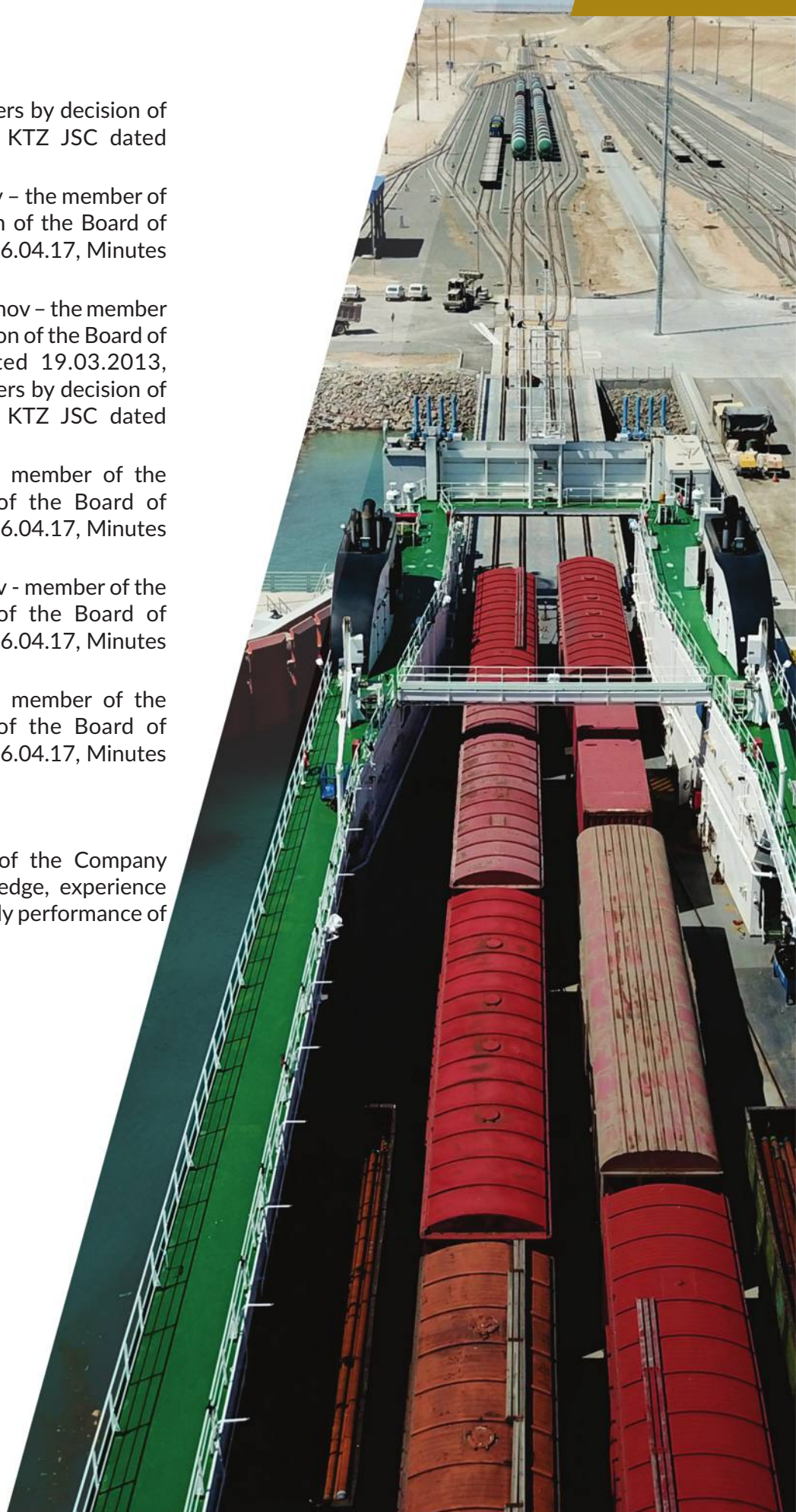
7. Rustem Koybagarovich Khassenov – the member of the Management Board (decision of the Board of Directors of NC KTZ JSC dated 19.03.2013, Protocol No.2. Extension of powers by decision of the Board of Directors of NC KTZ JSC dated 17.03.16, Minutes No.3);

8. Zharas Tokenovich Izgulov – member of the Management Board (decision of the Board of Directors of NC KTZ JSC dated 06.04.17, Minutes No.3);

9. Oralkhan Raikhanovich Kulakov - member of the Management Board (decision of the Board of Directors of NC KTZ JSC dated 06.04.17, Minutes No.3);

10. Nurdaulet Igilikuly Kilybai - member of the Management Board (decision of the Board of Directors of NC KTZ JSC dated 06.04.17, Minutes No.3).

Thus, the Management Board of the Company consists of 10 members, knowledge, experience and skills of which allow effectively performance of assigned tasks. ■



## KANAT KALIYEVICH ALPYSBAYEV

### the Chairman of the Management Board

**Date of birth:** March 31, 1972.

**Citizenship:** Republic of Kazakhstan.

#### Education, including basic and additional:

In 1994 he graduated from the Almaty Institute of Railway Transport Engineers with a degree in Automation, Telemechanics and Communications.

In 1998 he graduated from the University of Kentucky with a degree in Finance.

In 2007, he graduated from the Moscow International Higher Business School with Master's degree (MBA) degree in Business Administration.

#### Work experience:

From 1994 to 2002 - structural subdivisions and subsidiaries of NC Kazakhstan Temir Zholy JSC.

From 2002 to 2003 - Director for Finance and Management, Vice President for Finance and Information Technologies at Air Astana CJSC.

From 2003 to 2005 - Deputy Chairman of the Management Board of Intranscom JSC.

From 2005 to 2008 - Director for Business Development at the branch office of the corporation General Electric International Inc. in the Republic of Kazakhstan.

From 2008 to 2016 - Vice-President of NC Kazakhstan Temir Zholy JSC

Since September 15, 2016 - Chairman of the Management Board of NC Kazakhstan Temir Zholy JSC.

#### State and industry awards:

- award pin "Birtutas Qazaq Temir Zholyyna 50 zhyl" (2008);
- medal "Qurmet" (2010);
- jubilee medal "Kazakhstan Republicasynyn tauelsizdingine 20 zhyl" (2011);
- Memorable award "Kazakhstan Temir zholyyna 110 zhyl" (2014);
- Jubilee Honorary Diploma for contribution to OSJD Development (2016).

#### Positions held in combination:

Chairman of the Board of Directors of KTZ-Freight Transportation JSC.

**The number and share of the affiliated companies' shares held:** none.

## ERIK ERKINOVICH IMASHEV

### the Member of the Board of Management

**Date of birth:** April 22, 1976.

**Citizenship:** Republic of Kazakhstan.

#### Education, including basic and additional:

1997 - graduated from Kazakh State Law University with a degree in "Law".

Passed training on "Insurance Practice" at the Royal Institute of Insurance, London, UK.

#### Work experience:

1994 - 1998 - worked in structural divisions of AB Kazkommertsbank.

1998 - 2011 - various managerial positions in administrative and legal matters in the banking and legal sector organizations.

2013 - 2016 - Managing Director for procurement of NC Kazakhstan Temir Zholy JSC.

Since 2016 - Deputy Chairman of the Board for Corporate Security of NC Kazakhstan Temir Zholy JSC.

#### He has state and industry awards:

- memorable award "Kazakhstan Temir zholyyna 110 zhyl" (2014);
- medal "Qurmet" (2016).

#### Positions held in combination:

Vice-President of the Kazakhstani Federation of Modern Pentathlon.

**The number and share of the affiliated companies' shares held:** none.

## SANZHAR BAKHYTOVICH ELYUBAEV

the member of the Management Board

**Date of birth:** September 11, 1975.

**Citizenship:** Republic of Kazakhstan.

### Education, including basic and additional:

1994 - graduated from Kazakh State University of World Languages, majoring in English language.

1997 - graduated from Kazakh State Law University with a degree in Civil Law.

2004 - graduated from Kazakh Head Architectural and Construction Academy with a degree in Accounting and Audit.

### Work experience:

2002 - 2006 - Chief of department, Chief of transit traffic marketing department at NC Kazakhstan Temir Zholy JSC.

2004 - 2006 - General Manager of the company Trans-Siberian Express Service Kazakhstan.

2006 - 2007 - First Vice-President of Kedentrans-service JSC.

2007 - 2008 - General Manager at Mediterranean Shipping Company in the Republic of Kazakhstan.

2008 - 2011 - Director of Business Development of Transport - the branch of the corporation General Electric International Inc. in the Republic of Kazakhstan.

2011 - 2017 - various managerial positions in the group of companies of NC Kazakhstan Temir Zholy JSC.

April 2017 - present - Deputy Chairman of the Management Board of Logistics at NC Kazakhstan Temir Zholy JSC.

### His state and industry awards:

- memorable award "Kazakhstan Temir Zholy na 110 zhyl" (2014);
- medal "Qurmet" (2015).

### Positions held in combination:

Chairman of the Board of Directors at KTZ Express JSC, NC Aktau International Sea Trade Port JSC, Unified Transport and Logistics Company JSC, Port Kuryk LLP.

The number of and share of the owned shares of affiliated companies: none.

## ARMAN TURLYKHANOVICH SULTANOV

the Member of the Board

**Date of birth:** March 3, 1976.

**Citizenship:** Republic of Kazakhstan.

### Education, including basic and additional:

In 1996 graduated from Al-Farabi Kazakh State National University.

In 2010 graduated from Kazakh University of Communications.

In 2016 graduated from Kazakh Academy of Transport and Communications.

In 2016 graduated from Cambridge International Center (Great Britain).

### Work experience:

1999 to 2000 - General Manager, Deputy Director for general issues of AES-MARCHE LLP.

2000 - 2001 - Head of the marketing and public relations department of Astanaenergoserwis JSC.

2001 - 2002 - marketing manager for the sale of oil products of the Astana branch of Kazakhoil Products JSC.

2002 - 2017 - various managerial positions in the group of companies of NC Kazakhstan Temir Zholy JSC.

Since November 2017 - Executive Director of NC KTZ JSC - Chairman of the Board of Passenger Transportation JSC.

### He has state and industry awards:

- jubilee medal "Kazakhstan Republicasynyn Tauelsizdigine 15 zhyl" (2006);
- award pin "Birtutas Kazakh temir zholdaryna 50 zhyl" (2008);
- jubilee medal "10 Zhyl Astana" (2008);
- jubilee medal "Kazakhstan Republicasynyn Tauelsizdigine 20 zhyl" (2011);
- medal "Yeren enbegi ushin" (2014);
- jubilee Honorary Diploma "For Contribution to OSZD Development" (2016). ►

**Positions held in combination:**

The Chairman of the Board of Directors of Remlokomotiv JSC, the member of the Board of Directors of The Korgos International Centre of Boundary Cooperation JSC.

**Number and share of owned shares of affiliated companies:** none.

## BAUYRZHAN PAZYLBEKOVICH URYNBASAROV

the Member of the Board of Management

**Date of birth:** October 22, 1970.

**Citizenship:** Republic of Kazakhstan.

**Education, including basic and additional:**

1993 - graduated from Almaty Institute of Railway Transport Engineers with a specialization in Organization of Transportation and Traffic Management in Railway Transport.

**Work experience:**

Started working in 1993 with the West Kazakhstan Railway.

1994 - 1997 - Duty Officer in the park of Kyzyl-Orda station, Duty Officer at Almaty-2 station, Train Dispatcher of Almaty branch of the railroad.

1997 - 2004 - various positions in Kazakhstan Temir Zholy RSE.

2004 - 2010 - managerial positions in the branches of NC Kazakhstan Temir Zholy JSC.

2010 - 2014 - various managerial positions in the central office of NC Kazakhstan Temir Zholy JSC.

February - April 2014 - Acting Chairman of the Board (President) of Kaztemirtrans JSC.

2014 - 2016 - Vice-President of NC Kazakhstan Temir Zholy JSC.

2016 - 2017 - Chief Engineer of NC Kazakhstan Temir Zholy JSC.

Since April 2017 - Deputy Chairman of the Board of Management for Infrastructure of NC Kazakhstan Temir Zholy JSC.

**His state and industry awards:**

- Letter of appreciation from the Minister of Transport and Communications of the Republic of Kazakhstan (2004);
- award pin "Adal enbegi ushin" (2005);
- Letter of appreciation from the President of NC KTZ JSC (2008);
- award pin "Birtutas Kazakh temir zholy na 50 zhyl" (2008);
- Letter of appreciation from President of NC KTZ JSC (2010);
- jubilee medal "Dostyk-Alashankou temir zholdarynyi tuyyskenine 20 zhyl" (2010);
- award "Honorary railway worker" (2010);
- jubilee medal "Kazakhstan Respublicasynyn tauelsizdigine 20 zhyl" (2011);
- Medal "Qurmet" (2011);
- memorable award "Kazakhstan Temir zholy na 110 zhyl" (2014);
- Jubilee Honorary Diploma "For Contribution to OSZD Development" (2016);
- medal "Parasat" (2016).

**Job positions held in combination:**

Chairman of the Board of Directors of Transtelecom, Temirzholsu JSC, Repair Corporation Kamkor LLP.

**Number and share of the owned shares of the affiliated companies:** none.

## ZHASLAN KHASENOVICH MADIYEV

Member of the Board of Management

**Date of birth:** June 13, 1983.

**Citizenship:** Republic of Kazakhstan.

**Education, including basic and additional:**

2004 - graduated from Al-Farabi Kazakh National University, a specialist in the World Economy and International Finance.

2007 - graduated from Columbia University, School of International Relations and Public Administration, Master of Public Administration (MPA) - Economic Policy Management (Bolashak Program). ►

2016 - graduated from Massachusetts Institute of Technology (MIT), Sloan Business School, Master of Business Administration (MBA).

**Work experience:**

2004 - 2006 - Specialist, Leading specialist, Chief specialist, Head of the Debt Securities department of Alliance Bank JSC.

2007 - Securities and Bonds Trading Department, the Investment Bank Morgan Stanley (London).

2007 - 2008 - Chief Manager of the Department of Corporate Finance of Sustainable Development Fund Kazyna JSC.

2008, Expert at the Center for Strategic Research and Analysis of the Presidential Administration.

2008 - 2009 - Director of the Treasury Department of FNB Samruk-Kazyna JSC.

2009 - 2010 - Deputy Chairman of the Board of Management, Kazyna Capital Management JSC.

2010 - 2011 - Independent Director, a member of the Board of Directors NPF Ular-Umit, OOIUPA Zhetysu.

2010 - 2014 - Deputy Chairman of the Board of Management, Development Bank of Kazakhstan JSC.

2014 - 2015 - Deputy Director for Monetary Operations and Asset Management of the National Bank of the Republic of Kazakhstan.

2014 - 2015 - Member of the Board of Directors of National Investment Corporation JSC.

2016 - 2017 - Adviser to the Prime Minister of the Republic of Kazakhstan.

Since April 2017 - Deputy Chairman of the Management Board for Finance of NC Kazakhstan Temir Zholy JSC.

**His state and industry awards:**

- jubilee medal "20 years of independence of Kazakhstan" (2011);
- Letter of appreciation from Chairman of the Board of Management, Samruk-Kazyna JSC.

**Positions held in combination:** Chairman of the Board of Directors of Passenger Transportations JSC.

**Number and share of the owned shares of the affiliated companies:** none.

**RUSTEM KOIBAGAROVICH KHASENOV**

the member of the Board of Management

**Date of birth:** August 4, 1962.

**Citizenship:** Republic of Kazakhstan.

**Education, including basic and additional:**

1984 - graduated from Karaganda State University with a degree in "Law".

2011- graduated from Britannica "Business Solutions (Singapore). specialty "Corporate governance and law".

2012 - graduated from Trans-European Center Limited (London, UK). International treaty law. International arbitration. Legal examination of contracts - the British experience.

2014 - graduated from T. Ryskulov Kazakh Economic University, majoring in "MBA - International Business", Master of Business Administration.

2014 - graduated from European University with a degree in MBA, Master of Business Administration.

**Work experience:**

He started working in 1984 in Kokshetau Municipal Department of the Interior.

1986 - 1991 - Base of Kazkhozorg, the Kokshetau Regional Executive Committee, Kokshetau regional Agro-Industrial Committee.

1991 - 1997 - Head of the Legal department of Kokshetau regional Agro-Industrial Committee.

1997 - 2003 - Head of Legal Department in commercial structures.

2003 - 2006 - Chief Specialist, Head of the department, Deputy Head of the Legal Department of the Ministry of Transport and Communications of the Republic of Kazakhstan.

2006 - 2008 - Head of the State and Legal Department of the Akim's Office in Astana.

2008 - 2016 - Managing Director for Legal issues of NC Kazakhstan Temir Zholy JSC;

2016 - 2017 - Director of Legal Support and Claims Department of NC Kazakhstan Temir Zholy JSC;

Since December 11, 2017 - acting Deputy Chairman of the Board of Management on Legal issues, NC Kazakhstan Temir Zholy JSC. ►

**His state and industry awards:**

- anniversary medal “10 years of the Constitution” (2005);
- award pin “Birtutas Kazakh temir zholyna 50 zhyl” (2008);
- jubilee medal “Kazakhstan Republicynyn tauelsizdigine 20 zhyl” (2011);
- medal “Qurmet” (2014);
- memorable award “Kazakhstan Temir zholyna 110 zhyl” (2014);
- jubilee medal “Kazakhstan Konstitusiyasyna 20 Zhyl” (2015);
- an engraved watch granted by President of NC KTZ JSC (2015).

**Number and share of the owned shares of the affiliated companies:** none.

**ZHARAS TOKENOVICH IZGULOV**

member of the Board of Directors

**Date of birth:** September 28, 1971.

**Citizenship:** Republic of Kazakhstan.

**Education, including basic and additional:**

1995 - graduated from Samara Institute of Railway Transport Engineers.

2009 - graduated from Almaty Academy of Economics and Statistics.

**Work experience:**

1995 - 1998 - Assistant to a train compiler at Atyrau Branch of the West Kazakhstan Railway.

1998 - 2005 - Engineer, Deputy to Head of the station, Head of the Mangyshlak station, first Deputy to Head of the Transportation department, Head of the branch of the Republican State Enterprise KTZ - Atyrau Transport Department, Director of the branch of the Infrastructure DGP, Director of the branch of NC KTZ JSC - Atyrau Transport Department.

2005 - 2015 - Director of the branch of NC KTZ JSC - Aktobe railroad department.

2015 - 2017 - Director of the branch of NC KTZ JSC - Directorate of the Trunk Railway Network.

Since March 24, 2017 - Executive Director of NC KTZ JSC - Director of the branch of NC KTZ JSC - Directorate of the Trunk Railway Network.

**His state and industry awards:**

- medal “Qurmet” (2012);
- award pin “Honorary Railway Worker” (2004);
- jubilee medals “Kazakhstan Constitusiyasyna 10 zhyl” (2005), “20 years of independence of Kazakhstan” (2011);
- Letter of appreciation from the President of the Republic of Kazakhstan (2009).

**Job positions held in combination:**

Member of the Supervisory Board of Repair corporation Kamkor LLP.

**Number and share of the owned shares of the affiliated companies:** none.

**ORALKHAN RAIKHANOVICH KULAKOV**

member of the Board of Management

**Date of birth:** August 17, 1964.

**Citizenship:** Republic of Kazakhstan.

**Education, including basic and additional:**

1986 - graduated from Alma-Ata Institute of Railway Transport Engineers with a degree in Transportation Management.

2010 - received degree - Candidate of economic sciences.

**Work experience:**

He started his labor activity in 1986 on duty at the Aktogay station of Alma-Ata branch of Alma-Ata Railway.

1989 - 2005 - Train Dispatcher, Head for station Deputy on automated control systems, Chief Engineer for the station, Head for Zhana-Semey station, First Deputy for the Head of the Transportation department, Head of Economy and Finance of Semey Railway, Head of the Center for Corporate Transport Services of State branch enterprise Kazakhstan Temir Zholy, Director of ►

Almaty branch of the State branch enterprise Center for Corporate Transport Services, Vice-president of Center for Transport Services OJSC.

2005 - 2008 - Managing Director of Transportation Directorate of NC Kazakhstan Temir Zholy JSC.

2008 - 2011 - President of Center for Transport Services JSC.

2011 - 2012 - President of National Center for Transport Logistics Development JSC.

2013 - 2014 - Director of the branch of NC KTZ JSC - Directorate of the Transportation Process.

2014 - 2016 - Managing Director for Operations, Managing Director on Operations NC Kazakhstan temirzholy JSC.

2016 - 2017 - Chairman of the Board of Management KTZ - Freight Transportation JSC.

Since March 24, 2017 - Executive Director of NC KTZ JSC - Chairman of the Board of Management KTZ - Freight Transportation JSC.

**His state and industry awards:**

- award “Honorary railway worker” (2007);
- medal “Qurmet” (2008).

**Job positions held in combination:**

Chairman of the Board of Directors of Kaztemir-trans JSC.

**Number and share of the owned shares of the affiliated companies:** none.

**NURDAULET IGILIKULY KILYBAI**

member of the Board of Management

**Date of birth:** 10 April 1978.

**Citizenship:** Republic of Kazakhstan.

**Education, including basic and additional:**

1999 - graduated from the Almaty Institute of Railway Transport Engineers, specialty engineer.

2003 - graduated from Gumilev Eurasian National University, specialty economist.

**Experience:**

1999 – 2005 - on duty at the Atyrau branch of the transportation department, Cargo transceiver, Senior cargo transceiver on the access roads of the Astana station, Chief specialist, Head of the department of the directorate of the main network of NC KTZ JSC.

2005 - 2009 - Head of the department, Head of the Economy and Tariff Policy department, Deputy Chairman of the Transport and Communications Committee of the Ministry of Transport and Communications of the Republic of Kazakhstan.

2009 - 2010 - President of Vokzal - Service, JSC Managing Director for Passenger Transportation of NC KTZ JSC.

2010 - 2011 - Chairman of the Committee of Transport and Communications of the Ministry of Transport and Communications of the Republic of Kazakhstan.

2011 - 2012 - Adviser to the President of NC KTZ JSC, Director of the branch of NC KTZ JSC - Mangystau branch of the railroad.

2012 - 2013 - Chairman of the Committee of Transport and Communications of the Ministry of Transport and Communications of the RK.

2013 - 2017 - various managerial positions in the group of companies of NC Kazakhstan Temir Zholy JSC.

Since November 22, 2017 - President of Temirzholsu JSC.

**His state and industry awards:**

- medal “Kazakhstan Republicasynyn Parlamentine 10 zhyl” (2006), “Yeren enbegi ushin” (2013);
- award pin “Birtutas Qazaq temir zholdaryna 50 zhyl” (2008);
- memorable award “Kazakhstan temir zholyna 110 zhyl” (2014).

**Number and share of the owned shares of the affiliated companies:** none. ■



## Information on activities of the Management Board

The Management Board is responsible for the implementation of the strategy and for the current activities of the Company.

In 2017, it was held 32 meetings of NC KTZ JSC.

Within the framework of the meetings, the Management Board of NC KTZ JSC considered 351 issues submitted by structural units, branches and subsidiaries of NC KTZ JSC.

## Information on activities of the Internal Audit Service

The Internal Audit Service is the body of NC KTZ JSC which monitors the financial and economic activities of NC KTZ JSC Group, evaluates the internal control, risk management, corporate governance and consulting documents in order to improve the activities of the NC KTZ JSC Group.

The Service is directly subordinate to the Board of Directors of NC KTZ JSC and reports to it on its operations. The activities of the Service is curated by the Audit Committee in accordance with the internal documents regulating the activities of the Audit Committee.

The Service carries out its activities in compliance with the International Professional Practice basics

of Internal Audit (IPPF), which are mandatory for application.

In 2017, the Internal Audit Service carried out all the 14 audit assignments, with the conduct of 20 audits performed by the Annual Audit Plan for 2017 approved by the decision of the Board of Directors of NC KTZ JSC dated November 16, 2016 No.12.

The audit covered the key business processes such as investment projects, safety of fixed assets, procurements, information technologies and information security, an analysis of the financial stability of NC KTZ JSC, an assessment of the effectiveness of the corporate risk management system and internal control system, audit of business transformation NC KTZ JSC.

Thus, the resources of the Internal Audit Service were concentrated on those business processes and activities of NC KTZ JSC and its subsidiaries, which have inherent risks with high and medium significance according to the Risk Register and Risk Map of NC KTZ JSC. In addition, business processes not covered by the Risk Map (risk exposure factor) and with low risk significance were audited to confirm the appropriateness of the rating criteria and the correctness of the risk group definition, as well as to ensure comprehensive coverage of the audit.

Based on the audit results, the Internal Audit Service issued 304 recommendations, with 2 recommendations being not adopted by the audit, which non-compliance risks were accepted by the management of NC KTZ JSC.

In accordance with the Internal Audit Policy in NC KTZ JSC, the Internal Audit Service ensures that the audited items take corrective action plans, which are monitored on a quarterly basis.

The Internal Audit Service continuously carries out methodological work on further improvement of its activities, including, development and approval by the Board of Directors of NC KTZ JSC of the Methodology for assessment of the effectiveness of the corporate risk management system and assessment of effectiveness of the internal control system of NC KTZ JSC. ►

In the reporting year, the employees of the Internal Audit Service passed courses of professional development and certification in the areas of internal audit and control, accounting, IFRS, management fundamentals and information technology. In particular, two workers passed the 1st part of exams and one employee passed the 2nd part of exams for obtaining the international qualification of “Certified Internal Auditor” (CIA).

The results of the Internal Audit Service's activity are submitted to the Board of Directors of NC KTZ JSC on a quarterly basis.

In 2017, PricewaterhouseCoopers (PwC) diagnosed the corporate governance system of NC KTZ JSC, including issues related to the activities of the Internal Audit Service, which resulted in a number of recommendations aimed at further improving the activities of the Internal Audit Service.

### Remuneration of the Company's officials

Payment of remuneration to executive and managerial staff of NC KTZ JSC on the basis of the results of the work for the year is carried out in accordance with the Regulation on remuneration and bonus awarding for executives, employees of the Office of the Corporate Ombudsman, staff of the Corporate Secretary's Office, Internal Audit and Compliance Service approved by the decision of the Board of Directors of NC KTZ JSC dated July 12, 2017 (Minutes No.5), Regulation on remuneration and bonus awarding for administrative and management staff of the National Company Kazakhstan Temir Zholy JSC, approved by the decision of the Management Board of NC KTZ JSC dated October 5, 2017 (Minutes No.02/24).

The above Regulations are based on the following principles:

- ▶ interlink between remuneration and performance of tasks that are in the best interests of NC KTZ JSC and its Sole Shareholder;
- ▶ dependence of the amount of remuneration on the results of activities of NC KTZ JSC and employee's performance.

In this case, the main condition for the payment of remuneration is the availability of consolidated final profit for the reporting period, calculated taking into account the planned amount for the payment of remuneration.

The decision on the payment of remuneration to executives is made by the Board of Directors of NC KTZ JSC, the managerial staff – by the Management Board of NC KTZ JSC.

When calculating the remuneration, the fulfillment of the plan for corporate and individual key performance indicators for each post is taken into account and is calculated in proportion to the actual time worked for the respective position.

For 2017, remuneration totaling 155 742 thousand tenge was paid to members of the Board of Directors of KTZ NC JSC. Payment of premiums and other bonuses was not made.

For 2017, remuneration totaling 249 615 thousand tenge was paid to members of the members of the Board of KTZ NC JSC, including premiums in the amount of 245 thousand tenge and bonuses in the amount of 98 821 thousand tenge. ■



## Information on compliance with Corporate Governance practices and the Corporate Governance Code

### Information on the compliance of corporate governance practices with the principles of the Corporate Governance Code

The Corporate Governance Code of NC KTZ JSC (hereinafter referred to as the Code) was approved by the decision of the Board of Samruk-Kazyna JSC in a new version dated May 27, 2015 (Minutes No. 22/15).

The Code was developed in accordance with the legislation of the Republic of Kazakhstan, internal documents of Samruk-Kazyna JSC (hereinafter-Fund), taking into account the corporate governance practices developing in Kazakhstan and the world, the Fund transformation program approved by the decision of the Board of Directors of the Fund (Minutes No.113 dated September 17, 2014). The provisions of this Code shall be applied taking into account the specifics provided by the legislation of the Republic of Kazakhstan.

The objectives of the Code are to improve corporate governance in the Fund and organizations, to ensure transparency of management, and confirm the commitment of the Fund and organizations to follow standards of good corporate governance.

In accordance with the Code, the Board of Directors of NC KTZ JSC shall control the implementation of the provisions of the Code. Also, according to provisions of the Code, the Corporate Secretary shall monitor and advise the Board of Directors on proper compliance with the Code and prepare an annual report on compliance with its principles and provisions.

The Fund and organizations must comply with the provisions of this Code, in case of non-compliance, please, indicate in the annual report, explanations on the reasons for non-compliance with each of the

provisions. The Board of Directors may, for certain reasons, infer the inapplicability or inability to comply with certain provisions of this Code.

Cases of non-compliance with the provisions of this Code should be carefully considered at the meetings of the respective committees and boards of directors with the adoption of appropriate decisions aimed at further improving corporate governance in the Fund and organizations.

In accordance with the provision of the Code, the Corporate Secretary of NC KTZ JSC has prepared a report on compliance/non-compliance with principles and provisions of the Corporate Governance Code (Appendix No.1).

The mentioned report was approved by the decision of the Board of Directors of NC KTZ JSC on May 3, 2018, Minutes No. 2).

The format of this report has the same structure and level of details as the Code has. Since the first two chapters of the Code have a specific character and describe the management features of the Fund, the interaction between the Fund and the Government of the Republic of Kazakhstan, they were not reflected in this report, as they are not applicable to NC KTZ JSC. In this regard, the report is compiled on five fundamental principles, such as:

- ▶ Shareholder rights and fair treatment of shareholders;
- ▶ The efficiency of the Board of Directors;
- ▶ Sustainable development;
- ▶ Risk management, internal control and audit;
- ▶ Transparency.

Each section has the following structure:

- ▶ the provision of the Corporate Governance Code;
- ▶ description of the current situation in the Company with respect to the relevant provision of the Code;
- ▶ level of compliance (complied/partially complied/not complied/not applicable).

According to the results of the analysis, in practice 77% of the provisions of the Code is observed in the Company, another 13% of the provisions of the Code is partially observed (with an explanation of the reasons) and 4% of the provisions is not being currently observed, 6% of the provisions of the Code is not applicable to the Company.

The content and structure of the report is presented in such a way as to interest users in the most reliable, complete and understandable information on observance of the principles and provisions of the Corporate Governance Code of NC KTZ JSC for 2017.

In order to further improve corporate governance in 2017, Samruk-Kazyna JSC involved PricewaterhouseCoopers LLP (Pwc) in conducting independent survey of corporate governance in six subsidiaries, including NC KTZ JSC.

As a result of independent survey, NC KTZ JSC was assigned the overall "B" rating, the optimal rating for the IPO – "BBB", the target rating for the maximum value of shareholders is "AA".

### Information on compliance with the requirements of the Code of Business Ethics

The Company's Code of Business Ethics was approved by the Board of Directors of the Company dated March 19, 2013 (Minutes No.2).

The purpose of this Code is to develop and improve the corporate culture, to facilitate the effective

interaction of officials/employees of the Company with the stakeholders through the application of business practice.

The fundamental corporate values on the basis of which the Company's activities are formed are: honesty, decency, respect for people, mutual assistance and trust.

Safety, quality and environmental protection, responsibility, sustainable development and mutual prosperity, ability to work as a team, openness to development, professionalism and pride in one's business are also fundamental values of the Company's corporate culture.

The effect of this Code applies to all officials and employees of the Company.

In order to ensure compliance with the requirements of the Code of Business Ethics, the practice of regularly monitoring and verifying knowledge of the provisions of the Code is being introduced.

On issues of clarification of the requirements of the Code or arising ethical issues, on the facts of violations of the requirements of the Code, officials and employees of the Company, interested persons are entitled to apply to:

- ▶ Immediate managers of their structural units or higher-level executives;
- ▶ -Corporate Secretary;
- ▶ -Head of the Internal Audit Service;
- ▶ -Chairman of the Management Board;
- ▶ -Board of Directors.

In the second quarter of 2017 the branch of NC KTZ JSC Center for Assessment and Development of Railway Transport Personnel conducted a survey on moral and psychological climate in the Company's staff.

190 managers (62.5%) and 114 experts (37.5%) from 20 structural divisions of the central office took part in the survey. ▶

This survey was conducted to determine:

1. Key indicators of social and psychological climate in the staff (responsibility, community spirit, social cohesion, sociability, openness, the level of organization, awareness).

Following the results of the carried-out survey on the key indicators of social and psychological climate in the staff of the Company, the overall score made 8.2, which corresponds to the ideal level of staff development. In 2016 this indicator was 7.6, also an optimum score of staff development.

2. The degree and nature of value and orientation unity of the staff (attitude towards work, production and organizational abilities, general style of behavior, attitude towards colleagues, corporate values).

The average indicator of level of value and orientation unity of the staff among all structural divisions made 43 points, which means the average (intermediate) level of staff cohesion.

3. Relations between an immediate manager and subordinates (competence of the manager, his/her professional skills, ability to show sympathy, attention and humanity, insistence, ability to interact with subordinates).

Following the results of the assessment, the analysis of social and psychological climate of the staff was carried out and each structural division of the central office of the Company was provided with feedbacks and recommendations on regulation of the moral and psychological climate.

These surveys showed that the results of the carried-out work on implementation of the Code of business ethics in the Company were positive.

## Sustainable development

Please, see the Sustainability Report for 2017, posted on the Company's corporate website in the section Sustainable Development.



# Report on Corporate Governance

## Code compliance for "NC" KTZ " JSC, 2017

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### Preamble

By decision of the Board of "Samruk-Kazyna National Welfare Fund" joint-stock company (hereinafter referred to as the Fund), minutes № 22/15 of May 27, 2105, the Corporate Governance Code (hereinafter referred to as "the Code") was ratified for the legal entities, one hundred percent of the voting shares (participatory interests) of which belongs to the Fund as a mandatory corporate standard.

The objectives of the Code are to improve corporate governance in the Fund and organizations, to ensure transparency of management, confirm the commitment of the Fund and organizations in following the standards of good corporate governance.

The Code was elaborated as per the legislation of the Republic of Kazakhstan, internal documents of the Fund, the corporate governance practices developing in Kazakhstan and in the world, as per the Fund transformation program approved by the decision of the Board of Directors of the Fund (Minutes No. 113 of September 17, 2014). The provisions of this Code shall be applied taking into account the specifics provided by the legislation of the Republic of Kazakhstan.

The Fund and organizations must comply with the essentials of this Code, in case of non-compliance, there is a demand to indicate explanations on the reasons for non-compliance with each of the provisions in the annual report. The Board of Directors may, for certain reasons, infer the inapplicability or inability to comply with certain provisions of this Code. Control over Code execution by the Fund and organizations, is vested in the Boards of Directors of the Fund and organizations,

respectively. The Corporate Secretaries shall monitor and advise the Boards of Directors and the Executive Body of the Fund and organizations upon the matter of the proper implementation of this Code, and prepare an annual report on compliance/non-compliance with its principles and provisions. Subsequently, this paper is submitted to the relevant Committees of the Board of Directors for consideration, is approved by the Board of Directors and is attached to the annual report of the Fund or organization.

The occurrences of non-compliance with the essentials of this Code should be carefully discussed at the conferences of the respective Committees and Boards of Directors with the adoption of appropriate decisions targeted at further perfection of the corporate governance in the Fund and organizations.

In the light with the demands of the Code, the Office of the Corporate Secretary of "NC" KTZ" JSC the report was prepared on compliance/non-compliance with the Code principles and provisions.

The format of the paper has the same structure and level of detail as the Code itself. Since the first two chapters of the Code have a specific character and they describe the management features of the Fund, the interaction between the Fund and the Government of the Republic of Kazakhstan, so they were not demonstrated in this report, as they are not applicable to "NC" KTZ" JSC. In this regard, the report is compiled on five fundamentals listed below:

- I. Rights of the shareholders and fair treatment toward the shareholders;
- II. Effectiveness of the Board of Directors;
- III. Sustainable development;
- IV. Risk management, internal control and audit;
- V. Transparency;

each of the aforementioned has the following structure:

- ▶ provision of the Corporate Governance Code;
- ▶ description of the current situation in the Company concerning relevant provision of the Code;
- ▶ the level of compliance ("observed" / "partially observed" / "not observed" / "not applicable");

The content and structure of the Report is presented in such a way so that to furnish the interested users with the most correct, complete and comprehensible information about compliance with the essentials and provisions of the Corporate Governance Code of "NC "KTZ" JSC, 2017.

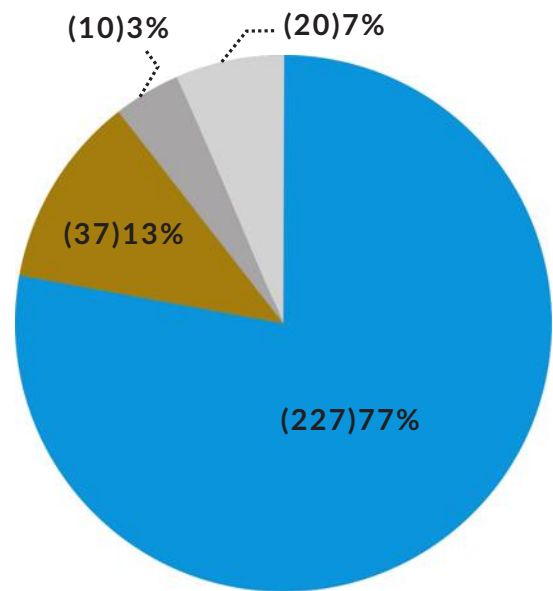
In the course of drawing up the Report, some piece of information on the outcomes of the corporate governance diagnosis prepared by PwC was also used.

Further, some main conclusions are presented in the context of each separate section of the Code.

### Main conclusions

According to the aftermaths of the analysis conducted, in the Company, in practice, 77% of the provisions of the Code are observed, another 13% of the provisions of the Code are partially observed (with the clarifications of the reasons) and 3% of the provisions are not observed currently. And 7% of the essentials of the Code are not applicable to the Company.

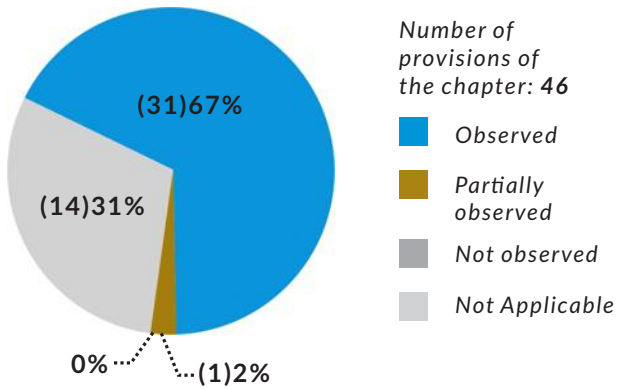
	Assessment of the Company, %	Quality
Observed	77%	227
Partially observed	13%	37
Not observed	3%	10
Not Applicable	7%	20
<b>Total number of the considered provisions of the Code</b>		<b>294</b>



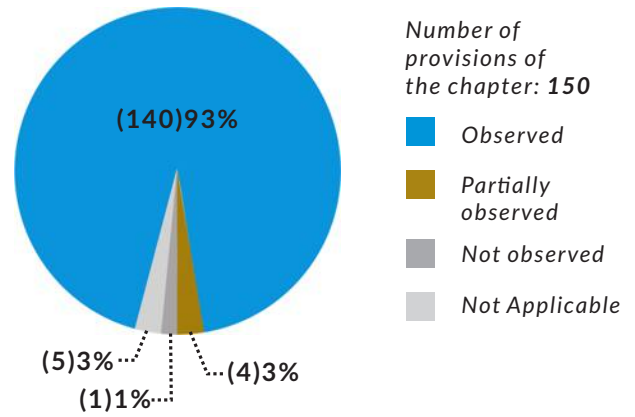
In whole, it should be noted, that the analysis of the report revealed that the fundamental principles and provisions of the Corporate Governance Code are observed in the Company. There is a strong evidence that the basic provisions of the Code are fulfilled and matched with the expectations of the Sole Shareholder.

Below, you can find the main outcomes of the analysis about compliance of the Company's practice with the demands of the Corporate Governance Code:

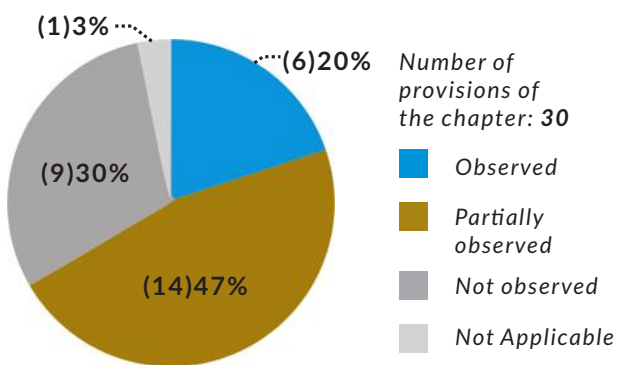
**1. The rights of shareholders (participants) and fair treatment of shareholders (participants)**



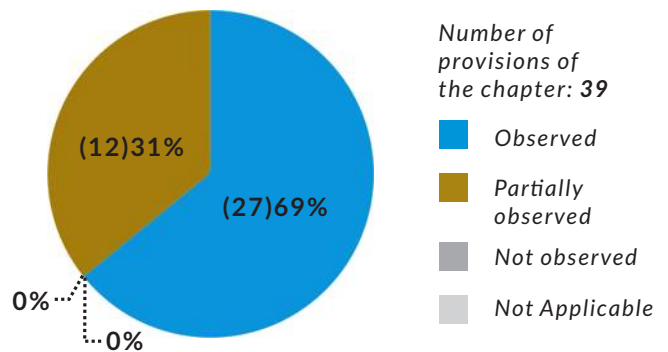
**2. The effectiveness of the Board of Directors and the Executive Body**



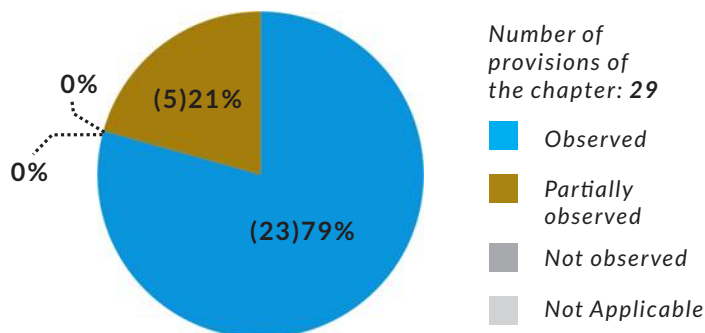
**3. Sustainable development**



**4. Risk management, Internal control and audit**



**5. Transparency**



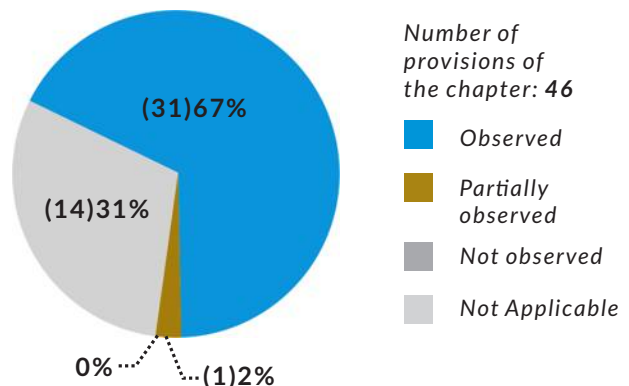
Further, in the present Report, there are conclusions presented on sections of the Code.

# I. Rights of the shareholders (participants) and fair treatment toward the shareholders (participants)

Below are the aftermaths of the analysis as per the section of the Code: "Rights of the shareholders (participants) and fair treatment toward the shareholders (participants)."

Relying upon the outcomes of the analysis, the current practice of corporate governance in the Company under this section, implements the requirements of the Code at 67%. In particular, the Company fulfills the following key requirements of the Code:

## 1. The rights of shareholders (participants) and fair treatment of shareholders (participants)



### Key areas of the Company's compliance with the Code requirements

1. In accordance with the Resolution № 117 of the Government of the Republic of Kazakhstan of February 23, 2006, "Samruk-Kazyna" JSC is the Sole Shareholder (100% of shares) of "NC" KTZ" JSC (hereinafter – the Company).
2. The rights, duties and exclusive competence of the Sole Shareholder are stipulated in the Charter and comply with the legislation of the Republic of Kazakhstan.
3. The Sole Shareholder and the investors receive information on the Company's activities through an annual report, including, in particular, the Board of Directors' Report and audited consolidated annual financial statements. The annual report, the audited consolidated annual financial statements are regularly posted on the corporate website of the Company.
4. In compliance with Clause 75, Clause 10 of the Company's Charter, matters resolutions attributed by the legislation of the Republic of Kazakhstan and the Charter to the competence of the General Meeting of the shareholders are taken by the Sole Shareholder solely and subject to execution in writing.
5. According to the Charter of the Company, the Sole Shareholder has the right: 1) to participate in the management of the Company; 2) receive dividends; 3) receive information on the activities of the Company; 4) apply to the Company with written requests for its activities, and receive motivated answers within 30 calendar days from the date of receipt of the request by the Company, etc.
6. The basis of the relations, between the Sole Shareholder and the Company concerning payment of for the shareholding owned by the shareholder, are governed by the Dividend Policy of "Samruk-Kazyna" JSC with respect to subsidiaries, which provides for the procedure for determining the amount of the dividends.
7. The Company has a Department for Borrowing and Investor Relations, the functions of which include maintaining the liaison with the investors, ensuring timely and qualitative provision of answers to Sole Shareholder' questions.

Nevertheless, according to the outcomes of the analysis, the current practice of corporate governance in the Company reaches 2% of partial compliance with the requirements of the Code. The Company, currently, partially meets the basic

requirements of the Code below and proposes the following measures to be taken so that the corporate governance practices get in line with the provisions of the Code.

	The areas of partial compliance with the Code key requirements	Clarifications and Measures for implementation
1.	The Sole Shareholder (participant) may hold conferences with the Board of Directors and the Executive Body (Supervisory Board and/or Executive Body) (hereinafter – “Hearing the Board of Directors”) to summarize the activities over a year and make decisions on the matters of their competence. The Sole Shareholder (participant) may also hold regular conferences with the Chairman of the Board of Directors (Supervisory Board and/or Executive Body) during a year to discuss the issues on the Company's activities within their competence.	In May, 2017, a meeting was held by the members of the Executive Body of the Company and the Executive Body of the Fund to review the Company's financial outcomes for 2016 and the first quarter of 2017, outside the official meetings of the Board of Directors of the Company. It is necessary to hold the Annual General Meeting In compliance with the norms of the Code.

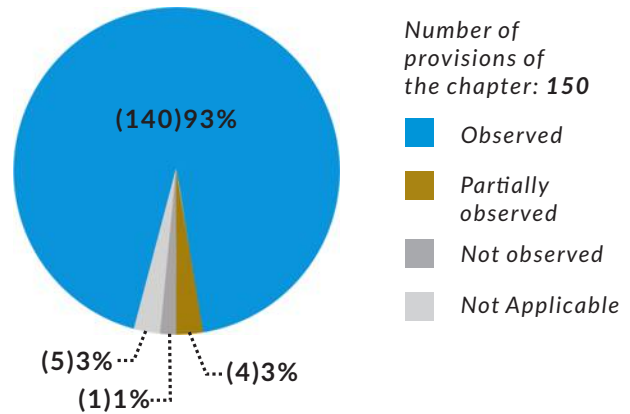
Conclusion: Potential negative impact on the Company regarding non-compliance with the Code key requirements	
1.	Discussion of the Company's performance between its management and the Sole Shareholder, outside the official conferences of the Board of Directors, will not give the Board of Directors the possibility to critically evaluate the Executive Body of the Company.

## II. Effectiveness of the Board of Directors and Executive Body

Below are the outlined outcomes of the analysis as per the section of the Code: "Effectiveness of the Board of Directors and the Executive Body".

Making reference to the outcomes of the analysis, the current practice of corporate governance in the Company under this section meets the requirements of the Code at 93%. In particular, the Company fulfills the following keys of the Code:

### 2. The effectiveness of the Board of Directors and the Executive Body



#### Key areas of the Company's compliance with the Code requirements

1. The Board of Directors plays a leading role in strategy determination, risk management, management performance, and it influences on all the key business decisions. That is why, that in order to determine the long-term targets of the Company, the Board of Directors approved the Strategy on Company's Development until 2025, which sets out the plans for achieving the outlined tasks. In addition, within the framework of implementation of the Single Shareholder's Expectations, the Board of Directors approves the Action Plan for the carrying out of the Expectations of the Company's Sole Shareholder.
2. In compliance with the decision of the conference of the Management Board of "Samruk-Kazyna" JSC (Minutes No. 26/16 dated 05.07.2016) the members of the Board of Directors are elected for a period of three years, none of them is simultaneously a member of the boards of directors of more than four legal entities and is a chairman of more than two boards of directors. Brief information on the members of the Board of Directors, posted on the Company's website, shows that business skills, educational background, work and life experience of the members of the Board of Directors correspond to the scale, complexity and specificity of the Company's activities. All members of the Board of Directors have the impeccable business and personal reputation. Out of 8 members of the Board of Directors, 4 members of the Board of Directors are Independent Directors, which is 50% of the total number of the members of the Board of Directors; where an individual contract was concluded between each independent director - a member of the Board of Directors and the Company.
3. The Board of Directors approved the Induction Program for the newly elected members of the Board of Directors of "NC" KTZ" JSC (Minutes No. 6 of May 26, 2016).
4. The Company approved the Code of Business Ethics (hereinafter referred to as "the KDE") (approved by the SD Protocol № 3 of 19.03.2013). The KDE applies to employees and officials of the Company and is mandatory for execution. The principles enshrined by the KDE are consistent with the principles of the Business Ethics of the Fund (meritocracy, respect, honesty, openness, trust, team spirit).
5. The Company approved the Policy on resolving the conflicts of interests among the employees and officials of "NC" KTZ" JSC (approved by the SD Minutes No. 5 of 13.09.2011), which defines the concept of the conflicts of interests, a list of possible situations of conflict of interest, fixes the procedure for resolving the conflict of interests among members of the Executive Bodies and other employees of the company, which is implemented in practice.

Notwithstanding, relying upon the outcomes of the analysis, the current practice of corporate governance in the Company also is partially observed at 3%, and does not comply with the conditions of the Code at 1% . The Company, currently, partially complies or does not comply with the basic condi-

tions of the Code below and proposes the following measures to bring the corporate governance practices in line with the provisions of the Code:

	Areas of partial compliance with basic requirements of the Code	Clarifications and Actions for implementation
1.	Preparation and holding of conferences of the Board of Directors should contribute to the maximum effectiveness of its activities. So that to fulfill their duties, the members of the Board of Directors must have the access to the comprehensive, up-to-date and timely information.	Some of the materials, sent to the gatherings of the Board of Directors, did not fully fulfill the conditions of the members of the Board of Directors. The independent directors gave some recommendations on improving the quality of the provided materials on the agenda of the gatherings of the Board of Directors.
2.	The Board of Directors, Committees and members of the Board of Directors shall be evaluated on an annual basis in the framework of the structured process approved by the Board of Directors of the organization. This process should be as per the methodology of the Fund. At the same time, at least once every three years the evaluation is conducted with the involvement of an independent professional organization.	<p>According to paragraph 47, subsection 3.3, section 3 of Methodological recommendations on the evaluation of the activities of the Board of Directors and its Committees, the Chairman, members of the Board of Directors and Corporate Secretary of the organizations of "Samruk-Kazyna" JSC, approved by the Management Board of "Samruk-Kazyna" JSC (Minutes № 44 / 17 of December 14, 2017) - "in the event that in the reporting period the organization conducted diagnostics of corporate governance, so that to avoid duplication of processes, there is no necessity to conduct a separate evaluation for the similar reporting period". Due to the fact that in 2017, "PricewaterhouseCoopers" LLP (PwC) conducted a diagnosis of the level of corporate governance in "NC" KTZ" JSC, the performance of the Board of Directors, its Committees and members were not evaluated in 2017.</p> <p>It is worth noting, that there are facts of untimely update of the Company's internal documents regulating the evaluation of the Board of Directors.</p> <p>Relying upon the methodological recommendations for evaluating the activities of the Board of Directors, approved by the decision of the Board of "Samruk-Kazyna" JSC (Minutes No.44 / 17 of 14.12.2017) in 2018, an internal document regulating the process of evaluating the performance of the Board of Directors and its Committees, Chairman, members and the Corporate Secretary.</p>
3.	The Corporate Secretary carries out his/her activities on the basis of a provision approved by the Board of Directors, which specifies the functions, rights and responsibilities, the procedure for interaction with the organization's bodies, qualification conditions and other indicators.	To revise the provision for the Corporate Secretary with a view to bringing it in line with the essentials of the Corporate Governance Code, insofar as the Corporate Secretary receives the internationally recognized professional qualifications of the Institute of Chartered Secretaries and Administrators (ICSA).

4.	The variable part of the labour remuneration (allowance) for the members of the Executive Body is tied to the implementation of medium-term goals and objectives and must be determined before the beginning of the calendar year.	Conduct an analysis with the Fund on the appropriateness of approving the performance effectiveness indicators (hereinafter referred to as the "PEI") prior to the beginning of the year, together with the ratifying of the Company Development Plan. In the event of expediency, it needs to elaborate introduction of some changes in the Fund's Policy for development and approval of the annual and medium-term the performance effectiveness indicators.
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	Areas of non-compliance with the basic Code requirements	Clarifications and Actions for implementation
1.	The Fund and organizations are pressing lack to ensure that there are Succession Plans for the members of the Board of Directors to maintain business continuity and progressive renewal of the Board of Directors.	Currently, there is no the Succession Plan for the Company's Board of Directors, which is, nevertheless, stipulated by the Code of Corporate Governance.
2.	With respect to the Corporate Secretary, the organization is developing the Induction Program and Succession Plan.	It is necessary to prepare the Succession Plan and make it valid for the members of the Board of Directors with the main stages of appointing new members.

<b>Conclusion: Potential negative impact on the Company regarding non-compliance with the Code key requirements</b>	
1.	The absence of the Company's Succession Plan does not allow the members of the Board of Directors to ensure continuity of the Board of Directors. It is necessary to have a formalized Succession Plan for the members of the Board of Directors, which will ensure the phased appointment of new members of the Board of Directors and sufficient time to receive and transfer cases within a few months to facilitate a smooth transition.
2.	The Succession Plan for the Corporate Secretary will ensure continuity of knowledge about the activities of the Board of Directors of the Company and the effectiveness of their work.
3.	Improvement of the quality of materials provided to the members of the Board of Directors of the Company will give a possibility to the members of the Board of Directors to have sufficient time to process information, formulate their conclusions for further discussion at gatherings and make recommendations on the actions of the Board of Directors regarding each issue of the agenda.

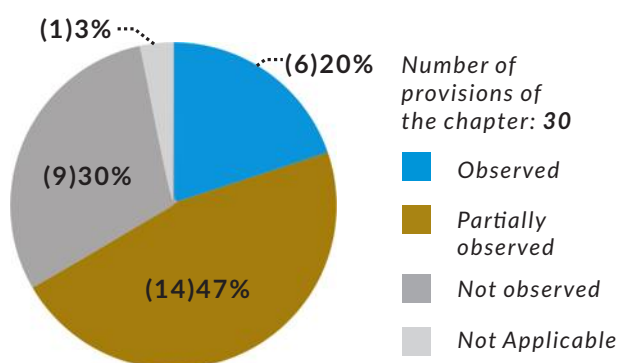
## III. Sustainable development

Below the outcomes of the analysis are presented as per the section of the Code: "Sustainable Development".

Relying upon the outcomes of the analysis, the Company's current practice of corporate governance, as per this section, carries out the essentials of the Code at 20%.

In particular, the Company fulfills the following key essentials of the Code:

### 3. Sustainable development



### Key areas of the Company's compliance with the Code requirements

- By the Management Board of NC "KTZ" JSC, the Report on Sustainable Development of "NC" KTZ" JSC for 2016 (Minutes No. 02/3 of January 18, 2018) was preliminarily approved and ratified by the Board of Directors of "NC" KTZ" JSC (minutes No. 1 of 1 February, 2018). The Report was first prepared as per international standards and practices, according to the Guidelines for Sustainable Development GRI. The Report on Sustainable Development of "NC" KTZ" JSC is posted on the Company's corporate website ([www.railways.kz](http://www.railways.kz)).
- The Board of Directors of the Company approved the Policy on Corporate Social Responsibility (Minutes No.5 of September 13, 2011, Minutes No. 6 as amended on September 5, 2012), which defines the objectives of the activities in the field of corporate social responsibility and the main priorities in the field of corporate social responsibility. The Company's Policy on corporate social responsibility is consistent with the general corporate development strategy of the Company. Most of the employees of "NC" KTZ" JSC are contracted by the Collective Employment Contract for 2015-2017.
- Within the framework of the "NC" KTZ" JSC Policy on Corporate Ideology and Business Philosophy (the decision of the Board of "NC" KTZ" JSC dated November 14, 2012, Minutes No. 02/28), the Company made a number of obligations toward the following interested parties: the Sole Shareholder; client; employees; business partners; society.
- In order to form and maintain ethical standards and norms, the Company approved the Code of Business Ethics (minutes No. 2 of March 19, 2013). The reports on violations of the provisions of the Code of Business Ethics by employees of "NC" KTZ " JSC are accepted via: a courier, a postal expedition; e-mail: [temirzhol@railways.kz](mailto:temirzhol@railways.kz); mailboxes installed in the foyer of the "B" block near the Pass Office; phone hotline.
- The Hotline for reporting serious violations in the Company is administered by an independent international consulting company Deloitte with the support by "Samruk-Kazyna" JSC, which makes this tool independent and more efficient. Within the framework of this Hotline, an e-mail address is available at: [sk.hotline@deloitte.kz](mailto:sk.hotline@deloitte.kz) and the Internet portal: [www.sk.deloitte-hotline.com](http://www.sk.deloitte-hotline.com).
- The Company annually publishes the Annual Report containing the section on Sustainable Development.

Notwithstanding, according to the outcomes of the analysis, the Company's current practice on corporate governance in the, also is only partially observed at 47% and does not fulfill the essentials of the Code 30%. The Company's corporate governance practice is currently partially complied with

and does not comply with the basic essentials of the Code below and suggests the following measures to bring the corporate governance practices in line with the provisions of the Code:

	Areas of partial compliance and non-compliance with the Code basic requirements	Clarifications and Actions for implementation
1.	<p>The Fund and Organizations must strive toward increasing of the long-term value while ensuring their Sustainable Development, and keep the balance of the interests of the Stakeholders. Activities in the field of Sustainable Development must fulfill the best international standards. The Fund and organizations are developing Action Plans in the field of Sustainable Development. The Board of Directors carries out strategic management and controls over the implementation of Sustainable Development. The Executive Body forms the corresponding Action Plan and submits it for consideration by the Board of Directors.</p>	<p>The Company has developed a comprehensive Guidance on Sustainable Development which is being at the stage of agreement. Currently, Action Plans in the field of Sustainable Development, as required by the Code, are not approved. The Code requires consideration of Sustainable Development through three components: economic, environmental and social. The Company is at the initial stage of integrating the Sustainable Development into its strategy, operating systems and decision-making and risk assessment process. The Company necessitates to ratify and implement a comprehensive Guidelines for the Sustainable Development and Action Plans in the field of Sustainable Development as per the international standards recommended by the Code.</p>
2.	<p>Holding companies should have for their group a consolidated stakeholder map and should draw up an appropriate plan of interaction with such parties.</p>	<p>In the framework of the Guidelines for the Sustainability, the Company necessitates to ratify the updated consolidated stakeholders map of the Company, complete development of a specialized stakeholder engagement plan as per the international standards recommended by the Code for the group of the company as a whole, to approve and implement this specialized stakeholder engagement plan.</p>
3.	<p>In order to communicate the Policy for sustainable development to the attention of stakeholders, it is recommended that the Internet resource of the Fund and organizations contains the separate section dedicated to this area of activity.</p>	<p>On the Internet resource of the Society in 2017 there was no separate "Sustainable Development" section. In the section "For Investors" of the corporate website of the Company <a href="http://www.railways.kz">www.railways.kz</a>, the "Sustainability Report" annexes for 2010, 2011 are posted. The reports should be posted for subsequent periods.</p>

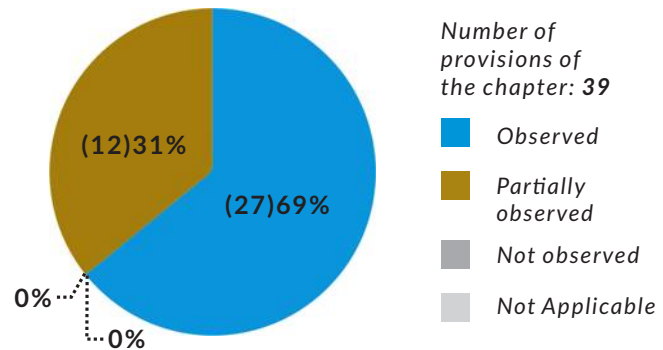
Conclusion: Potential negative impact on the Company regarding non-compliance with the Code requirements	
1.	<p>As per the Sustainable Development Policy, the Society necessitates to identify specific goals, objectives and activities, the extent of the influence of stakeholders and the plan for interaction with them. In the absence of a comprehensive Policy, it is not possible to identify the areas of activity and to assess the required amount of work within the frame of sustainable development. In the course of the effective implementation of a competently developed Policy for Sustainable Development, the policy can provide a unified approach to the assessment and management of environmental, economic and social components, and can help build up a good image of a responsible investor.</p>

## IV. Risk management, Internal control and audit

These are the outcomes of the analysis under the Code section: "Risk management, Internal control and audit".

Relying upon the results of the analysis, the current practice of corporate governance in the Company, as per this section, is 69% consistent with the essentials of the Code. Particularly, the Company fulfills the following key demands of the Code:

### 4. Risk management, Internal control and audit



#### Key areas of the Company's compliance with the Code requirements

- An effective risk management system is a fundamental element of the activities and development strategy of "NC" KTZ" JSC. A structural unit responsible for organizing risk management activities has been formed in "NC" KTZ" JSC, which carries out activities to organize the activities of the Company's risk management system.
- The Management Board of the Company is responsible for the organization of an effective risk management system and internal control system. The process of risk management is referring to interaction with key business processes of the Company, such as: strategic planning, operational activities, investment activities, credit activities, budgeting, staff motivation.
- Qualitative and quantitative risk-appetites, a register and a risk map are approved in the Company. The risk register provides for levels of tolerance for key risks.
- All key issues on the risks, submitted for consideration and approval by the Board of Directors of the Company, are preliminary considered by the Audit Committee under the Board of Directors of the Company. Only after the whole range of the comments and suggestions made by the Audit Committee have been worked out, the document then is submitted to the Board of Directors of the Company. All gatherings of the Audit Committee and the Board of Directors of the Company are recorded.
- Employees and officials of the Company have the right to confidentially report to the Audit Committee and the Board of Directors of the Company on the violation or incorrect execution of risk management procedures or internal control, or other policies, as well as cases of fraud, violation of legislation ("hotline").
- In compliance with section 1 of the Regulation on the Internal Audit Service, the activities of the Internal Audit Service ("the IAS") are referred to the international professional standards of internal audit developed by the Institute of Internal Auditors. The Statute on the IAS affirms the status, goals and tasks of the IAS. The Regulation on Northeast Asia and the Internal Audit Policy for "NC" KTZ" JSC stipulate the essentials for ensuring independence, objectivity and professionalism of the IAS in order to achieve the goals and objectives of internal audit and the effective performance of the IAS of their functions and obligations.

Nevertheless, referring to the outcomes of the analysis, the current practice of corporate governance in the Company is also partially compliant with the demands of the Code, which is at 31%. The practice of corporate governance of the Company at the moment partially complies with and does not

effectuate the basic demands of the Code below and proposes the following measures to bring corporate governance practices in line with the provisions of the Code.

	Areas of partial compliance and full non-compliance with key requirements of the Code	Explanations and Actions for implementation
1.	<p>In 2017, the relevant internal policies and procedures of the Company did not include demands for availability of professional qualifications and experience in the field of risk management and internal control for the employees of the Risk Management Department.</p>	<p>It is necessary to carry out a comparative analysis of the Company's qualification requirements for the Head of the Risk Management Department and Risk Management Specialists with the requirements of comparable international railway companies. Use the results of comparative analysis to improve the demands for professional qualifications, skills and experience for all employees of the Department of Risk Management.</p>
2.	<p>By decision of the Board of Directors (Minutes No. 5 of July 12, 2017), risk-appetite of the Company's at consolidated level, as well as key risk indicators and levels of tolerance to the Company's key risks were established. At the same time, the elaborated risk appetite for 2017 is not tied to the quality objectives of the strategy, does not contain non-financial indicators and is not defined at the level of subsidiaries.</p>	<p>It is necessary to develop, ratify and implement an integrated risk-appetite system that would reflect both financial and non-financial strategic goals of the Company, extend to the subsidiaries, key areas of business / risk and the level of operational risks.</p>
3.	<p>For consideration by the Audit Committee and by the Board of Directors, a report on the Company's risk management is issued on a quarterly basis. At the same time, in 2017, the quarterly risk reports did not contain information on the persons responsible for implementing risk reduction plans, the status of implementation of such plans, and the evaluation of the effectiveness of the implemented risk management activities. As the state of the end of 2017, there was no operational risk reporting in the Company, or the reporting documents are executed as they become necessary, should some significant risks are taken.</p>	<p>The reporting mechanisms necessitate to be updated to ensure the rapid ensuring of accurate and complete information on the most important risks. The risk reporting mechanisms should classify information that should be provided immediately, weekly, monthly and quarterly, and identify responsible parties, users, timelines and reporting templates. It is considered to appoint the performance efficiency indicator, upon submission of timely and qualitative risk reporting, to the Head of the Risk Management Department.</p>
4.	<p>The executive bodies of the Fund and organizations should ensure the creation and maintenance of an effective internal control system.</p>	<p>In compliance with the findings and recommendations of external auditors, the Risk Management Department does not assess the design of the internal control system. The Company is currently working on transferring the functions and tasks for the internal control system to the Risk Management Department, as, previously, these functions were not assigned to a certain structural unit and, accordingly, were not properly executed. ►</p>

5.	The Fund and the organizations should have an effectively functioning internal control system	In compliance with the findings of external auditors of PricewaterhouseCoopers LLP on the internal control system, the Risk Management Department does not perform an assessment of the design of the internal control system; the existing internal control system cannot fully provide reasonable assurance of the Company's achievement of its objectives.
6.	There is a necessity to introduce amendments and additions to the Regulation on the Internal Audit Service of "NC" KTZ" JSC, approved by the decision of the Board of Directors of "NC" KTZ" JSC (Minutes No. 5 of 16.04.2014) regarding promotion of the IAS status as a consultant for the Company's management.	Take the necessary measures to promote the status of the IAS as a consultant for the Company's management (for example, informational presentation at conferences of the Board and the Board of Directors, exchange of aftermaths of a successful project to provide consulting services between members of the Company's management, etc.) and include consulting services in each annual audit plan.
7.	Section 6 of the Regulation on SVAs establishes qualification requirements for the head and employees of the IAS, including demands in terms of professional knowledge and skills, work experience, managerial experience (for managers), as well as essentials for additional special training, confirmed by international certificates, including "Certified Internal Auditor" (CIA) and other certificates offered by the International Institute of Internal Auditors and other professional organizations. No employee has an internationally recognized professional certificate in internal audit - a certificate. A Chartered Internal Auditor. At present, ten employees have been trained on one or more parts of the CIA certification program and are preparing for the exams.	Include a requirement for a Certified Internal Auditor (CIA) certificate in job descriptions and development plans for key IAS staff. The list of key employees should be determined by the Audit Committee. Add a requirement for the successful completion of the CIA examinations during the next two years (2018-2019) in the CAP, the annual staff development plans and the strategic plan of the IAS. Efficiency in relation to the CIA should include the successful passing of the exam and its specific gravity should be increased.

**Conclusion: Potential negative impact on the Company regarding non-compliance with the Code key requirements**

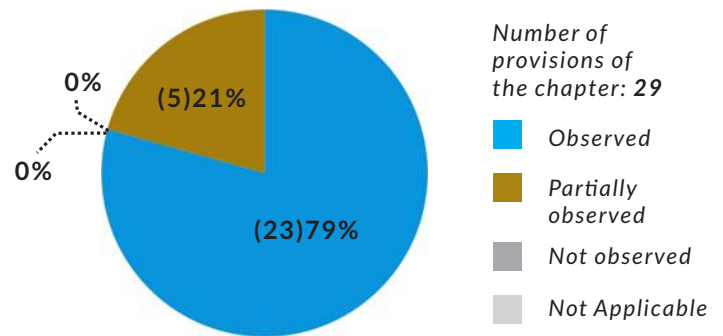
1.	Potential strengthening of the risk management team by attracting specialists with past experience in risk management in railway companies of the same size and complexity of operations or financial institutions will help to neutralize the negative impact on the effectiveness of the implementation of risk management and internal control procedures in the Company.
2.	The Company does not have operative risk reporting or the reporting is prepared as required, should some significant risks are taken. This circumstance may adversely affect the receipt by the Board of Directors of full and objective information on the measures taken during the risk management process.

## V. Transparency

Below, the aftermaths of the analysis are presented as per the section of the Code: "Transparency".

According to the results of the analysis, the current practice of corporate governance, in the Company, as per this section, is 79% consistent with the demands of the Code. In particular, the Company fulfills the following key essentials of the Code:

### 5. Transparency



#### Key areas of the Company's compliance with the Code requirements

1. The Company approved by the decision of the Board of 10.03.2016, Minutes No. 02/10 "Rules for securing safety for commercial secrets and confidential information of "NC "KTZ" JSC, and also, each employee shall sign an Obligation on Disclose of Commercial Secrets / Confidential Information of "NC "KTZ" JSC.
2. The Company publishes the financial statements, quarterly, prepared them on the basis of the requirements of the legislation of the Republic of Kazakhstan; publishes the annual and semi-annual financial statements prepared referring to IFRS. Publication of financial statements on the Company's corporate website is carried out, on regular basis, in Russian, Kazakh and English.
3. The Company prepares the annual report referring to the provisions of the Corporate Governance Code of "NC "KTZ" JSC and the best practice of information disclosure.
4. The Company ensures the audit of annual financial statements referring to the legislation of the Republic of Kazakhstan and internal documents of the Company. The annual audit of the financial statements is conducted through the involvement of an independent auditor, an international audit organization, who has a high level of professional skill from auditing firm; experienced both, in Kazakhstan and international markets; knowing of the industry's business; having positive reputation. The independent auditor, being an outside party, provides an objective expert opinion on the reliability of the financial statements and their compliance with the requirements of IFRS to the Interested parties.
5. The procedure for selecting an audit organization is carried out as per the Rules for the selection of an audit organization for "Samruk-Kazyna" JSC and organizations, more than fifty percent of voting shares (participatory interests) of which are directly or indirectly owned by "Samruk-Kazyna" JSC under ownership or trust management, approved by the Decision of the Board of "Samruk-Kazyna" JSC (Minutes No.46/16 of December 27, 2016).
6. The choice of the external auditor is carried out on the basis of the competition. An important role in the selection process is played by the Audit Committee of the Board of Directors. The attracted external auditor does not provide the Company with the consulting services that may become a threat to the independence of the external auditor; there are no cases of admission to senior positions of former members of the audit team earlier, than two years after they were dismissed from the audit organization.

On the other hand, according to the aftermaths of the analysis, the current practice of corporate governance in the Company does not effectuate the requirements of the Code at 21%. The practice of corporate governance of the Company, at the

moment, is partially meeting the basic requirements of the Code listed below and it is proposed the following measures to be brought, so that get the corporate governance practices in line with the provisions of the Code.

	Areas of partial compliance and full non-compliance with key requirements of the Code	Explanations and Actions for implementation
1.	The Fund and organizations should monitor the disclosure of information to interested parties. In order to comply with the interests of interested parties, it is necessary to identify interested parties of the Company, both external and internal, who will use the disclosed information.	The Company has the Information Policy of "NC" KTZ" JSC approved by the decision of the Board of Directors dated April 30, 2011, Minutes No. 2, but there is a necessity to update the Information Policy of "NC" KTZ" JSC regarding the definition of stakeholders.
2.	It is necessary to develop and implement a corporate communications strategy that would cover the information necessities of all interested parties of the Company.	Develop and implement a corporate communications strategy.
3.	It is necessary to establish controls to ensure the timely publication of annual and quarterly financial statements as per IFRS, both on the Company's website and on the website of the Kazakhstan Stock Exchange.	To develop and approve the Regulations, including the Register of Publications.
4.	It is necessary to conduct training in the field of corporate reporting for the members of the Board of Directors, members of the Executive Body and staff participating in the IE preparation of management reports on the results of financial and business activities (MD&A). It is necessary to include the comparative analysis results with the comparable listing companies from the railway sector; and to include recent changes in the field of the corporate reporting.	It is necessary to organize training on corporate reporting for the members of the Board of Directors, members of the Executive Body and staff participating in the IE preparation of the management reports on the aftermaths of financial and business activities (MD&A).
5.	So that increase the transparency of operations and explain the results presented in the financial statements, it is recommended to disclose the report of the management on the aftermaths of financial and economic activities, which, among other things, contains those factors and conditions that affected the results of financial and economic activities.	It is necessary to quarterly publish the report on the aftermaths of the financial and economic activities conducted by the Company.

6.	The Internet resource should be well-structured, easy to navigate and contain the information necessitated by stakeholders to understand the activities of the Fund and organizations.	It is necessary to conduct a comparative analysis of the design and structure of the website with international corporate websites of transport and logistics companies. To receive feedback from the investors regarding the form and content of the "Investor Relations" section of the website. Making reference to the received feedback, change the structure of the sections of the website "Relations with Investors" and include in it information that would accurately effectuate the expectations of investors.
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**Conclusion: Potential negative impact on the Company regarding non-compliance with the Code key requirements**

1.	There is a risk of occurrence of delays in disclosing of the financial and non-financial information, as well as not full compliance of the Company's Internet resource with the international level and requirements of the Corporate Management Code of "NC" KTZ" JSC, which may affect the image of the Company.
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## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Management of Kazakhstan Temir Zholy National Company JSC (the "Company") is responsible for the preparation of consolidated financial statements that present fairly the financial position of the Company and its subsidiaries (collectively, the "Group") as at 31 December 2017, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements were authorised for issue by management on 13 March 2018, preapproved by the Audit Committee of the Board of Directors of the Company and subject to approval by the Board of Directors and the Shareholder.

**On behalf of Group management:**

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**Kanat Alpysbayev**  
President  
13 March 2018

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**Zhaslan Madiyev**  
Vice-President for Finances  
13 March 2018

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**Nazira Abilova**  
Chief Accountant  
13 March 2018

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and the Shareholder of Kazakhstan Temir Zholy National Company JSC

### Opinion

We have audited the consolidated financial statements of Kazakhstan Temir Zholy National Company JSC (the "Company") and its subsidiaries (together - the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("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 Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the 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.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Why the matter was treated as a key audit matter

## How the matter was addressed during the audit

## Potential impairment of property, plant and equipment

The Group's property, plant and equipment, which is mainly represented by infrastructure and rolling stock, comprises 84% of the Group's total assets. Due to the existence of impairment indicators, such as a continuing economic and market downturn, increase in market interest rates and slow growth in transit freight turnover, the Group performed an impairment assessment for its property, plant and equipment.

The recoverable amount of the cash generating unit ("CGU") was defined as value in use based on the Group's 2018-2022 Development Plan. Determining the recoverable amount requires management to make significant estimates concerning the future cash flows based on judgements and assumptions about future business prospects. The value in use is sensitive to the changes in key assumptions.

In addition, the identification of the appropriate cash-generating unit requires significant management's judgement.

Based on the above we determined the impairment of property, plant and equipment to be a key audit matter. Please refer to Note 4.

We performed the following procedures:

- ▶ evaluating whether the methodology applied and the model used to calculate the value in use are in line with the requirements of IAS 36 Impairment of Assets,
- ▶ evaluating the identification of the cash-generating unit,
- ▶ validating assumptions applied in the determination of the discount rate and its mathematical recalculation with involvement of valuation specialists,
- ▶ running a range of sensitivity tests to confirm that no impairment was required if less optimistic assumptions within the reasonably possible range had been applied with respect to the discount rate, projected foreign exchange rates, freight turnover growth in transit transportation,
- ▶ challenging projected cash flows, including revenue and operating profit growth assumptions, based on historical data and the Group's 2018-2022 Development Plan. We analysed the accuracy of preceding management forecasts, validity of the assumptions used in the forecasts, and their consistency with plans approved by the Board of Directors, and
- ▶ assessing the completeness and correctness of the information disclosed in financial statements.

We found that the assumptions used by management are comparable to historical and current data and Group forecasts.

## Liquidity and the going concern principle

As at 31 December 2017, the Group's current liabilities exceeded its current assets by KZT 90,556,549 thousand.

Our going concern procedures were mainly focused on a critical evaluation of the key assumptions made by management and their plans to settle current liabilities.

**Why the matter was treated as a key audit matter**

In addition, as discussed in Note 16, the loans received from EBRD and HSBC France with a carrying value of KZT 80,157,916 thousand and KZT 63,011,636 thousand include certain financial covenants, whereby non-compliance may result in the loans becoming payable on demand. Management prepares forecasts of the expected financial position and financial results for 2017 and concluded that the Group would not be able to meet certain financial covenants, so that, as at 31 December 2017, management had received the waivers from its creditors regarding nonapplication and reset of the financial covenants.

Due to the above matters, critical judgements are required by management in respect of the sufficiency of the Group's liquid assets to meet its current obligations. Management's plans in respect of this matter are discussed in Notes 2 and 32. Given the pervasiveness of the effect of the going concern conclusion to the financial statements, this is considered to be a key audit matter.

**How the matter was addressed during the audit**

Our audit procedures included:

- ▶ examining the correctness of asset and liability classification as part of our audit procedures,
- ▶ analysing events and conditions, including financial and operating, which could cast doubt on the ability to continue as a going concern,
- ▶ analysing management's evaluation of the principles of going concern and their plans to settle current liabilities,
- ▶ examining the reliability and reasonableness of data and assumptions applied in preparing cash flow forecasts, including the consistency of input data to other tests, such as impairment, actuarial valuation and hedge effectiveness testing,
- ▶ analysing downside scenarios affecting the Group's liquidity and its ability to settle obligations, including to generate a sufficient level of cash flows from operating activities to serve and settle its loans, as well as the impact of possible exchange rate change on liability and revenue amounts,
- ▶ examining the documents supporting the availability of financing sources, including credit agreements, negotiations with financial institutions, and Board of Director minutes,
- ▶ analysing the terms of the loan agreements, including covenants, where applicable, recalculating financial covenants for mathematical accuracy,
- ▶ examining waivers received from creditors with respect to nonapplication and reset of financial covenants as at 31 December 2017, including examining the compliance with those reset covenants, and
- ▶ assessing the completeness and adequacy of information disclosed in the financial statements.

We found that the going concern assumption is appropriate under current circumstances and concluded that the disclosed information reflects the current situation.

## **Other Information Included in the Annual Report**

Management is responsible for the other information included in the annual report, which comprises all the information included in the annual report, excluding the consolidated financial statements and our auditor's report on them. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## **Responsibilities of Management and Those Charged With Governance for the Consolidated Financial Statements**

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

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

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

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

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

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

- ▶ identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control,
- ▶ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control,
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management,
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern,
- ▶ evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation, and
- ▶ obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters we communicated to those charged with corporate governance, we determine those matters that were of the most significance in the audit of the consolidated financial statements of the current period, which constitute the key audit matters included herein.

Alua Yessimbekova  
Engagement partner  
Certified Public Accountant  
New Hampshire, USA  
Certificate No. 07348  
Dated 12 June 2014

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

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

Nurlan Bekenov  
General Director  
Deloitte, LLP

13 March 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2017  
(in KZT thousands)

	Notes	<u>31 December 2017</u>	<u>31 December 2016</u>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	2,654,457,139	2,521,329,368
Intangible assets		14,177,172	11,589,266
Investments in joint ventures	7	15,865,960	11,720,150
Investments in associates	7	11,537,811	11,357,875
Deferred tax assets	19	5,952,987	8,632,019
Other non-current financial assets	8	2,326,310	2,333,030
Other non-current assets	9,10	89,136,545	92,037,599
<b>Total non-current assets</b>		<b><u>2,793,453,924</u></b>	<b><u>2,658,999,307</u></b>
<b>Current assets</b>			
Cash and cash equivalents	11	63,489,234	48,978,173
VAT recoverable		30,352,756	57,252,499
Other current financial assets	8	37,129,364	16,186,691
Inventories	12	30,317,259	28,846,944
Trade accounts receivable	9	22,095,757	15,416,517
Prepaid income tax		1,849,125	1,903,220
Assets held for the benefit of the Shareholder	31	289,730	48,067,799
Other current assets	13	51,087,600	39,174,885
		236,610,825	255,826,728
Non-current assets and assets associated with disposal groups classified as held for sale	14	<u>120,866,285</u>	<u>120,625,761</u>
<b>Total current assets</b>		<b><u>357,477,110</u></b>	<b><u>376,452,489</u></b>
<b>Total assets</b>		<b><u>3,150,931,034</u></b>	<b><u>3,035,451,796</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	15	1,062,635,047	993,460,480
Cash flow hedging reserve	15	(42,553,250)	(39,073,931)
Foreign currency translation reserve	15	4,843,584	4,110,006
Retained earnings		<u>206,748,608</u>	<u>198,501,308</u>
Equity attributable to the Shareholder		1,231,673,989	1,156,997,863
Non-controlling interests	15	<u>26,955,464</u>	<u>11,035,349</u>
<b>Total equity</b>		<b><u>1,258,629,453</u></b>	<b><u>1,168,033,212</u></b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 (CONTINUED) (in KZT thousands)

	Notes	31 December 2017	31 December 2016
<b>Non-current liabilities</b>			
Borrowings	16	1,170,968,844	1,098,117,957
Deferred tax liabilities	19	226,974,810	224,357,530
Employee benefit obligation	18	28,380,212	26,169,983
Finance lease liabilities	17	13,750,011	-
Other non-current liabilities	21	4,194,045	4,399,245
<b>Total non-current liabilities</b>		<b>1,444,267,922</b>	<b>1,353,044,715</b>
<b>Current liabilities</b>			
Borrowings	16	93,751,143	141,561,817
Trade accounts payable	20	113,563,965	124,453,799
Other taxes payable		10,410,833	8,245,766
Employee benefit obligation	18	2,858,329	2,960,557
Finance lease liabilities		1,134,759	-
Constructive obligation for the benefit of the Shareholder	31	289,730	48,067,799
Other current liabilities	21	139,517,990	92,267,628
		361,526,749	417,557,366
Liabilities directly associated with assets classified as held for sale	14	86,506,910	96,816,503
<b>Total current liabilities</b>		<b>448,033,659</b>	<b>514,373,869</b>
<b>Total liabilities</b>		<b>1,892,301,581</b>	<b>1,867,418,584</b>
<b>Total equity and liabilities</b>		<b>3,150,931,034</b>	<b>3,035,451,796</b>

On behalf of Group management:

\_\_\_\_\_  
Kanat Alpysbayev  
President  
13 March 2018

\_\_\_\_\_  
Zhaslan Madiyev  
Vice-President for Finances  
13 March 2018

\_\_\_\_\_  
Nazira Abilova  
Chief Accountant  
13 March 2018

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

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

	Notes	2017	2016
<b>Continuing operations</b>			
<b>Revenue</b>			
Freight transportation		770,074,559	688,204,339
Passenger transportation		81,885,595	80,133,552
Government grants		20,459,779	22,528,832
Other revenue	22	40,692,272	32,244,835
<b>Total revenue</b>		<b>913,112,205</b>	<b>823,111,558</b>
Cost of sales	23	(721,330,133)	(658,852,600)
<b>Gross profit</b>		<b>191,782,072</b>	<b>164,258,958</b>
General and administrative expenses	24	(86,204,940)	(76,443,963)
Finance income	25	7,787,231	6,325,198
Finance costs	26	(97,565,364)	(85,417,894)
Foreign exchange (loss)/gain		(7,624,939)	20,863,279
Share of the profit of associates and joint ventures	7	2,137,589	670,248
Gain from disposal of shares in joint ventures and subsidiaries not qualifying as discontinued operations		8,395,530	9,748,114
Asset impairment		(3,745,073)	(2,168,347)
Other profit and losses, net		3,562,495	3,585,503
<b>Profit before income tax</b>		<b>18,524,601</b>	<b>41,421,096</b>
Income tax (expense)/benefit	19	(5,835,353)	4,763,234
<b>Profit for the year from continuing operations</b>		<b>12,689,248</b>	<b>46,184,330</b>
<b>Discontinued operations</b>			
Profit/(loss) for the year from discontinued operations	14	265,878	(4,907,711)
<b>Profit for the year</b>		<b>12,955,126</b>	<b>41,276,619</b>
<b>Other comprehensive (loss)/income net of tax:</b>			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remesurement of employee benefit obligation		(1,553,621)	4,106,607
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net fair value (loss)/gain on cash flow hedging instruments	15	(3,479,319)	4,417,426
Exchange differences on translating foreign operations		841,353	(486,819)
<b>Other comprehensive (loss)/income for the year</b>		<b>(4,191,587)</b>	<b>8,037,214</b>
<b>Total comprehensive income for the year</b>		<b>8,763,539</b>	<b>49,313,833</b>
<b>Profit for the year attributable to:</b>			
Shareholder		11,399,401	40,979,582
Non-controlling interests		1,555,725	297,037
		<b>12,955,126</b>	<b>41,276,619</b>
<b>Comprehensive income attributable to:</b>			
Shareholder		7,207,814	49,012,215
Non-controlling interests		1,555,725	301,618
		<b>8,763,539</b>	<b>49,313,833</b>
Earnings per share from continuing and discontinued operations, in KZT	28	23	83
Earnings per share from continuing operations, in KZT	28	22	93

On behalf of Group management:

Kanat Alpysbayev  
President  
13 March 2018

Zhaslan Madiyev  
Vice-President for Finances  
13 March 2018

Nazira Abilova  
Chief Accountant  
13 March 2018

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

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

	Notes	2017	2016
<b>Cash flows from operating activities:</b>			
Profit for the year		12,955,126	41,276,619
Income tax expense/(benefit) recognised in profit or loss, including discontinued operations	14, 19	7,641,464	(3,622,748)
Adjustments for:			
Depreciation and amortisation		106,862,647	115,383,866
Finance costs	14, 26	103,702,717	91,603,653
Asset impairment		3,745,073	2,068,496
Finance income	14, 25	(8,143,123)	(7,174,522)
Employee benefit expenses and other long-term employee benefits		4,095,665	4,688,159
Share of profit of associates and joint ventures	7	(2,137,589)	(670,248)
Allowance for doubtful debts		1,878,194	244,235
Foreign exchange loss/(gain)		7,700,146	(19,756,929)
Gain from disposal of shares in joint ventures and subsidiaries not qualifying as discontinued operations		(8,408,358)	(9,748,114)
Others		4,743,984	4,031,207
<b>Operating income before changes in working capital and other balances</b>		<b>234,635,946</b>	<b>218,323,674</b>
Change in trade accounts receivable		563,770	(657,908)
Change in inventories		(4,890,334)	680,674
Change in other current and non-current assets (including non-current VAT recoverable)		(11,677,107)	(8,038,819)
Changes in trade accounts payable		(13,305,293)	7,666,138
Changes in other taxes payable		22,092,026	(17,804,812)
Change in other liabilities		37,565,098	25,254,523
Change in employee benefit obligation		(3,549,350)	(2,506,445)
<b>Cash generated from operations</b>		<b>261,434,756</b>	<b>222,917,025</b>
Interest paid		(78,787,224)	(75,615,767)
Interest received		3,653,325	5,741,089
Income tax paid		(4,191,735)	(3,597,022)
<b>Net cash flows from operating activities</b>		<b>182,109,122</b>	<b>149,445,325</b>
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment, including change in advances paid		(233,577,017)	(269,421,794)
Purchase of intangible assets		(179,786)	(2,283,525)
Proceeds from sale of shares in joint ventures		19,574,965	8,294,044
Proceeds from sale of other non-current assets		1,201,930	15,528,122
Investments in associates	7	(1,358,000)	(2,465,230)
Investments in other financial assets		(79,483,430)	(82,842,991)
Proceeds from disposal of other financial assets		53,576,781	102,711,572
Dividends received from joint ventures	7	1,663,776	1,659,754
Net cash inflows from disposal of subsidiaries and discontinued operations		1,439,753	1,160,952
Others		2,922,657	1,719,743
<b>Net cash flows used in investing activities</b>		<b>(234,218,371)</b>	<b>(225,939,353)</b>

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

	Notes	2017	2016
<b>Cash flows from financing activities:</b>			
Contributions to share capital	15	66,852,000	127,923,000
Proceeds from borrowings		422,633,321	178,830,508
Repayments of borrowings		(441,129,812)	(235,886,216)
Proceeds from sale of non-controlling shares in subsidiary	15	24,067,880	9,000,000
Dividends and distributions paid		(1,387,500)	(39,682)
Purchase of asset held for the benefit of the Shareholder		-	(7,172,307)
Others		(955,643)	(716,247)
<b>Net cash flows from financing activities</b>		<b>70,080,246</b>	<b>71,939,056</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>17,970,997</b>	<b>(4,554,972)</b>
Cash and cash equivalents at the beginning of the year	11	67,085,431	74,903,521
Effects of exchange rate changes on the cash balance held in foreign currencies		(673,108)	(3,263,118)
<b>Cash and cash equivalents at the end of the year</b>	11	<b>84,383,320</b>	<b>67,085,431</b>
<b>Non-cash transactions:</b>			
Acquisition of property, plant and equipment using borrowings directly transferred by a bank to a supplier		11,127,370	21,613,436
Railway administrations receivables and payables offset		8,342,017	8,507,263
Settlement of borrowings received by non-current assets		775,900	47,832,538

On behalf of Group management:

\_\_\_\_\_  
Kanat Alpysbayev  
President  
13 March 2018

\_\_\_\_\_  
Zhaslan Madiyev  
Vice-President for Finances  
13 March 2018

\_\_\_\_\_  
Nazira Abilova  
Chief Accountant  
13 March 2018

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

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

	Share capital	Cash flow hedging reserve	Foreign currency translation reserve	Retained earnings	Equity attributable to the Shareholder	Non-controlling interests	Total equity
<b>As at 1 January 2016</b>	865,393,896	(43,491,357)	4,601,406	142,411,682	968,915,627	(651,552)	968,264,075
Profit for the year	-	-	-	40,979,582	40,979,582	297,037	41,276,619
Other comprehensive income/(loss) for the year	-	4,417,426	(491,400)	4,106,607	8,032,633	4,581	8,037,214
Total comprehensive income/(loss) for the year	-	4,417,426	(491,400)	45,086,189	49,012,215	301,618	49,313,833
Shares issue (Note 15)	128,066,584	-	-	-	128,066,584	-	128,066,584
Dividends declared	-	-	-	-	-	(39,682)	(39,682)
Other distributions (Note 15)	-	-	-	657,924	657,924	-	657,924
Other contributions (Note 15)	-	-	-	12,770,576	12,770,576	-	12,770,576
Disposal of subsidiaries (Note 27)	-	-	-	-	-	(98)	(98)
Change in ownership share in subsidiaries without loss of control (Note 15)	-	-	-	(2,425,063)	(2,425,063)	11,425,063	9,000,000
<b>As at 31 December 2016</b>	<b>993,460,480</b>	<b>(39,073,931)</b>	<b>4,110,006</b>	<b>198,501,308</b>	<b>1,156,997,863</b>	<b>11,035,349</b>	<b>1,168,033,212</b>
<b>As at 1 January 2017</b>	<b>993,460,480</b>	<b>(39,073,931)</b>	<b>4,110,006</b>	<b>198,501,308</b>	<b>1,156,997,863</b>	<b>11,035,349</b>	<b>1,168,033,212</b>
Profit for the year	-	-	-	11,399,401	11,399,401	1,555,725	12,955,126
Other comprehensive income/(loss) for the year	-	(3,479,319)	841,353	(1,553,621)	(4,191,587)	-	(4,191,587)
Total comprehensive income/(loss) for the year	-	(3,479,319)	841,353	9,845,780	7,207,814	1,555,725	8,763,539
Shares issue (Note 15)	69,174,567	-	-	-	69,174,567	-	69,174,567
Dividends declared	-	-	-	-	-	(2,142,736)	(2,142,736)
Other distributions (Note 15)	-	-	-	(9,145,190)	(9,145,190)	-	(9,145,190)
Disposal of subsidiaries (Note 27)	-	-	(107,775)	-	(107,775)	(9,444)	(117,219)
Change in ownership share in subsidiaries without loss of control (Note 15)	-	-	-	7,546,710	7,546,710	16,516,570	24,063,280
<b>As at 31 December 2017</b>	<b>1,062,635,047</b>	<b>(42,553,250)</b>	<b>4,843,584</b>	<b>206,748,608</b>	<b>1,231,673,989</b>	<b>26,955,464</b>	<b>1,258,629,453</b>

**On behalf of Group management:**

**Kanat Alpysbayev**  
President  
13 March 2018

**Zhaslan Madiyev**  
Vice-President for Finances  
13 March 2018

**Nazira Abilova**  
Chief Accountant  
13 March 2018

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in KZT thousands, unless indicated otherwise)

### 1. GENERAL INFORMATION

Kazakhstan Temir Zholy National Company JSC (the "Company") was created in Kazakhstan in accordance with Resolutions of the Government of the Republic of Kazakhstan (the "Ultimate Shareholder") to establish a holding company for the Government's railway industry assets. The Company was registered on 15 May 2002. The consolidated financial statements include the results of the operations of the Company and its wholly controlled subsidiaries (collectively, the "Group"). The address of the Company's registered office is 6 D. Kunayev Street, Astana, 010000, the Republic of Kazakhstan.

The Government, represented by Samruk-Kazyna National Welfare Fund JSC (the "Shareholder") is the Company's sole shareholder.

The Group operates a government regulated nationwide railway system providing freight and passenger transportation and maintaining railway infrastructure in Kazakhstan. As part of rail industry regulation in Kazakhstan, the Government sets the tariffs the Group charges its freight and passenger customers, and partially subsidises specific passenger transportation activities through government grants. These regulated tariffs differ based on the type of transportation provided. The Government does not regulate international freight transportation tariffs.

The Committee for the Regulation of Natural Monopolies, protecting Competition and Consumer Rights of the Ministry of the National Economy of the Republic of Kazakhstan ("CRNM") has approved railway network tariffs for 2016-2020 with annual freight transportation tariff increases of 4%.

On 1 April 2017, the CRNM agreed freight transportation tariffs increase. The average freight transportation tariff increase during 2017 was 5% (2016: 4%), including railway network access of 4% (2016: 4%) and locomotive haulage services of 7% (2016: 4.6%).

Starting from 1 January 2017, a regulator, represented by Ministry of Investments and Development of Kazakhstan, approved a 7% increase in passenger transportation tariffs for a number of interdistrict routes (2016: 10%).

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the government's fiscal and monetary policies, together with developments in the legal, regulatory and political environment.

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to global oil and gas prices. During 2014-2016, the energy resource price fell significantly, which led to significant decrease in national export revenue.

Group management monitors current economic developments and takes measures it considers necessary to support the sustainability and development of the Group's business for the foreseeable future. However, the impact of further economic developments on the Group's future operations and financial position is at this stage difficult to determine.

The Government controls the Group structure and establishes long-term railway industry strategy in Kazakhstan. Since 1997, Kazakhstan national railway industry has been in the process of restructuring, which includes segregating freight transportation and infrastructure and the associated tariffs, as well as passenger transportation subsidies. In accordance with the Group's Development strategy until 2025, Locomotive JSC was reorganised into KTZ-Freight Transportation JSC, transporting ►

freight from 1 July 2016. In September 2017, KTZ-Freight Transportation JSC was given the status of national freight carrier by government resolution.

## 2. BASIS FOR THE PREPARATION OF FINANCIAL STATEMENTS

### Statement of compliance

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

### Going concern

The Group's consolidated financial statements have been prepared on a going concern basis. This assumes the sale of assets and settlement of liabilities in the normal course of business for the foreseeable future. As at 31 December 2017, its current liabilities exceeded its current assets by KZT 90,556,549 thousand (2016: KZT 137,921,380 thousand). Historically, the Group has financed large investment projects through capital contributions received from the government, and external borrowings, in addition to cash flows from operating activities. As at 31 December 2017, the Group's borrowings of KZT 93,751,143 thousand are payable within 12 months of the reporting date. Group management has assessed its needs for cash, including its scheduled debt repayments and development plans. In assessing its going concern basis, management also considered the Group's financial position, expected future performance and cash flows from operations, its borrowings, available credit facilities, its capital expenditure commitments, expected tariffs, currency exchange rates and other risks facing it. After completing the relevant analysis, management concluded that the Group has adequate resources to continue in operational existence and settle its liabilities (Note 32) and that the going concern basis is appropriate in preparing these consolidated financial statements.

### Basis for measurement

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at revalued amounts or fair values as at the reporting date.

### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and entities controlled by it and the subsidiaries listed in Note 30. The Group's investments in which it has significant influence are accounted for using the equity method. All intragroup transactions, balances, and unrealised gains and losses are eliminated on consolidation.

### Functional and presentation currency

The Group's consolidated financial statements are presented in Kazakhstan tenge ("KZT"). The assets and liabilities of foreign operations, where the functional currency is different to KZT, are translated into KZT at the exchange rate effective at the reporting date, while profit and loss items are translated into KZT at the weighted-average exchange rate for the year. Exchange rate differences arising on translation are recorded directly to other comprehensive income. Upon disposal of a foreign operation, all accumulated exchange differences related to that specific foreign operation are recognised in profit or loss.

KZT is not a fully convertible currency outside of Kazakhstan. Transactions in currencies other than the Group's functional currency (foreign currencies) are recorded at the market rate ruling at the transaction date using market rates set by the Kazakhstan Stock Exchange ("KASE"). For foreign currencies not quoted by KASE, exchange rates are set by the National Bank using cross-rates to the US Dollar ("US\$") in accordance with quotations received from Reuters.

Monetary assets and liabilities denominated in foreign currencies are remeasured to the entity's functional currency at the exchange rate effective at the reporting date with all differences arising from a change in exchange rates subsequent to the transaction date recognised in profit or loss. Non-monetary items carried at fair value and denominated in foreign currencies are remeasured at the rates prevailing at the date when fair value was determined. Non-monetary items measured in terms of historical cost in a foreign currency are not remeasured.

The table below shows KZT exchange rates as at specific dates:

	<u>31 December 2017</u>	<u>31 December 2016</u>
US\$	332.33	333.29
Euros (EUR)	398.23	352.42
Swiss Francs (CHF)	340.61	328.14
Russian Roubles (RUR)	5.77	5.43

### 3. SIGNIFICANT ACCOUNTING POLICIES

In August 2016, Group management approved a new edition of the accounting policy with newly issued and revised standards, which did not result in significant changes to accounting principles, judgements, methods of presentation and estimates.

#### Adoption of new and revised standards

In the current year, the Group adopted a number of amendments to IFRS published by IASB, which are effective starting from 1 January 2017.

##### *Amendments to IAS 7 Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes both cash flows and non-cash changes.

The Group's liabilities from financing activities consist of borrowings (Note 16) and finance lease liabilities (Note 17). A reconciliation between the opening and closing balances of these items is provided in Note 16. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure of information in Note 16, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments. ►

## New or revised standards issued but not yet effective

The Group has not applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective:

- ▶ IFRS 9 *Financial Instruments*<sup>1</sup>
- ▶ IFRS 15 *Revenue from Contracts with Customers*<sup>1</sup>
- ▶ IFRS 16 *Leases*<sup>2</sup>
- ▶ Amendments to IFRS 10 and IAS 28 *Sale or contribution of assets between an investor and its associate or joint venture*<sup>3</sup>
- ▶ Amendments to IAS 40 *Transfers of investment property*<sup>1</sup>
- ▶ Annual Improvements to IFRS 2014-2016 Cycle<sup>1</sup>
- ▶ Annual Improvements to IFRS 2015-2017 Cycle<sup>2</sup>
- ▶ IFRIC 22 *Foreign Currency Transactions and Advance Considerations*<sup>1</sup>
- ▶ IFRIC 23 *Uncertainty Over Income Tax Treatments*<sup>2</sup>

### IFRS 9 *Financial Instruments*

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' measurement category for certain simple debt instruments.

The key requirements of IFRS 9 are:

- ▶ *Classification and measurement of financial assets.* All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- ▶ *Classification and measurement of financial liabilities.* With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted

income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- ▶ *Impairment.* In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- ▶ *Hedge accounting.* The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.
- ▶ *Accounting treatment of modification or the exchange of debt liabilities that do not lead to derecognition.* The new standard introduces a requirement for the accounting treatment of modifications or the exchange of debt liabilities that do not lead to derecognition. Profit or loss arising from the modification of a financial liability carried at amortised cost should be

recognised in profit or loss. Profit or loss are calculated as a difference between initial cash flows and the contractual net present value of future cash flows discounting them using initial effective interest rate of the financial instrument.

The Group has elected to apply the modified retrospective approach upon the application of IFRS 9 as of 1 January 2018. Accordingly, comparative amounts will not be restated and the cumulative adjustment will be recognised as of 1 January 2018.

According to an analysis and current estimate of the Group's financial assets and liabilities as at 31 December 2017 and based on the facts and circumstances existing as at that date, the Group management expects that the application of the new standard from 1 January 2018 will have an overall cumulative effect on its consolidated financial statements with the adjustment to retained earnings of KZT 8,758,759 thousand, which is described in details below.

The Group does not expect any significant changes with respect to the classification and measurement of financial assets and liabilities.

The new impairment model requires the recognition of expected credit losses (rather than incurred credit losses as per IAS 39) on financial assets carried at amortised cost, debt instruments carried at fair value through other comprehensive income, contract assets and financial guarantee contracts. Group management have decided to apply the simplified approach to recognize lifetime expected credit losses for its trade receivables. For the loans issued to related parties and entities under trust management and other financial assets, including cash and cash equivalents, expected credit losses will be recognized over the lifetime or a 12-month period, depending on whether there has been a significant increase in credit risk for these items from initial recognition. After analysis, the Group expects a small increase in the allowance for doubtful debts for trade and other receivables of KZT 315,151 thousand, for debt financial assets accounted for at amortised cost (loans issued) of ▶

KZT 183,996 thousand, for funds in credit institutions (banks), including cash and cash equivalents, restricted cash and other financial assets, of KZT 272,499 thousand for financial guarantees issued of KZT 1,903,144 thousand. The Management does not expect significant changes to these estimates.

The Group estimated the effect of modification or the exchange of debt liabilities that did not result in derecognition under the new requirements of IFRS 9. Based on management estimates, the difference between the carrying amount of financial liabilities arising from application of IFRS 9 being recognised through retained earnings as at 1 January 2018 will amount to KZT 6,083,969 thousand.

The Group does not expect significant changes relating to the accounting treatment for hedging instruments designated in a hedge relationship and will continue to apply IAS 39 to existing cash flow hedging of transit traffic revenue as allowed by transitional provisions of IFRS 9.

#### *IFRS 15 Revenue from contracts with customers*

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1:** Identify the contract with the customer;
- Step 2:** Identify the performance obligations in the contract;
- Step 3:** Determine the transaction price;
- Step 4:** Allocate the transaction price to the performance obligations in the contracts;
- Step 5:** Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has

been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Based on an analysis of the Group's regular revenue streams for the year ended 31 December 2017, individual terms of revenue agreements and other facts and conditions existing at the reporting date, Group management anticipates that the application of IFRS 15 will not have a material impact on the recognition and measurement of revenue in the consolidated financial statements. Disclosures required by the new standard will, however, be expanded to provide users with greater information regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

#### *IFRS Leases*

IFRS 16 introduces a comprehensive model to identify lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any

remeasurement of the lease liability. A lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, a lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, lease payments will be split into principal and interest portions, which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or as a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

Group management anticipates that the application of IFRS 16 in the future may have a significant impact on the amount of assets and liabilities due to recognition of assets and liabilities for all leases for contracts where the Group is a lessee, except those that meet the criteria of a short-term lease or low-value assets in accordance with IFRS 16.

Management is still in the process of assessing the full impact of the application of IFRS 16 on the Group's consolidated financial statements and it is not practicable to provide a reasonable financial estimate of the effect until management completes its detailed review. Management expects to be able to provide more precise information in the consolidated financial statements for the year ended 31 December 2018.

Group management expects that the application of other standards, amendments and interpretations effective from 1 January 2018 will not have a material effect on the consolidated financial statements in the periods they are applied.

## Property, plant and equipment

Property, plant and equipment is stated at historical cost less any subsequent accumulated depreciation and impairment losses.

### *Subsequent costs*

Maintenance expenses incurred during an asset's useful life (regular maintenance to ensure the asset remains in a working condition) and repair expenses (technical inspections, maintenance contracts, etc.) are recorded as operating expenses.

Costs are capitalised only if those costs qualify for recognition as assets in accordance with provisions of IAS 16 Property, Plant and Equipment.

### *Construction-in-progress*

Construction-in-progress comprises costs directly related to the acquisition and construction of property, plant and equipment, including the appropriate allocation of directly attributable variable overheads incurred during construction. Depreciation is charged on the same basis as for other assets and starts once the asset becomes available for its intended use. The carrying value of construction-in-progress is regularly reviewed for impairment.

## Borrowing costs

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets as part of the cost of that asset.

The Group capitalises borrowing costs on general purpose borrowings to the extent they are used to obtain a qualifying asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the Group's borrowings that are outstanding during the period and used to construct and produce a qualifying asset, other than borrowings received specifically for the purpose of obtaining a qualifying asset. ►

Investment income generated on a temporary investment of specific borrowings pending their use on qualifying assets is deducted from borrowing costs eligible for capitalisation.

Borrowing costs also include exchange differences arising from foreign currency loans to the extent they are considered to be an interest expense adjustment. An exchange difference amount capitalised as an interest expense adjustment should not exceed the interest expense amount the Group would capitalise if the loan had been received in the local currency. Any exchange difference is recognised in profit or loss.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### **Inventories**

Inventories are valued at the lower of cost or net realisable value. Costs comprise of charges incurred to bring the inventory to its present location and condition for its intended use. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and costs necessary to make the sale. Inventory is valued on a weighted-average cost basis.

### **Equity**

#### *Share capital*

Common shares are classified as equity. Costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from equity proceeds. All non-cash contributions to share capital are assessed at fair value as at the date of the contribution by an independent appraiser.

Consideration received for common shares yet to be legally registered is recognised as additional paid-in capital until they are registered, when any proceeds are transferred to share capital.

#### *Other contributions*

The Group enters into equity transactions with the Shareholder, such as asset transfers, adjustments for below market interest loans and others that would not relate to the acquisition of additional equity interest in the Group. The Group recognises such transactions in retained earnings.

#### *Other distributions*

Distributions are recognised in equity when the Group has irrevocably committed to transfer cash or non-cash assets to its Shareholder/Ultimate Shareholder and the amount of the commitment can be reliably measured. Distributions are recognised in equity at their fair value, net of any related deferred tax effects, where appropriate.

### **Financial instruments**

Financial instruments are contracts that give rise to a financial asset of one party and a financial liability or equity instrument of another party.

Financial instruments are recognised initially at fair value, which is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties.

Subsequent measurement depends on how financial instruments have been classified. Accounts receivable and investments, classified as loans and receivables, are measured at amortised cost, using the effective interest method. Certain equity investments classified as available for sale are recognised at cost as fair value cannot be reliably established. Accounts payable, accrued liabilities, borrowings, dividends payable and other liabilities classified as other liabilities are also measured at amortised cost.

### **Hedge accounting**

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency

risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of a hedge relationship, an entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

#### *Cash flow hedges*

The effective portion of changes in the fair value of financial instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. A gain or loss relating to the ineffective portion is recognised immediately in profit or loss for the reporting period, and is included in the 'finance costs' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item.

Hedge accounting is discontinued when:

- a) the Group revokes the hedging relationship,
- b) the hedging instrument expires or is sold, terminated, or exercised, or
- c) it no longer qualifies for hedge accounting.

Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumu-

lated in equity is recognised immediately in profit or loss.

#### **Revenue recognition**

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and measured based upon the fair value of the consideration received or receivable.

In respect of services related to transportation, revenue is recognised by reference to the stage of completion of the transportation at the reporting date provided that the stage of completion of the transportation and the amount of revenue can be measured reliably. The extent of completion of the cargo transportation process is calculated as the ratio of services provided as at the reporting date to total services according to information on cargo dispatch and arrival dates (joint station intersection).

Prepayments received from customers for transportation services that have not been initiated are recognised as 'Advances from customers'. Once services are started, the amount related to that service is reclassified to deferred income under 'Other current liabilities' in a consolidated statement of financial position. Deferred income is credited to revenue as a service is provided.

Revenue relating to services for the use of wagons is recognised in the period the Group's wagons are used.

With respect to the sale of goods, revenue is recognised when goods are delivered and title is passed, at which time all of the following conditions are satisfied:

- ▶ the Group has transferred the significant risks and rewards of title to the goods to the buyer;
- ▶ the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over goods sold; ▶

- ▶ the amount of revenue can be reliably measured;
- ▶ it is probable that the economic benefits associated with the transaction will flow to the Group; and
- ▶ the costs incurred or to be incurred in respect of the transaction can be measured reliably.

### Government grants

The government authorises the Group to receive subsidies in the form of government grants to partially cover the cost of transporting passengers on socially important routes in Kazakhstan. Government grants are recognised at their fair value when there is reasonable assurance that the subsidy will be received, and all corresponding conditions will be met. Government grants are recognised regularly during reporting periods as the subsidies are used to cover carrier costs to transport passengers on socially significant routes.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the consolidated financial statements in compliance with IFRS requires Group management to make judgements and use estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on historical experience and other factors that are considered to be relevant, events or actions may mean that actual results ultimately differ from those estimates.

### Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that management has made in the process of applying the Group's accounting policies and that have the most

significant effect on the amounts recognised in the consolidated financial statements.

#### *Control assessment*

Subsidiaries are those entities controlled by the Group. The Group controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. Losses are attributed to non-controlling interests in full, even if this results in a debit balance ("deficit") (Note 30).

The Group and State Property and Privatisation Committee of the Ministry of Finance of the Republic of Kazakhstan entered into trust management agreements for KazAvtoZhol National Company JSC, Khorgos International Border Cooperation Centre JSC and a number of Kazakhstani airports. The Group did not recognise the above entities as subsidiaries and did not consolidate them because it is an agent and does not control them, exercising the right delegated to it to make decisions in the Committee's interests, and is not entitled to residual returns of those entities. Under the trust management agreement with the Shareholder, the Company recognised Aktau International Sea Commercial Port National Company JSC as a subsidiary because of the extensive authority given to the Group by the Shareholder. The agreement gives it the practical ability to manage the relevant activities of the entity unilaterally. The Company is also entitled to receive residual returns in the entity.

The Group also transferred Kazakhstan Wagon Construction Company LLP to the trust management of ZIKSTO LLP, at the same time retaining control over it.

#### *Loans at a rate below the market interest rate*

The Group receives loans from the Shareholder/Ultimate Shareholder at a rate below the market rate for similar loans in arm's length transactions. These loans are initially recognised at the fair value of the consideration received less directly attributable transaction costs. The Group calculates the fair value (amortised cost) of these loans using market rates on governmental long-term treasury bonds with comparable maturities and recognises an adjustment to the loan value (less the related deferred tax) within equity. When no comparable maturities exist, the Group extrapolates the most comparable market rates to the life of the loan received by the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

#### *Assets classified as held for sale*

In December 2015, the Kazakhstan Government approved the 'Comprehensive Privatisation Plan for 2016-2020', whereby Group management approved a list of subsidiaries, associates and joint ventures to be sold. IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations requires management to apply judgements regarding the high probability of an asset's sale. As at the reporting date, Group management assessed the status of the Plan and classified assets/liabilities as disposal groups held for sale as those meeting IFRS 5 criteria (Note 14).

### **Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period for which there is a significant risk they may cause a material adjustment to the carrying amounts of assets and liabilities during the next financial year.

#### *Impairment of tangible assets*

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that they have suffered an impairment loss.

The assessment of whether there is an indication of impairment is based on a number of factors, such as a change in growth expectations in the railway industry, future cash flow estimates, 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 its carrying amount. If the carrying amount exceeds the recoverable amount, 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. The change in the estimated recoverable amount may result in an additional impairment or a recovery of the impairment and thus an impairment reversal being recognised in future periods.

Due to existing impairment indicators, the Group performed an impairment test as at 31 December 2017.

The Group management considered all segments as a single cash-generating unit (CGU) for impairment testing purposes as under the Group's current operating model cash flows for each segment are not considered to be sufficiently independent. Railway infrastructure is integral and is not differentiated for freight and passenger transportation lines. Accordingly, there is no objective allocation of infrastructure assets for cash flows from freight and passenger transportation. Due to the specifics of tariff regulation for freight transportation and the need to cross-subsidise passenger transportation, railway infrastructure cannot generate independent cash flows. Accordingly, the Group is treated as one cash-generating unit in impairment testing.

The Kazakhstan Government, as the Company's Ultimate Shareholder, has approved a privatisation plan for certain Group entities, which, if implemented

mented, would result in a new interaction mechanism among its various business units. As the Group's restructuring processes have not been completed, these possible developments were not taken into account for current year impairment testing purposes. Subsequent changes in the identification of CGUs may affect the carrying value of the Group's assets.

Additionally, a number of subjective factors, both operational and financial, using the best evidence available, are used to estimate cash flows.

The operational considerations used in the test reflect the most likely volume of transportation services, including transit volumes, based on historical data and projected demand.

Financial assumptions include significant estimates associated with tariff forecasts and growth rates, discounts, and projected KZT to US\$ and Swiss Franc exchange rates. The key long-term assumptions used in the calculation were annual tariff growth of 4% in freight and passenger transportation, an exchange rate of 340 KZT/US\$ and a discount rate of 13.21%. These assumptions are presented in real terms.

As at 31 December 2017, no impairment has been identified based on the estimated value in use of the Group's property, plant and equipment. However, the value in use estimate is sensitive particularly to the following assumptions:

- ▶ discount rate,
- ▶ transit freight transportation traffic, and
- ▶ foreign currency exchange rates, including to the Swiss Franc and US\$.

Adverse changes to planned freight and passenger traffic growth rates due to general economic trends, tariffs not being sufficiently indexed to inflation, the KZT's continuing volatility against foreign currencies, government support levels, and other future adverse changes may lead to significant impairment losses in the period in which they occur.

#### *Recoverability of VAT*

As at each reporting date, the Group assesses the recoverability of VAT arising on international transportation sales. The Group cannot charge VAT onwards to these customers, and accordingly can only receive these amounts through recovery from the tax authorities. To assess VAT recoverability, the Group considers information from its internal tax department regarding projected VAT collection, correspondence with government tax authorities, and historical recovery experience. The actual amount of VAT recovered could differ materially from the Group's estimate and this could materially affect future operating results.

#### *Depreciation of property, plant and equipment and amortisation of intangible assets*

Property, plant and equipment and intangible assets are depreciated and amortised using the straight-line method over estimated useful lives. The estimates of useful lives, residual values and depreciation methods are reviewed at each reporting date, and adjusted if appropriate. Any changes are accounted for prospectively as a change in accounting estimates. Estimates of the useful lives and residual value of these assets are based on expected economic use, repair and maintenance programmes, and activity levels, technological advancements and other business conditions. A change in these assumptions could result in significantly different depreciation amounts than those previously recorded.

The estimated useful lives applied by the Group are as follows (in years):

Buildings and structures	10-140
Railway infrastructure	5-100
Machinery and equipment	3-35
Vehicles	4-40
Others	2-50
Intangible assets	1-10

#### *Taxation*

Kazakhstan legislative acts and regulations are not always clearly written. Instances of inconsistent opinions between local, regional and national tax authorities are possible. Where additional taxes are

imposed by the tax authorities, penalties and interest applied are significant; penalties are generally assessed at 50% of the additional taxes accrued, and interest is assessed at 12.19% of taxes not settled on a timely basis. As a result, penalties and interest can exceed the amount of additional accrued taxes.

Because of the uncertainties disclosed above, the ultimate amount of taxes, penalties and interest, if any, imposed may be in excess of the amount expensed to date and accrued as at 31 December 2017. Any difference between the estimated amount and the actual amount paid, if any, could have a significant impact on future operating results.

## 5. SEGMENT INFORMATION

The Group's operating segments are based on the services provided. It has two reportable segments, namely freight transportation and passenger transportation. All other operating segments, including mainly communication, utilities, loading and unloading services, and vessel servicing, which in aggregate do not exceed quantitative thresholds for disaggregation, are thus not separately disclosed.

Group management tracks a number of segment profitability elements, such as pre-tax profit, profit for the year from continuing operations and gross profit. However, profit for the year is the primary measure used by Group management to allocate resources and assess segment performance.

The Group does not have a specific pricing policy for inter-segmental sales. However, generally speaking, intersegment transactions are charged at prevailing market prices.

	For the year ended 31 December 2017				
	Freight transportation	Passenger transportation	Total reportable segments	Others	Total
<b>Key operating indices</b>					
Revenue					
Transportation	789,675,758	84,202,265	873,878,023	-	873,878,023
Government grants	-	20,459,779	20,459,779	-	20,459,779
Other revenue	30,151,893	4,550,795	34,702,688	16,866,088	51,568,776
Intersegment revenue	(24,351,859)	(3,117,506)	(27,469,365)	(5,325,008)	(32,794,373)
Revenue	795,475,792	106,095,333	901,571,125	11,541,080	913,112,205
Cost of sales	(617,990,240)	(94,493,103)	(712,483,343)	(8,846,790)	(721,330,133)
General and administrative expenses	(76,810,984)	(5,618,375)	(82,429,359)	(3,775,581)	(86,204,940)
Asset impairment	(210,228)	(2,659,057)	(2,869,285)	(875,788)	(3,745,073)
Other profit and losses	2,761,551	751,608	3,513,159	49,336	3,562,495
Finance income	5,757,777	689,276	6,447,053	1,340,178	7,787,231
Finance costs	(93,976,764)	(2,490,242)	(96,467,006)	(1,098,358)	(97,565,364)
Foreign exchange (loss)/gain	(7,787,010)	72,525	(7,714,485)	89,546	(7,624,939)
Share of the profit/(loss) of associates and joint ventures	2,234,422	-	2,234,422	(96,833)	2,137,589
Gain from disposal of shares in joint ventures	8,144,751	-	8,144,751	-	8,144,751
Gain from the disposal of subsidiaries	250,779	-	250,779	-	250,779
<b>Profit before tax</b>	<b>17,849,846</b>	<b>2,347,965</b>	<b>20,197,811</b>	<b>(1,673,210)</b>	<b>18,524,601</b>
Income tax expense	(5,458,830)	(57,846)	(5,516,676)	(318,677)	(5,835,353)
<b>Profit for the year from continuing operations</b>	<b>12,391,016</b>	<b>2,290,119</b>	<b>14,681,135</b>	<b>(1,991,887)</b>	<b>12,689,248</b>
<b>Other key segment information</b>					
Capital expenditures on property, plant and equipment	220,907,834	19,211,973	240,119,807	1,293,936	241,413,743
Depreciation of property, plant and equipment	96,422,517	8,071,050	104,493,567	1,874,897	106,368,464

For the year ended 31 December 2016					
	Freight transportation	Passenger transportation	Total reportable segments	Others	Total
<b>Key operating indices</b>					
Revenue					
Transportation	712,942,787	82,087,215	795,030,002	-	795,030,002
Government grants	-	22,528,832	22,528,832	-	22,528,832
Other revenue	20,608,236	3,327,070	23,935,306	16,232,959	40,168,265
Intersegment revenue	(27,222,487)	(2,301,216)	(29,523,703)	(5,091,838)	(34,615,541)
Revenue	706,328,536	105,641,901	811,970,437	11,141,121	823,111,558
Cost of sales	(555,011,504)	(96,090,141)	(651,101,645)	(7,750,955)	(658,852,600)
General and administrative expenses	(68,073,668)	(4,446,869)	(72,520,537)	(3,923,426)	(76,443,963)
Asset impairment	819,577	(2,965,490)	(2,145,913)	(22,434)	(2,168,347)
Other profit and losses	2,626,096	786,877	3,412,973	172,530	3,585,503
Finance income	4,512,384	776,696	5,289,080	1,036,118	6,325,198
Finance costs	(80,249,140)	(2,278,514)	(82,527,654)	(2,890,240)	(85,417,894)
Foreign exchange (loss)/gain	21,153,440	(66,094)	21,087,346	(224,067)	20,863,279
Share of the profit/(loss) of associates and joint ventures	4,564,036	-	4,564,036	(3,893,788)	670,248
Gain from disposal of shares in joint ventures	154,644		154,644	7,099,097	7,253,741
Gain from disposal of subsidiaries	452,510	2,041,863	2,494,373	-	2,494,373
<b>Profit before tax</b>	<b>37,276,911</b>	<b>3,400,229</b>	<b>40,677,140</b>	<b>743,956</b>	<b>41,421,096</b>
Income tax benefit/(expense)	5,731,387	(883,694)	4,847,693	(84,459)	4,763,234
<b>Profit for the year from continuing operations</b>	<b>43,008,298</b>	<b>2,516,535</b>	<b>45,524,833</b>	<b>659,497</b>	<b>46,184,330</b>
<b>Other key segment information</b>					
Capital expenditures on property, plant and equipment	273,763,391	34,827,234	308,590,625	12,669,269	321,259,894
Depreciation of property, plant and equipment	98,826,352	7,595,524	106,421,876	8,783,736	115,205,612

## Geographical information for the Group

The Group generates its revenue from customers in multiple geographical regions. The table below shows revenue based on customer country of domicile for each of the years ended 31 December:

Customer location	2017	2016
Kazakhstan	872,845,259	793,223,701
Russia	12,441,938	4,722,506
Others	7,365,229	2,636,519
	<b>892,652,426</b>	<b>800,582,726</b>

The majority of the Group's non-current assets are in Kazakhstan.

## 6. PROPERTY, PLANT AND EQUIPMENT

	Railway track infrastructure	Buildings and structures	Machinery and equipment	Vehicles	Land	Others	Construction in progress	Total
<b>Carrying value as at 1 January 2016</b>	904,075,570	125,161,431	236,799,626	809,042,329	3,896,406	15,497,123	300,969,150	2,395,441,635
Additions	69,787	4,234,240	2,782,462	68,849,250	9,179	175,144	243,969,936	320,089,998
Disposals	(814,518)	(2,953,044)	(4,056,054)	(6,282,626)	(2,955)	(720,580)	-	(14,829,777)
Depreciation charge	(23,771,201)	(12,730,263)	(30,705,857)	(46,087,366)	-	(1,910,925)	-	(115,205,642)
Depreciation on disposal (impairment)/impairment reversal	445,260	405,675	3,132,694	5,664,224	-	696,069	-	10,343,922
Transfer from assets classified as held for sale, including from assets for sale to the Government	(30,688)	(145,540)	(2,330,476)	16,890	-	(77,096)	(2,428,672)	(4,995,582)
Transfer to assets classified as held for sale	-	2,438,230	1,545	251	2,696	491	-	2,443,213
Other movements and transfers	(9,277)	(1,886,195)	(53,178,475)	(2,876,778)	(180,695)	(330,096)	(6,723,839)	(65,185,355)
	79,943,616	57,431,035	98,727,365	2,598,252	(78,398)	(857,318)	(244,537,626)	(6,773,074)
<b>Carrying value as at 31 December 2016</b>	<b>959,908,549</b>	<b>171,955,569</b>	<b>251,172,830</b>	<b>830,924,426</b>	<b>3,646,233</b>	<b>12,472,812</b>	<b>291,248,949</b>	<b>2,521,329,368</b>
Cost	1,126,320,967	213,595,902	375,261,894	1,166,677,28	3,646,233	21,801,749	299,796,652	3,207,100,680
Accumulated depreciation and impairment	(166,412,418)	(41,640,333)	(124,089,064)	(335,752,857)	-	(9,328,937)	(8,547,703)	(685,771,312)
<b>Carrying value as at 1 January 2017</b>	959,908,549	171,955,569	251,172,830	830,924,426	3,646,233	12,472,812	291,248,949	2,521,329,368
Additions	2,316,150	25,339	616,345	14,986,482	91,433	97,719	218,111,550	236,245,018
Finance lease additions	-	-	-	12,953,406	-	-	-	12,953,406
Disposals	(103,417)	(152,959)	(1,148,048)	(4,270,751)	(69,902)	(351,441)	-	(6,096,518)
Depreciation charge	(26,213,610)	(7,399,980)	(25,155,492)	(45,773,425)	-	(1,825,957)	-	(106,368,464)
Depreciation on disposal (impairment)/impairment reversal	90,901	138,160	1,401,006	3,434,672	-	347,049	-	5,111,788
Transfer to investment property	(30,701)	19,304	14,024	64,753	-	(2,059)	(920,746)	(855,425)
Transfer to assets classified as held for sale	-	(2,670,839)	-	-	-	-	-	(2,670,839)
Other movements and transfers	-	(973,899)	(1,813,677)	(323,289)	-	(65,066)	-	(3,175,931)
	56,478,428	183,271,323	45,276,488	31,514,913	-	2,211,656	(320,768,072)	(2,015,264)
<b>Carrying value as at 31 December 2017</b>	<b>992,446,300</b>	<b>344,212,018</b>	<b>270,063,476</b>	<b>843,511,187</b>	<b>3,667,764</b>	<b>12,884,713</b>	<b>187,671,681</b>	<b>2,654,457,139</b>
Cost	1,182,493,991	392,459,009	416,742,115	1,219,935,30	3,667,764	23,656,486	197,140,130	3,436,094,796
Accumulated depreciation and impairment	(190,047,691)	(48,246,991)	(146,678,639)	(376,424,114)	-	(10,771,773)	(9,468,449)	(781,637,657)

In 2017, the Group received property, plant and equipment of KZT 2,322,567 thousand (in 2016: KZT 143,584 thousand) from the Shareholder/Ultimate Shareholder and recognised it in the consolidated statement of changes in equity as a contribution to share capital and other contributions (Note 15).

As at 31 December 2017, construction in progress primarily comprised project costs for the construction of the Zhezkazgan-Beineu, Arkalyk-Shubarkol and Almaty-Shu railway lines of KZT 70,829,526 thousand (2016: KZT 66,293,483 thousand); the construction of a ferry complex at the Kuryk port of KZT 35,293,745 thousand (2016: KZT 18,025,640 thousand) and to develop a railway junction at the Astana station, including construction of a railway station of KZT 31,286,106 thousand (2016: KZT 125,070,257 thousand).

During 2017, completed construction amounted to KZT 320,768,072 thousand, which included the partial commissioning of the Astana station

complex of KZT 163,012,749 thousand and of a ferry complex at the Kuryk port of KZT 16,460,412 thousand.

As at 31 December 2017 and 2016, the Group's property, plant and equipment with a carrying value of KZT 147,044,323 thousand and KZT 143,316,485 thousand, respectively, were pledged as collateral for the Group's certain borrowings.

For the years ended 31 December 2017 and 2016, capitalised borrowing costs amounted to KZT 2,989,294 thousand and KZT 3,636,255 thousand, respectively. The average capitalisation rate for the Group ranges between 2.59% and 10% (2016: 2.59% and 8.63%).

As at 31 December 2017 and 2016, the cost of fully depreciated property, plant and equipment which was still in use amounted to KZT 246,544,005 thousand and KZT 235,839,055 thousand tenge, respectively.

## 7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Name	Core activities	Country of main activities / incorporation	2017		2016	
			Carrying value	Interest	Carrying value	Interest
<b>Associates</b>						
Chinese-Kazakhstan International Logistics Company in Lianyungang	International multimodal transportation	China	10,552,107	49%	9,906,269	49%
Aktau Marine North Terminal LLP	Construction and operation of logistics, industrial and infrastructure structures	Kazakhstan	985,704	40%	1,284,568	40%
Others			-	25-49%	167,038	25-49%
<b>Total investments in associates</b>			<b>11,537,811</b>		<b>11,357,875</b>	
<b>Joint ventures</b>						
Logistic System Management B.V.	Transportation and freight forwarding services, rolling stock management and terminal maintenance	Kazakhstan/The Netherlands	15,865,960	50%	11,720,150	50%
<b>Total investments in joint ventures</b>			<b>15,865,960</b>		<b>11,720,150</b>	

All the above associates and joint ventures are strategic for the Group's business.

For the years ended 31 December, movements in investments in associates and joint ventures were as follows:

	<u>2017</u>	<u>2016</u>
<b>Associates</b>		
<b>As at 1 January</b>	11,357,875	10,898,604
Foreign currency translation	634,013	(896,087)
Charter capital contributions without changes to ownership interest	1,358,000	2,465,230
Share of loss	(2,008,221)	(4,891,472)
Fair value of financial guarantees given (Note 21)	196,144	3,519,396
Transfer from investments in joint ventures	-	262,204
<b>As at 31 December</b>	<u><u>11,537,811</u></u>	<u><u>11,357,875</u></u>
<b>Joint ventures</b>		
<b>As at 1 January</b>	11,720,150	22,104,613
Share of profit	4,145,810	5,561,720
Fair value adjustment for loans issued at rates lower than the market rate	-	58,425
Transfer to investments in associates	-	(262,204)
Dividends receivable	-	(3,128,141)
Transfer to non-current assets classified as held for sale (Note 14)	-	(12,614,263)
<b>As at 31 December</b>	<u><u>15,865,960</u></u>	<u><u>11,720,150</u></u>

As at 31 December 2017, the Group's unrecognised share in the losses of material associates Aktobe Rail and Section Mill Plant LLP, Continental Logistics LLP and Electrovoz kurastyru zauyty LLP, amounted to KZT 11,384,743 thousand (2016: KZT 6,716,574 thousand).

During 2017, the Group, represented by KTZ Express JSC and Aktau International Sea Commercial Port National Company JSC, made additional cash contributions to Aktau Marine North Terminal LLP, without change in ownership share, of KZT 1,018,500 thousand and KZT

339,500 thousand, respectively (2016: KZT 1,662,260 thousand and KZT 554,087 thousand).

During 2017, dividends that were declared in 2016 from the profits earned in 2015 were received from the joint venture Logistic System Management B.V. in cash of KZT 1,663,776 thousand (Note 13). During 2016, dividends were received from the joint ventures Logistic System Management B.V. related to profits earned in 2014 and Astyk Trans LLP for profits earned in 2015 in cash of KZT 951,036 thousand and KZT 708,718 thousand, respectively.

Summary financial information for the Group's material associates as at and for the years ended 31 December:

	2017				2016					
	Chinese-Kazakhstan International Logistics Company in Lianyungang	Aktobe Rail and Section Mill Plant LLP	Continental Logistics LLP	Aktau Marine North Terminal LLP	Electrovoz kurastyru zauly LLP	Chinese-Kazakhstan International Logistics Company in Lianyungang	Aktobe Rail and Section Mill Plant LLP	Continental Logistics LLP	Aktau Marine North Terminal LLP	Electrovoz kurastyru zauly LLP
Current assets	3,242,787	19,174,685	11,351,607	1,951,162	15,259,163	2,370,433	13,346,834	5,903,523	6,839,215	33,806,498
Non-current assets	21,202,747	75,503,972	31,037,035	42,450,737	21,515,770	20,977,803	75,654,249	29,154,188	40,728,440	21,775,211
<b>Total assets</b>	<b>24,445,534</b>	<b>94,675,657</b>	<b>42,388,642</b>	<b>44,401,899</b>	<b>36,774,933</b>	<b>23,348,236</b>	<b>89,001,083</b>	<b>35,057,711</b>	<b>47,567,655</b>	<b>55,581,709</b>
Current liabilities	2,715,665	20,677,530	18,575,868	1,843,547	31,958,911	3,131,361	23,693,304	13,284,123	3,475,033	48,584,202
Non-current liabilities	194,957	97,150,620	28,529,698	40,094,092	16,911,694	-	80,379,160	23,454,603	40,881,201	13,760,929
<b>Total liabilities</b>	<b>2,910,622</b>	<b>117,828,150</b>	<b>47,105,566</b>	<b>41,937,639</b>	<b>48,870,605</b>	<b>3,131,361</b>	<b>104,072,464</b>	<b>36,738,726</b>	<b>44,356,234</b>	<b>62,345,131</b>
<b>Total net assets/liabilities</b>	<b>21,534,912</b>	<b>(23,152,493)</b>	<b>(4,716,924)</b>	<b>2,464,260</b>	<b>(12,095,672)</b>	<b>20,216,875</b>	<b>(15,071,381)</b>	<b>(1,681,015)</b>	<b>3,211,421</b>	<b>(6,763,422)</b>
Ownership interest attributable to the Group	49%	30%	30%	40%	25%	49%	30%	30%	40%	25%
Investment carrying value	10,552,107	(6,945,748)	(1,415,077)	985,704	(3,023,918)	9,906,269	(4,521,414)	(504,305)	1,284,568	(1,690,855)
	<b>10,552,107</b>	<b>-</b>	<b>-</b>	<b>985,704</b>	<b>-</b>	<b>9,906,269</b>	<b>-</b>	<b>-</b>	<b>1,284,568</b>	<b>-</b>
Revenue	1,593,773	32,971,622	3,428,386	1,953,840	2,359,733	1,622,074	14,721,285	3,876,209	295,121	39,928,906
Profit/(loss) for the year and total comprehensive income/(loss)	24,132	(8,403,890)	(3,366,944)	(4,142,160)	(5,332,252)	20,690	(5,589,497)	(1,565,675)	(499,724)	(8,482,398)
<b>Group's recognised share of total comprehensive income/(loss)</b>	<b>11,825</b>	<b>(96,833)</b>	<b>(99,311)</b>	<b>(1,656,864)</b>	<b>-</b>	<b>10,138</b>	<b>(3,351,855)</b>	<b>(248,883)</b>	<b>(931,779)</b>	<b>(429,745)</b>

## Summary financial information for the Group's material joint ventures as at and for the years ended 31 December:

	2017		2016	
	Logistic System Management B.V.	Logistic System Management B.V.	Locomotive kurastyru zauyty JSC	Electrovoz kurastyru zauyty LLP
Current assets, including: <i>Cash and cash equivalents</i>	18,964,477	14,075,091	-	-
Non-current assets	6,296,933	2,890,747	-	-
	14,968,070	12,804,334	-	-
<b>Total assets</b>	<b>33,932,547</b>	<b>26,879,425</b>	-	-
Current liabilities, including: <i>Current financial liabilities (except for trade and other accounts payable and provisions)</i>	4,529,238	5,817,155	-	-
Non-current liabilities, including: <i>Non-current financial liabilities (except for trade and other accounts payable and provisions)</i>	112,593	112,593	-	-
	1,019,057	969,639	-	-
	225,185	337,777	-	-
<b>Total liabilities</b>	<b>5,548,295</b>	<b>6,786,794</b>	-	-
<b>Net assets</b>	<b>28,384,252</b>	<b>20,092,631</b>	-	-
Ownership interest	50%	50%	50%	25%
Net assets attributable to the Group	14,192,126	10,046,316	-	-
Goodwill	1,673,834	1,673,834	-	-
<b>Carrying value of investments</b>	<b>15,865,960</b>	<b>11,720,150</b>	-	-
Revenue	53,093,395	50,222,725	6,458,127	19,671,787
Depreciation and amortisation	(989,517)	(887,468)	(1,160,701)	(1,062,309)
Finance income	158,920	232,095	200,126	677,505
Finance costs	(45,708)	(58,828)	(233,922)	-
Income tax expenses	(2,106,697)	(2,103,863)	(81,678)	-
Profit/(loss) for the year and total comprehensive income/(loss)	8,291,620	8,504,787	605,523	2,237,503
<b>Group's recognised share of total comprehensive income/(loss)</b>	<b>4,145,810</b>	<b>4,252,394</b>	<b>302,762</b>	<b>1,118,752</b>
				<b>(112,188)</b>

## 8. OTHER FINANCIAL ASSETS

	<u>31 December 2017</u>	<u>31 December 2016</u>
Funds in credit institutions (short-term financial investments)	15,912,921	17,549,976
Loans issued	24,497,817	1,885,605
Less: provision for loans issued	(955,064)	(915,860)
	<u><b>39,455,674</b></u>	<u><b>18,519,721</b></u>
Current portion of other financial assets	37,129,364	16,186,691
Non-current portion of other financial assets	2,326,310	2,333,030
	<u><b>39,455,674</b></u>	<u><b>18,519,721</b></u>

During 2017, the Group, represented by its subsidiary Airport Management Group LLP, provided an interest-free, reimbursable financial aid of KZT 27,500,000 thousand (2016: KZT 500,000 thousand), out of which KZT 4,000,000 thousand were repaid during the year, to organisation under trust management, Nursultan Nazarbayev International Airport JSC (previously Astana International Airport JSC), a related party, to finance working capital. In accounting for the interest-free financial aid, the Group recognised a fair value adjustment

relating to financial aid issued of KZT 3,855,779 thousand (2016: KZT 65,972 thousand) in finance costs. To calculate the fair value of financial aid, the Group applied effective interest rates of 13.9%-15.2% (2016: 15%), using market rates with similar conditions. The repayment of the financial aid is due by 31 March 2018.

As at 31 December 2017 and 2016, all loans issued were denominated in KZT.

### *Funds in credit institutions:*

	<u>31 December 2017</u>	<u>31 December 2016</u>
Ratings from BBB-(Baa3) to BB-(Ba3)	-	313,100
Ratings from B+(B1) to B-(B3)	15,912,921	17,236,876
	<u><b>15,912,921</b></u>	<u><b>17,549,976</b></u>

As at 31 December 2017, the weighted average interest rate on funds in credit institutions was 3.5% in US\$ and 11.17% in KZT (2016: 4.54% in US\$ and 13.08% in KZT).

as a collateral of KZT 2,375,827 thousand was 3.50% in US\$ (2016: KZT 6,413,604 thousand at 4%).

As at 31 December 2017, the weighted average interest rate on funds in credit institutions pledged

As at 31 December, funds in credit institutions were denominated in the following currencies:

	<u>31 December 2017</u>	<u>31 December 2016</u>
US\$	15,497,021	17,202,382
KZT	415,900	347,594
	<u><b>15,912,921</b></u>	<u><b>17,549,976</b></u>

## 9. TRADE ACCOUNTS RECEIVABLE

	<u>31 December 2017</u>	<u>31 December 2016</u>
Trade accounts receivable	30,542,561	23,628,423
Less: allowance for doubtful debts	<u>(8,404,483)</u>	<u>(8,094,689)</u>
	<b><u>22,138,078</u></b>	<b><u>15,533,734</u></b>
Current portion of trade accounts receivable	22,095,757	15,416,517
Non-current portion of trade accounts receivable (Note 10)	<u>42,321</u>	<u>117,217</u>
	<b><u>22,138,078</u></b>	<b><u>15,533,734</u></b>

As at 31 December, the analysis of trade accounts receivable by maturity date were as follows:

	<u>Total</u>	<u>Not overdue and not impaired</u>	<u>Overdue, but not impaired</u>		
			<u>up to 90 days</u>	<u>90-120 days</u>	<u>over 120 days</u>
2017	22,138,078	22,117,656	-	5,752	14,670
2016	15,533,734	15,430,606	-	103,128	-

## 10. OTHER NON-CURRENT ASSETS

	<u>31 December 2017</u>	<u>31 December 2016</u>
Advances paid for property, plant and equipment	56,536,483	65,111,134
VAT recoverable	36,488,308	34,141,032
Loans to employees	5,519,909	6,400,774
Investment property	2,662,803	-
Prepaid expenses	1,873,518	1,488,627
Residential property	89,441	439,954
Non-current portion of trade accounts receivable (Note 9)	42,321	117,217
Others	<u>4,824,797</u>	<u>1,391,967</u>
	108,037,580	109,090,705
Less: allowance for advances to suppliers for property, plant and equipment	(1,349,954)	(2,068,719)
Less: allowance for non-recoverable VAT	<u>(17,551,081)</u>	<u>(14,984,387)</u>
	<b><u>89,136,545</u></b>	<b><u>92,037,599</u></b>

As at 31 December, advances paid for property, plant and equipment included:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Construction of a ferry complex in the Kuryk port and operation of universal freight and passenger ferries	22,276,150	9,020,197
Supply of locomotives	20,354,011	7,344,090
Supply of spare parts for passenger wagons	8,131,336	8,317,108
Construction of the Zhezkazgan-Beineu and Arkalyk-Shubarkol railways	902,528	2,401,224
Construction of the Astana railway station complex	412,187	20,278,582
Supply of sea vessels	-	3,139,592
Supply of port cranes on caterpillar tracks	-	2,279,533
Others	<u>4,460,271</u>	<u>12,330,808</u>
	<b><u>56,536,483</u></b>	<b><u>65,111,134</u></b>

## 11. CASH AND CASH EQUIVALENTS

	<u>31 December 2017</u>	<u>31 December 2016</u>
Cash in KZT bank current accounts	40,152,696	15,436,352
Short-term bank deposits in KZT	14,275,151	26,218,883
Cash in bank current accounts in other currencies	4,847,445	1,565,122
Cash in US\$ bank current accounts	4,202,063	5,659,164
Short-term bank deposits in other currencies	-	84,165
Petty cash	11,879	14,487
	<u>63,489,234</u>	<u>48,978,173</u>
Cash included in assets classified as held for sale (Note 14) <sup>1</sup>	20,894,086	18,107,258
	<u><b>84,383,320</b></u>	<u><b>67,085,431</b></u>

As at 31 December 2017, the weighted average interest rate on cash in bank current accounts was 2.11% in KZT, 0.2% in US\$ and 0.28% in other currencies (31 December 2016: 6.1%, 0.47% and 0.44%, respectively).

Short-term bank deposits in KZT and other currencies are opened for different periods up to three months, depending on the Group's cash needs. As at 31 December 2017, the weighted average interest rate on short-term bank deposits was 8.11% in KZT (31 December 2016: 10.63% in KZT and 7.06% in US\$).

## 12. INVENTORIES

	<u>31 December 2017</u>	<u>31 December 2016</u>
Spare parts	9,286,783	7,729,888
Materials and supplies	8,358,593	10,247,492
Permanent railway materials	5,590,466	3,373,485
Fuel and lubricants	5,128,762	5,287,640
Work in progress	422,338	267,601
Finished goods	379,594	420,866
Construction materials	334,466	776,322
Others	1,021,294	977,286
	<u>30,522,296</u>	<u>29,080,580</u>
Less: allowance for slow-moving and obsolete inventories	(205,037)	(233,636)
	<u><b>30,317,259</b></u>	<u><b>28,846,944</b></u>

<sup>1</sup> Amounts include cash and cash equivalents of Tulpar-Talgo LLP, included in the Assets of newly acquire Subsidiary in Note 14, of KZT 17,679,397 thousand (2016: KZT 4,500,168 thousand)

### 13. OTHER CURRENT ASSETS

	<u>31 December 2017</u>	<u>31 December 2016</u>
Other taxes prepaid	20,851,371	15,536,701
Advances issued	13,264,696	9,217,302
Claims, interest and fines	8,324,514	7,330,878
Receivables from subsidiaries sale	3,515,000	3,525,000
Prepaid expenses	1,768,943	4,257,444
Amounts due from employees	1,401,544	1,560,333
Restricted cash	517,943	1,782,029
Dividends receivable	386,072	1,663,776
Others	<u>12,918,276</u>	<u>5,093,177</u>
	62,948,359	49,966,640
Less: allowance for doubtful debts	<u>(11,860,759)</u>	<u>(10,791,755)</u>
	<u><b>51,087,600</b></u>	<u><b>39,174,885</b></u>

Changes in the allowance for doubtful debts in relation to advances issued and other current assets for the years ended 31 December are represented as follows:

	<u>2017</u>	<u>2016</u>
Allowance for doubtful debts at the beginning of the year	(10,791,755)	(10,141,038)
Foreign currency translation	(13,438)	17,995
Provided for the year	(1,234,808)	(2,259,563)
Written off against a previously created allowance	179,242	1,061,792
Transfer to assets classified as held for sale	<u>-</u>	<u>529,059</u>
<b>Allowance for doubtful debts at the end of the year</b>	<u><b>(11,860,759)</b></u>	<u><b>(10,791,755)</b></u>

### 14. NON-CURRENT ASSETS, ASSETS AND LIABILITIES OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

During 2016, as part of the Government's Comprehensive Privatisation Plan for 2016-2020, Group management approved a list of the Group's subsidiaries, associates and joint ventures to be sold to private investors.

As at 31 December 2017 and 2016, the assets and liabilities of the subsidiaries meeting the held for sale criteria were classified as 'disposal groups classified as held for sale' in the consolidated statement of financial position.

During 2017, the Group, represented by subsidiaries Kaztemirtrans JSC and KTZ-Freight Trans-

portation JSC, sold its shares in the subsidiaries Transport Services Centre JSC and Regional Forward Logistics LLC, Rauan Burabai LLP, Mak-Ekibastuz LLP and Bas Balkhash LLP. After the sale, the Group lost control over these subsidiaries, which did not represent a major line of the business, and recognised its sale results as the 'gain from disposal of subsidiaries not qualifying as discontinued operations'.

## TULPAR-TALGO LLP

On 15 May 2015, the Group entered into an agreement for the sale of a 51% interest in Tulpar-Talgo LLP with Patentės Talgo S.L.U., the sole shareholder of Talgo Kazakhstan S.L., under which the Group received an advance of Euros 23,000 thousand. As at 31 December 2017, the transaction had not been completed, as the management is re-negotiating contract terms with Patentės Talgo.

On 18 May 2017, the Company's Board of Directors took the decision to increase the interest being sold by Remlocomotive JSC in Tulpar-Talgo LLP to its current ownership of 99.99926%. On 2 November 2017, the State Commission for the Modernisation of the Economy of the Republic of Kazakhstan agreed with the Shareholder proposal for the direct target sale of Tulpar-Talgo LLP (with an increase in the interest to be sold). Group management believes the sale of Tulpar-Talgo LLP to be highly probable within the 12 months from the reporting date at an amount not lower than the carrying amount of the net assets of Tulpar-Talgo LLP.

## TRANSTELECOM JSC

As at 31 December 2017, Transtelecom JSC, 51% of whose shares belong to the Group, is classified in the consolidated financial statement as held for sale, because the Group previously launched the process to sell 26% less 1 share and expects to complete the transaction within 12 months following the reporting date.

The first stage of the tender was completed on 30 December 2016. The second stage of the tender was completed on 10 February 2017, where the buyer was identified and sale price was agreed. Management expects the sale to be completed within the 12 months period after the reporting date.

## Investments in joint ventures

In February 2017, the Group, represented by the subsidiary Kaztemirtrans JSC, completed a transaction to sell a 50% share of the joint venture Astyk-Trans JSC to a third party. The sale price amounted to KZT 5,252,130 thousand. The carrying amount of investment as at the disposal date was KZT 3,874,398 thousand.

In April 2017, the Group completed a transaction to sell a 50% share of the joint venture Locomotive Kurastyru Zauyty JSC to a third party. The sale price amounted to KZT 15,716,250 thousand. In April 2017, 90% of the sale price amounting to KZT 14,144,625 thousand was received. The contract stipulates a deferred payment of the outstanding 10%, which will be paid within two years. The Group calculated the net present value of the consideration receivable using a market rate of 15.1% and recognised the difference between the consideration receivable and its present value of KZT 386,704 thousand within the gain from disposal of shares in joint ventures.

As a result of the sale, the Group lost joint control over the joint ventures and recognised the result of the sale as the gain from disposal of shares in joint ventures.

Non-current assets and disposal group assets and liabilities held for sale are represented as follows:

	As at 31 December 2017			As at 31 December 2016				
	Transtelecom JSC	Tulpar-Taligo LLP	Others	Total	Transtelecom JSC	Tulpar-Taligo LLP	Others	Total
<b>Assets</b>								
Property, plant and equipment	67,239,312	-	5,218	67,244,530	62,193,300	-	751,136	62,944,436
Intangible assets	4,131,510	-	-	4,131,510	3,556,450	-	2,044	3,558,494
Other non-current assets	5,864,701	-	-	5,864,701	1,250,748	-	399	1,251,147
Inventories	1,333,086	-	-	1,333,086	680,233	-	85,821	766,054
Trade accounts receivable	3,525,182	-	-	3,525,182	3,543,338	-	885,747	4,429,085
Other current assets	4,127,392	-	21,392	4,148,784	4,859,875	-	1,144,199	6,004,074
Cash and cash equivalents	3,214,664	-	25	3,214,689	13,201,627	-	405,463	13,607,090
Assets of a newly acquired subsidiary	-	28,513,556	-	28,513,556	-	15,451,118	-	15,451,118
<b>Total assets associated with the disposal groups classified as held for sale</b>	<b>89,435,847</b>	<b>28,513,556</b>	<b>26,635</b>	<b>117,976,038</b>	<b>89,285,571</b>	<b>15,451,118</b>	<b>3,274,809</b>	<b>108,011,498</b>
Transfer from investments in joint ventures	-	-	-	-	-	-	-	-
Others (wagon repair depot assets)	-	-	2,890,247	2,890,247	-	-	-	12,614,263
<b>Total non-current assets classified as held for sale</b>	<b>-</b>	<b>-</b>	<b>2,890,247</b>	<b>2,890,247</b>	<b>-</b>	<b>-</b>	<b>12,614,263</b>	<b>12,614,263</b>
<b>Total non-current assets and assets associated with disposal groups classified as held for sale</b>	<b>89,435,847</b>	<b>28,513,556</b>	<b>2,916,882</b>	<b>120,866,285</b>	<b>89,285,571</b>	<b>15,451,118</b>	<b>15,889,072</b>	<b>120,625,761</b>
<b>Liabilities</b>								
Borrowings	47,111,427	-	-	47,111,427	53,560,485	-	-	53,560,485
Finance lease liabilities	2,007,942	-	-	2,007,942	1,839,073	-	136,052	1,975,125
Employee benefit obligations	407,246	-	-	407,246	418,391	-	36,834	455,225
Deferred tax liabilities	3,470,534	-	-	3,470,534	3,072,754	-	289,147	3,361,901
Trade accounts payable	6,385,460	-	113,194	6,498,654	8,561,108	-	767,679	9,328,787
Other taxes payable	155,160	-	-	155,160	450,065	-	232,428	682,493
Other current liabilities	2,785,229	-	1,585	2,786,814	7,898,517	-	247,506	8,146,023
Liabilities of a newly acquired subsidiary	-	24,069,133	-	24,069,133	-	19,306,464	-	19,306,464
<b>Total liabilities directly associated with assets classified as held for sale</b>	<b>62,322,998</b>	<b>24,069,133</b>	<b>114,779</b>	<b>86,506,910</b>	<b>75,800,393</b>	<b>19,306,464</b>	<b>1,709,646</b>	<b>96,816,503</b>
<b>Net assets/(liabilities) associated with disposal groups</b>	<b>27,112,849</b>	<b>4,444,423</b>	<b>-</b>	<b>13,485,178</b>	<b>-</b>	<b>(3,855,346)</b>	<b>-</b>	<b>-</b>

## Discontinued operations

The Group presented the operating results of the subsidiaries Transtelecom JSC and Tulpar-Talgo LLP as discontinued in the consolidated statement of profit or loss and other comprehensive income.

The results of discontinued operations for 2017 and 2016 are as follows:

	2017		
	Transtelecom JSC	Tulpar-Talgo LLP	Total
Revenue	37,723,902	-	37,723,902
Cost of sales	(25,283,455)	-	(25,283,455)
General and administrative expenses	(4,219,497)	(421,734)	(4,641,231)
Asset impairment	(22,407)	-	(22,407)
Other profit and losses	81,886	69,962	151,848
Finance income	257,116	98,776	355,892
Finance costs	(5,988,767)	(148,586)	(6,137,353)
Foreign exchange (loss)/gain	(275,631)	200,424	(75,207)
<b>Profit/(loss) before tax</b>	<b>2,273,147</b>	<b>(201,158)</b>	<b>2,071,989</b>
Income tax expenses	(1,497,537)	(308,574)	(1,806,111)
<b>Profit/(loss) from discontinued operations for the year</b>	<b>775,610</b>	<b>(509,732)</b>	<b>265,878</b>
Basic earnings/(loss) per share (KZT)	2	(1)	1
	2016		
	Transtelecom JSC	Tulpar-Talgo LLP	Total
Revenue	13,758,406	-	13,758,406
Cost of sales	(7,171,889)	-	(7,171,889)
General and administrative expenses	(2,994,630)	(969,935)	(3,964,565)
Other profit and losses	17,989	35,619	53,608
Finance income	817,240	32,084	849,324
Finance costs	(6,035,743)	(150,016)	(6,185,759)
Foreign exchange loss	(91,746)	(1,014,604)	(1,106,350)
<b>Loss before tax</b>	<b>(1,700,373)</b>	<b>(2,066,852)</b>	<b>(3,767,225)</b>
Income tax expenses	(1,140,486)	-	(1,140,486)
<b>Loss from discontinued operations for the year</b>	<b>(2,840,859)</b>	<b>(2,066,852)</b>	<b>(4,907,711)</b>
Basic loss per share (KZT)	(6)	(4)	(10)

Details of cash flows from subsidiaries' discontinued operations are presented as follows:

	2017	2016
Net cash inflows from operating activities	4,620,822	16,856,436
Net cash outflows from investing activities	(6,932,220)	(6,649,162)
Net cash outflows from financing activities	(7,610,490)	(4,485,219)
<b>Net cash inflow</b>	<b>(9,921,888)</b>	<b>5,722,055</b>

## 15. EQUITY

As at 31 December 2017 and 2016, share capital was presented as follows:

	Number of shares authorised	Number of shares issued and paid	Share capital, KZT thousands
As at 1 January 2016	502,040,458	494,698,044	865,393,896
Shares issued	-	1,365,676	128,066,584
As at 31 December 2016	502,040,458	496,063,720	993,460,480
Shares issued	-	93,852	69,174,567
As at 31 December 2017	<b>502,040,458</b>	<b>496,157,572</b>	<b>1,062,635,047</b>

The Company's share capital was established through a series of share issuances in exchange for either cash or property, plant and equipment or shares. The Shareholder is entitled to dividends, a part of the Company's assets in the event of liquidation, and preference in purchasing the Company's shares or other securities convertible into the Company's shares.

### Contributions

#### Shares issue

During 2017, shares issued were as follows:

(a) 66,852 shares for which cash of KZT 66,852,000 thousand was received, and was used to implement the project to build a ferry complex at Kuryk port and operate universal freight and passenger ferries; and

(b) 27,000 shares for which assets (Karabatan railway station (railway tracks junction and auxiliary facilities)) and land use rights for two land plots were received valued at KZT 2,322,567 thousand.

During 2016, shares issued were as follows:

(a) 464,000 shares for which cash of KZT 46,400,000 thousand was received. The capital

was received to finance construction of the Zhezkazgan-Beineu railway lines, construct second Almaty 1- Shu railway lines, construct a ferry complex at the Kuryk port and operate universal freight and passenger ferries;

(b) 741,830 shares for which cash of KZT 74,183,000 thousand was received. The capital was received to finance development of the Astana railway junction, including a railway station complex, and construct the Zhezkazgan-Beineu railway lines;

(c) 73,400 shares for which cash of KZT 7,340,000 thousand was received. The capital was received to implement the "Construction of a ferry complex at the Kuryk port and the operation of universal freight and passenger ferries" project;

(d) 642 shares for which the building in Taraz, valued at KZT 57,780 thousand for Group Scientific and Technical Information and Analysis Centre technical library was received; and

(e) 85,804 shares for which 7 railway station buildings and 4 passenger platforms valued at KZT 85,804 thousand were received.

### Other contributions

Other contributions for the years ended 31 December are represented as follows:

	2017	2016
Fair value adjustment for loans received at below market interest rate	-	3,189,571
Early extinguishment of loans received from the Shareholder	-	9,581,005
	<b>-</b>	<b>12,770,576</b>

During 2016, a fair value adjustment was recognised with respect to loans received at below market interest rate of KZT 3,986,964 thousand less a deferred tax effect of KZT 797,393 thousand.

In December 2016, in accordance with the Ultimate Shareholder decision, the Group settled the loans from the Shareholder of KZT 47,832,538 thousand early by transferring non-core assets, including the Transport Tower administrative-technological complex, the Rehabilitation Centre asset complex, teleradio equipment recognised as an asset held for the benefit of the Shareholder (Note 31), and assets constructed as part of railway line construction projects that have been recognised as assets for sale to the government. The impact of the early extinguishment was treated as equity on the basis that the transaction was with the Ultimate Shareholder and was part of a separate negotiation process, rather than an early repayment as part of existing loan terms.

### Foreign currency translation reserve

The foreign currency translation reserve is used to account for exchange differences arising due to the recalculation of the financial statements of the structural subdivisions of Company subsidiaries, joint ventures and associates whose functional currency is not KZT and whose financial statements are included in the Group's consolidated financial statements.

### Cash flow hedging reserve

The cash flow hedging reserve includes the effect of cash flow hedging to account for any gains or losses at fair value in relation to revenue denominated in foreign currency.

On 7 August 2015, the Group hedged cash flows to reduce the risk of changes in KZT equivalent revenues denominated in Swiss Francs. The principal of Eurobonds issued on 20 June 2014 on the Swiss stock exchange and maturing on 20 June 2019 and 2022 are used as hedging instruments, and which are separately identifiable and reliably

estimated. A highly probable revenue stream forecast relating to transit traffic in Swiss Francs (in particular, first sales received in the period from 1 January to 20 June 2019 and 2022) is the hedged item in this hedging relationship.

To confirm highly probable transactions, the Group used available historical cash flows from transit traffic in Swiss Francs, sufficient infrastructure and an advantageous geographical location for transit traffic. The Group is a monopolist in terms of access to mainline railway networks and dominant in freight transportation.

Hedging effectiveness is assessed at each reporting date using prospective and retrospective tests (offset method), and at the moment the hedging relationship is recognised using a prospective test, and on the hedging closing date using retrospective testing.

Prospective effectiveness testing is carried out by comparing the fair value of a hedging instrument to the fair value of the cash flows of the hedged item.

Retrospective effectiveness testing is carried out by comparing hedging instrument changes against hedged item cash flow fair value changes based on exchange spot rates as at the testing dates on a cumulative basis for the period from the beginning of hedge accounting until the balance sheet date/closing date.

As at 31 December 2017, the effective part of KZT 3,479,319 thousand was recorded in the cash flow hedging reserve through other comprehensive income (2016: KZT 4,417,426 thousand). The ineffective part of KZT 74,631 thousand was recorded in finance costs (2016: KZT 45,526 thousand).

### Dividends

As at 31 December 2017, dividends payable to the Shareholder amounted to KZT 16,424,670 thousand (31 December 2016: KZT 16,424,670 thousand) (Notes 21 and 31).

## Other distributions

In 2012, the Group entered into an irrevocable commitment with the Kazakhstan Government to build the multifunctional Ice Palace and, as a result, recognised a distribution to the Shareholder equal to the estimated construction costs.

During 2017, the Group recognised an additional irrevocable commitment and the distribution of KZT 5,733,368 thousand, which represents VAT liability that arose as a result of the Ice Palace's transfer free of charge to the Astana city administration (2016: reduction of the irrevocable commitment of KZT 823,196 thousand) (Note 31).

During 2017, the Group entered into an irrevocable commitment to finance restoration work on the Kazakhstan Trade and Exhibition Centre in Moscow and recognised a distribution to the Shareholder of KZT 1,387,500 thousand.

During 2017, the Group recognised an impairment adjustment for bonds purchased from Special

Investment Company DSFK LLP for KZT 2,024,322 thousand in other distributions to the Shareholder, net of deferred tax of KZT 88,245 thousand.

## Change in ownership share in subsidiaries without loss of control

In July 2017, the Group, represented by its subsidiary KTZ Express JSC, sold a 49% interest in KTZE-Khorgos Gateway LLP to a third party for KZT 24,063,280 thousand, resulting in the recognition of a non-controlling interest in KTZE-Khorgos Gateway LLP of KZT 16,516,570 thousand. The KZT 7,546,710 thousand difference was recognised in the Group's retained earnings.

In June 2016, the Group sold 49% of its 100% share in Transtelecom JSC to a third party for KZT 9,000,000 thousand, resulting in the recognition of a non-controlling interest in Transtelecom JSC of KZT 11,425,063 thousand. The KZT 2,425,063 thousand difference was recognised in the Group's retained earnings.

## 16. BORROWINGS

As at 31 December, borrowings, including accrued interest, were as follows:

	31 December 2017		31 December 2016	
	Amount	Weighted average effective interest rate (%)	Amount	Weighted average effective interest rate (%)
<i>Fixed interest rate borrowings</i>				
Loans received	277,429,093		382,813,330	
- in KZT	145,120,266	8.99	226,459,250	8.15
- in US\$	65,865,988	3.28	98,270,201	3.44
- in EUR	63,011,636	14.70	53,664,002	14.70
- in other currencies	3,431,203	4.00	4,419,877	3.49
Debt securities issued	839,965,281		715,583,589	
- in KZT	25,511,806	11.00	-	-
- in US\$	629,358,622	6.86	620,530,483	6.74
- in CHF	98,687,259	3.35	95,053,106	3.35
- in other currencies	86,407,594	8.75	-	-
<i>Floating interest rate borrowings</i>				
Loans received	93,779,919		85,525,355	
- in KZT	71,151,072	11.57	822,526	22.34
- in US\$	22,628,847	5.73	84,702,829	5.61
Debt securities issued in KZT	53,545,694		55,757,500	
	53,545,694	10.42	55,757,500	16.92
	<b>1,264,719,987</b>		<b>1,239,679,774</b>	
Current loan portion	93,751,143		141,561,817	
Long-term portion of loans	1,170,968,844		1,098,117,957	
	<b>1,264,719,987</b>		<b>1,239,679,774</b>	

Borrowings, exclusive of debt securities, should be repaid as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
During the year	74,019,631	131,291,780
1-2 years	37,064,147	40,488,001
2-3 years	37,252,064	40,383,364
3-4 years	32,580,074	40,276,838
4-5 years	30,849,236	33,725,480
Over 5 years	159,443,860	182,173,222
	<u><u>371,209,012</u></u>	<u><u>468,338,685</u></u>

### Loans early extinguishment

In August 2017, the Group, represented by its subsidiaries Kaztemirtrans JSC and KTZ-Freight Transportation JSC repaid its loan of KZT 75,000,000 thousand to the Shareholder that was initially due in September 2017.

On 26 October 2017, the Company repaid its long-term loan from Halyk Bank JSC early within the framework of a credit agreement dated 26 April 2016, of US\$ 50,000,000 (KZT 16,647,000 thousand).

The early extinguishment of the debts did not result in additional finance costs.

### Loans received

During 2017, the Group received the following loans:

#### *HSBC France*

During 2017, under the General Framework Agreement with HSBC France, together with HSBC Bank PLC and HSBC Kazakhstan, and with the support of the COFACE export-credit agency, signed on 31 May 2012 to finance the purchase of freight and passenger locomotives for a total of EUR 880,877,000 and its addendums, the Group, represented by its subsidiary KTZ-Freight Transportation JSC borrowed EUR 34,598,954 (KZT 12,349,584 thousand) (including the COFACE premium). Interest is paid semi-annually at EUR CIRR + a 0.75% margin. The principal is repaid semi-annually until fully repaid in 2026. The loan was received under the Company's guarantee.

#### *Halyk Bank JSC*

In May 2017 addendums were signed with Halyk

Bank JSC to the credit facility agreement signed on 26 February 2015. The addendum stipulates the inclusion of subsidiary KTZ-Freight Transportation JSC as a co-borrower, the increase of the credit line to KZT 40,000,000 thousand and a change to the lending purpose to investment and replenishment of working capital. In 2017, the Group borrowed KZT 39,500,000 thousand at interest of 13% to be repaid within one year. In accordance with addendum dated 15 November 2017, repayment period was extended until 2018 and interest rate was changed from 13% to 12%. The Group made a partial early repayment of loans received of KZT 18,500,000 thousand.

#### *EBRD*

In February 2017, the Group, represented by the Company and its subsidiary Kaztemirtrans JSC, within the framework of a loan restructuring agreement with the EBRD dated 22 December 2016 for US\$ 180,913,719, converted US\$ 170,000,000 into KZT. Due to a substantial change in loan terms, the Group recognised the transaction as a derecognition of the original financial liability and recognition of a new financial liability. As a result, the new financial liability as at the conversion date was KZT 54,983,100 thousand and US\$ 10,913,719. Interest is paid semi-annually at 6 months LIBOR + 4.35% per annum for the US\$ tranche and all-in cost<sup>2</sup> + 4.35% for the KZT tranche.

<sup>2</sup> 'all-in-cost' means the total cost to EBRD (expressed as a rate per annum) of raising funds from any source EBRD selects at its sole discretion and includes all fees, interest, charges, duties and expenses incurred in other currencies available to the EBRD for denomination as at the relevant date, or such other rate as determined by the EBRD acting reasonably.

## Debt securities

As at 31 December, debt securities included:

	Maturity date	Exchange markets	31 December 2017	31 December 2016
<b>Bonds issued at a price</b>				
6.95% US\$ Eurobonds (105.521%)	10 July 2042	LSE/KASE	395,123,162	383,857,203
	17 November 2027	ISE/KASE	234,235,460	236,673,280
4.85% US\$ Eurobonds (100.393%)		MOEX	86,407,594	-
8.75% RUR Bonds (100%)	7 June 2022	SIX Swiss		
		Exchange	64,174,429	61,813,397
3.638% CHF Eurobonds (100%)	20 June 2022	KASE	53,545,694	55,757,500
Inflation + 2.52% (10.42%) KZT Bonds	25 April 2026	SIX Swiss		
		Exchange	34,512,830	33,239,709
2.59% CHF Eurobonds (100%)	20 June 2019	KASE	25,511,806	-
11% KZT Bonds (100%)	23 July 2027			
<b>Total debt securities issued</b>			<b>893,510,975</b>	<b>771,341,089</b>
Current portion of debt securities			19,731,512	10,270,037
Long-term portion of debt securities			873,779,463	761,071,052
			<b>893,510,975</b>	<b>771,341,089</b>

On 13 June 2017, the Group, represented by its subsidiary KTZ Finance OJSC, issued five-year bonds on the Moscow Stock Exchange for RUR 15,000,000,000 (KZT 83,100,000 thousand) with a coupon rate of 8.75% per annum to refinance loans. The coupon is payable twice a year.

On 24 October 2017, the Company issued bonds in Kazakhstan Stock Exchange (KASE) for KZT 25,000,000 thousand with a coupon rate of 11% per annum to refinance loans. The coupon is payable twice a year.

On 17 November 2017, the Company issued Eurobonds on the Irish Stock Exchange and KASE for US\$ 780,000,000 with coupon rate of 4.85% per annum and maturity in 2027 to refinance bonds of US\$ 700,000,000 issued in 2014 at 6.375% interest per annum and maturity in 2020. The coupon is payable twice a year. The Eurobonds are guaranteed by the subsidiaries Kaztemirtrans JSC and KTZ-Freight Transportation JSC. The transaction was accounted for as a debt modification for the portion of 84.17%, which represented an exchange of the debt among the existing bondhold-

ers, while the remaining 15.83% is recognised as the extinguishment of the original liability and the recognition of a new liability.

The fair value of loans is presented in Note 32.

## Covenants and breach of loan agreements

Eurobonds contain covenants that place certain limitations on the Group including, but not limited to, business changes and assets disposal, limitations on mergers and consolidations with other legal entities. In the event of default, as defined by the Eurobond indenture, investors are entitled to require repayment of the Eurobonds.

EBRD and HSBC France loan agreements include certain financial covenants, such as Debt to EBITDA, Debt to Equity and Interest Coverage Ratios.

As at 31 December 2017, the Group negotiated with EBRD to reset its financial covenant thresholds as to avoid a breach of obligations to creditors,

and as at 31 December 2017, the Group complied with these reset financial covenants. Likewise, waivers were received agreeing not to apply financial covenants as at 31 December 2017 within the framework of credit agreements with HSBC France.

As at 31 December 2016, the Group negotiated with creditors to change financial covenant

thresholds as to avoid a breach of obligations to creditors. As at 31 December 2016, waivers were received agreeing not to apply financial coefficient as at 31 December 2016 within the framework of credit agreements with HSBC France. As at 31 December 2016, the Group complied with EBRD financial covenants.

### Reconciliation of changes in liabilities and cash flows from financing activity

	<u>Loans and Debt securities issued</u>	<u>Finance lease liabilities (Note 17)</u>	<u>Total</u>
As at 1 January 2017	1,239,679,774	-	1,239,679,774
<b>Changes in connection with cash flows from financing activities</b>			
Repayment of borrowings	(431,847,370)	-	(431,847,310)
Proceeds from borrowings	419,633,321	-	419,633,321
Finance lease payments	-	(127,595)	(127,595)
<b>Total changes in connection with cash flows from financing activities</b>	<u>(12,214,049)</u>	<u>(127,595)</u>	<u>(12,341,644)</u>
<b>Other changes</b>			
Effect of changes in foreign currency exchange rates	2,534,245	-	2,534,245
Cash flows hedge	3,553,950	-	3,553,950
New finance lease agreements	-	14,413,800	14,413,800
Finance costs (Note 26)	80,812,978	194,516	81,007,494
Interest paid	(73,253,355)	(190,069)	(73,443,424)
Amortization of discount (Note 26)	8,498,749	-	8,498,749
Other changes	15,107,695	594,118	15,701,813
<b>Total other changes related to liabilities</b>	<u>37,254,262</u>	<u>15,012,365</u>	<u>52,266,627</u>
<b>As at 31 December 2017</b>	<u><u>1,264,719,987</u></u>	<u><u>14,884,770</u></u>	<u><u>1,279,604,757</u></u>

## 17. FINANCE LEASE LIABILITIES

As at 31 December 2017, the Group's finance lease liabilities included:

	Minimum lease payments	Present value of minimum lease payments
	31 December 2017	31 December 2017
One year	1,222,178	1,134,759
2-5 years inclusive	3,143,181	2,512,113
Over 5 years	15,602,851	11,237,898
<b>Net minimum liabilities</b>	<b>19,968,210</b>	<b>14,884,770</b>
Less: future finance costs	(5,083,440)	-
<b>Present value of minimum lease payments</b>	<b>14,884,770</b>	<b>14,884,770</b>
Less amounts to be repaid within 12 months		(1,134,759)
Amount to be repaid after 12 months		13,750,011

### Passenger cars

In December 2016, the Group, represented by its subsidiary Passenger Transportation JSC, entered into a finance lease agreement with DBK-Leasing JSC to lease 43 passenger cars manufactured by Tulpar-Talgo LLP for KZT 12,938,279 thousand, for 20 years and at interest of 1.75% per annum. The Group acts as the lessee. The effective interest rate is 1.95% per annum. The concession period for the principal is 5 years. The Company acted as the guarantor for Passenger Transportation JSC.

As at 31 December 2017, the Group had received 43 passenger cars of KZT 11,552,036 thousand and recognised them as property, plant and equipment at present value of minimum lease payments with the effect of the paid advances.

### Platform cars

In August 2017, the Group, represented by its subsidiary KTZ Express JSC, entered into a finance lease agreement with DBK-Leasing JSC, a related party, to lease 1,995 platform cars for KZT 33,263,982 thousand, for 15 years and at interest

of 15% per annum, of which 10% is subsidised by the Transport Committee of the Ministry of Investment and Development of the Republic of Kazakhstan ("Transport Committee") under National Budget Programme № 212 Interest Rate Subsidies for Loans and Finance Leases to Purchase Wagons for Passenger Carriers on Socially Significant Routes and Car (Container) Operators. The concession period for principal repayments is five years. The Group acts as the lessee. The effective interest rate is 15.62%. The Company acts as the guarantor for KTZ Express JSC obligations.

During 2017, the Group received 30 platform cars and, in accordance with the contractual supply schedule, the remaining 1,965 platform cars the Group expects to receive by 2019 year-end.

### Low-sided cars

In August 2017, the Group, represented by its subsidiary Kaztemirtrans JSC, entered into a finance lease agreement with DBK-Leasing JSC to lease 1,000 low-sided cars for KZT 15,076,958 thousand, for 15 years and at interest of 15% per

annum, of which 10% is subsidised by the Transport Committee under National Budget Programme № 212 Interest Rate Subsidies for Loans and Finance Leases to Purchase Wagons for Passenger Carriers on Socially Significant Routes and Car (Container) Operators. The concession period for principal repayments is 7 years. The Group acts as lessee. The effective interest rate is 15.095% per annum. The Company acted as guarantor for the Kaztemirtrans JSC liabilities.

During 2017, the Group received 81 low-sided cars and, in accordance with the contractual supply schedule, the remaining 919 low-sided cars Group expects to receive by 2018 year-end.

All lease liabilities are denominated in KZT.

## 18. EMPLOYEE BENEFIT OBLIGATIONS

### *Defined benefits scheme and other non-current employee benefits*

Under Kazakhstan law, pension contributions are the responsibility of employees, and the Group has no current or future obligations to make payments to employees following their retirement, apart from those stipulated in a collective agreement (see below).

Employee benefit obligations and other non-current employee benefits are payable in accordance with the Collective Agreement between the Group and its employees for 2015-2017. Pursuant to this agreement, the Group provides the following benefits under an unfunded scheme:

- ▶ a one-time retirement grant;
- ▶ annual financial support to pensioners;
- ▶ free train passenger tickets;
- ▶ funeral aid to pensioners;
- ▶ worker and pensioner jubilees;
- ▶ financial assistance on denture treatment; and
- ▶ other benefits.

Movement in the present value of obligations for the years ended December 31 are as follows:

	2017	2016
Total liabilities at the beginning of the year	29,130,540	31,683,653
Current service cost	1,033,750	1,255,578
Past service cost	(74,756)	1,490,261
Interest cost	2,795,158	2,384,060
Actuary remeasurement recognised in other comprehensive income	1,558,246	(4,009,740)
Benefits paid during the year	(3,545,910)	(2,465,603)
Actuarial loss/(gain) recognised in profit or loss for the year	341,513	(547,476)
Transfer to disposal groups classified as held for sale	-	(470,624)
Disposal of subsidiaries	-	(189,569)
<b>Total liabilities at the end of the year</b>	<b>31,238,541</b>	<b>29,130,540</b>
<i>Including</i>		
Liabilities due within one year	2,858,329	2,960,557
Liabilities due after one year	28,380,212	26,169,983
	<b>31,238,541</b>	<b>29,130,540</b>

Defined benefit obligations and other long-term employee benefits recognised in profit or loss during 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Cost of sales (Note 23)	3,528,810	3,980,118
General and administrative expenses (Note 24)	566,855	606,129
<b>Recognised in profit or loss for the year</b>	<b><u>4,095,665</u></b>	<b><u>4,586,247</u></b>

The Group's obligations were estimated based on the published statistical data regarding mortality and actual Group data concerning employee and pensioner headcount, age, gender and years of service, and turnover. Other significant actuarial assumptions as at the reporting date for the consolidated statement of financial position are as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	9%	9.6%
Expected annual rise in material aid	4% (average)	4.5% (average)
Expected annual rise in minimum salaries	4.3% (average)	4.5% (average)
Expected annual growth in the cost of railway tickets	6.6% (average)	7% (average)

According to an actuary sensitivity analysis, the maximum increase in the employee benefit obligations is 8.9% caused by an inflation rate increase of 1%.

## 19. INCOME TAX

Income tax expense/(benefit) for the year ended 31 December included:

	<u>2017</u>	<u>2016</u>
Current income tax expense	526,128	1,215,067
Adjustment in respect to current income tax for prior years	(312,494)	118,670
Withholding income tax paid at the source of payment	306,496	-
Deferred income tax expense/(benefit)	5,315,223	(6,096,971)
	<b><u>5,835,353</u></b>	<b><u>(4,763,234)</u></b>

The table below provides a reconciliation of income tax expenses based on accounting profit before tax at the statutory rate against income tax expense reported for the years ended 31 December:

	<u>2017</u>	<u>2016</u>
<b>Profit before tax from continuing operations</b>	18,524,601	41,421,096
Official statutory tax rate	20%	20%
Theoretical tax expense at the official statutory tax rate	3,704,920	8,284,219
Tax effect of non-deductible expenses to calculate tax, and other tax effects:		
Income tax adjustment for prior years	(312,494)	118,670
Non-deductible expenses	811,328	11,366,924
Change in unrecognised deferred tax assets	1,631,599	(24,533,047)
<b>Income tax expense/(benefit) recognised in profit or loss (attributable to continuing operations)</b>	<b><u>5,835,353</u></b>	<b><u>(4,763,234)</u></b>

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

	<u>31 December 2017</u>	<u>31 December 2016</u>
<b>Deferred tax assets:</b>		
Tax losses carried forward	134,504,134	128,598,283
Differences in accounts receivable	3,294,879	3,109,493
Accrued liabilities to employees	2,543,759	2,336,725
Fair value adjustment on loans issued	2,304,704	2,273,781
Others	<u>2,193,553</u>	<u>1,625,773</u>
	144,841,029	137,944,055
Less: deferred tax assets offset against deferred tax liabilities	<u>(138,888,042)</u>	<u>(129,312,036)</u>
<b>Deferred tax assets</b>	<b><u>5,952,987</u></b>	<b><u>8,632,019</u></b>
<b>Deferred tax liabilities:</b>		
Property, plant and equipment and other non-current assets	(320,933,315)	(307,907,254)
Fair value adjustment on loans received	(44,353,314)	(44,890,129)
Prepaid expenses	(258,551)	(856,264)
Others	<u>(317,672)</u>	<u>(15,919)</u>
	(365,862,852)	(353,669,566)
Less: deferred tax liabilities offset against deferred tax assets	<u>138,888,042</u>	<u>129,312,036</u>
<b>Deferred tax liabilities</b>	<b><u>(226,974,810)</u></b>	<b><u>(224,357,530)</u></b>
<b>Net deferred tax liabilities</b>	<b><u>(221,021,823)</u></b>	<b><u>(215,725,511)</u></b>
	<u>2017</u>	<u>2016</u>
Net deferred tax liabilities at the beginning of the year	(215,725,511)	(229,520,855)
Recognised in profit or loss	(5,315,223)	6,096,971
Recognised in a consolidated statement of changes to equity	(88,056)	4,297,609
Transfer to disposal groups liabilities classified as held for sale	-	2,214,906
Transfer from disposal groups (liabilities)/assets classified as held for sale	-	(8,572)
Disposal of subsidiaries	-	314,581
Recognised in investments in associates	<u>106,967</u>	<u>879,849</u>
<b>Net deferred tax liabilities at the end of the year</b>	<b><u>(221,021,823)</u></b>	<b><u>(215,725,511)</u></b>

The Group has not recognised deferred tax assets relating to tax losses carried forward. Management believes it is improbable that there will be sufficient taxable income available in the future against which any such deferred tax assets can be utilised. As at 31 December 2017, the total tax effect of unrecognised tax losses carried forward amounted to KZT 5,437,788 thousand (31 December 2016: KZT 3,806,189 thousand). These tax losses carried forward expire in 10 years from the date they were incurred.

## 20. TRADE ACCOUNTS PAYABLE

	<u>31 December 2017</u>	<u>31 December 2016</u>
Accounts payable for services	50,050,664	38,204,408
Accounts payable for property, plant and equipment	39,096,164	53,630,962
Accounts payable for inventories	23,947,987	32,099,886
Other accounts payable	469,150	518,543
	<u><b>113,563,965</b></u>	<u><b>124,453,799</b></u>

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

	<u>2017</u>	<u>2016</u>
KZT	100,665,033	103,845,042
US\$	7,496,451	16,746,337
Swiss Francs	805,700	444,343
Other currencies	4,596,781	3,418,077
	<u><b>113,563,965</b></u>	<u><b>124,453,799</b></u>

The average turnover period for accounts payable is 59 days (2016: 61 days).

## 21. OTHER LIABILITIES

	<u>31 December 2017</u>	<u>31 December 2016</u>
Advances received	65,096,841	36,531,256
Dividends payable (Note 15)	16,424,670	16,424,670
Salaries payable	15,525,594	14,687,152
Provisions for unused vacation	10,847,731	9,897,257
Deferred income	8,414,165	5,935,882
Obligatory pension contributions and social insurance contributions and obligatory medical insurance contributions	5,314,758	4,440,239
Liabilities under financial guarantee contracts	4,194,045	4,399,245
Other liabilities	17,894,231	4,351,172
	<u><b>143,712,035</b></u>	<u><b>96,666,873</b></u>
Current portion of other liabilities	139,517,990	92,267,628
Long-term portion of other liabilities	4,194,045	4,399,245
	<u><b>143,712,035</b></u>	<u><b>96,666,873</b></u>

As at 31 December 2017 and 2016, other liabilities were mainly denominated in KZT.

As disclosed in Note 29, the Group provided financial guarantees on bank loans obtained by its associates Electrovoz Kurastyru Zauyty LLP and Aktobe Rail and Section Mill Plant LLP. As at 31 December 2016, the Group estimated the fair value of the guarantees and recognised a fair value adjustment in the cost of investments in associates of KZT 4,399,245 thousand less the deferred tax effect of KZT 879,849 thousand (Note 7).

As at 31 December 2017, the amortised cost of financial guarantees was KZT 4,194,045 thousand.

## 22. OTHER REVENUE

	<u>2017</u>	<u>2016</u>
Revenue from the sale of goods and the provision of other services	35,994,309	29,341,540
Fines charged to customers	4,697,963	2,903,295
	<u><b>40,692,272</b></u>	<u><b>32,244,835</b></u>

Revenue from the sale of goods and provision of other services consists primarily of revenue from loading and unloading services, vessel servicing, the sale of inventory and scrap.

Fines charged to customers represent mainly revenue earned on late payment interest related to the late pickup of freight cars and for a breach of contract terms.

## 23. COST OF SALES

	<u>2017</u>	<u>2016</u>
Staff costs, including taxes, social contributions and provisions for unused vacations	240,736,386	230,445,645
Depreciation and amortisation	101,676,564	109,123,181
Fuel and lubricants	89,419,641	72,176,287
Repairs and servicing	88,005,796	75,480,043
Work and services of a production nature	48,407,128	46,699,053
Materials and supplies	45,040,011	46,061,978
Electricity	43,893,237	39,796,578
Taxes	17,338,239	14,182,546
Communication services	4,753,147	3,355,347
Operating lease	4,559,093	1,219,558
Employee benefit expenses (Note 18)	3,528,826	3,980,118
Utilities and building maintenance	3,171,703	2,789,336
Business trip expenses	2,787,123	2,098,496
Insurance	1,589,173	1,309,050
Transportation expenses	1,116,085	1,029,195
Others	25,307,981	9,106,189
	<u><b>721,330,133</b></u>	<u><b>658,852,600</b></u>

## 24. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2017</u>	<u>2016</u>
Staff costs, including taxes, social contributions and provisions for unused vacations	38,937,901	35,849,356
Property tax and other taxes	17,718,165	12,849,299
Depreciation and amortisation	5,186,083	4,889,502
Consulting, audit and legal services	3,744,076	4,836,673
Advertising	1,889,837	768,555
Allowances for doubtful debts	1,821,397	128,211
Business trip expenses	1,431,591	1,379,835
Operating lease expenses	1,403,269	1,185,762
Other third party services	1,260,294	951,464
Expenses for holidays and mass cultural events	850,228	810,630
Utilities and building maintenance	836,488	760,108
Bank services	787,624	1,040,357
Materials	685,820	873,784
Employee benefit expenses (Note 18)	566,839	606,129
Social sphere facilities maintenance	417,107	468,859
Insurance	274,856	238,886
Repairs and maintenance	259,814	194,928
Professional trainings and qualifications	232,894	212,611
Charity and sponsorship	-	1,796
Others	7,900,657	8,397,218
	<u><b>86,204,940</b></u>	<u><b>76,443,963</b></u>

## 25. FINANCE INCOME

	<u>2017</u>	<u>2016</u>
Interest income on cash and cash equivalents	3,349,742	4,119,683
Interest income on loans issued	2,863,588	268,337
Interest income on funds in credit institutions (short-term financial investments)	598,746	1,731,425
Other finance income	975,155	205,753
	<u><b>7,787,231</b></u>	<u><b>6,325,198</b></u>

## 26. FINANCE COSTS

	<u>2017</u>	<u>2016</u>
Interest expenses on borrowings	89,311,727	77,995,432
Other finance costs	8,253,637	7,422,462
	<u><b>97,565,364</b></u>	<u><b>85,417,894</b></u>

## 27. DISPOSAL OF SUBSIDIARIES

During 2017, the Group sold shares in the subsidiaries Transportation Service Centre JSC, Regional Forward Logistics OJSC, Rauan-Burabai LLP, Mak-Ekibastuz LLP and Bas-Balkhash LLP (2016: 100% share in the subsidiary Almaty Wagon Repair Plant JSC for KZT 4,700,000 thousand and other investments). Following the sale, the Group lost control over the subsidiaries.

Gain from disposal of subsidiaries is as follows:

	<u>2017</u>	<u>2016</u>
Considerations received	1,032,752	4,999,401
Net assets disposed of	(899,192)	(2,505,126)
Non-controlling interests	9,444	98
Foreign currency translation reserve	<u>107,775</u>	<u>-</u>
<b>Gain from disposal</b>	<b><u><u>250,779</u></u></b>	<b><u><u>2,494,373</u></u></b>

Net inflow of cash from the disposal of subsidiaries:

	<u>2017</u>	<u>2016</u>
Cash consideration	1,032,752	4,999,401
Less: unpaid balance	-	(3,525,000)
Less: cash and cash equivalents of disposed subsidiaries	<u>(607,701)</u>	<u>(313,449)</u>
<b>Total</b>	<b><u><u>425,051</u></u></b>	<b><u><u>1,160,952</u></u></b>

## 28. EARNINGS PER SHARE

Basic earnings per share are calculated using the weighted average number of common shares issued during the year. Basic and diluted per share data are the same, as there are no dilutive instruments outstanding. During 2017 and 2016, there were no antilutive instruments outstanding.

	<u>2017</u>	<u>2016</u>
Weighted average number of common shares	496,098,049	495,218,425
Profit for the year attributable to the Shareholder (KZT thousands)	<u>11,399,401</u>	<u>40,979,582</u>
<b>Earnings per share (KZT)</b>	<b><u><u>23</u></u></b>	<b><u><u>83</u></u></b>
Profit for the year from continuing operations attributable to the Shareholder (KZT thousands)	<u>11,133,523</u>	<u>45,887,293</u>
<b>Earnings per share from continuing operations (KZT)</b>	<b><u><u>22</u></u></b>	<b><u><u>93</u></u></b>
Net assets not including intangible assets and non-controlling interests (KZT thousands)	1,217,496,817	1,145,408,597
Number of common shares in circulations	<u>496,157,572</u>	<u>496,063,720</u>
<b>Carrying value per share (KZT)<sup>3</sup></b>	<b><u><u>2,454</u></u></b>	<b><u><u>2,309</u></u></b>

<sup>3</sup>The carrying value of shares is calculated in accordance with KASE requirements

## 29. FINANCIAL AND CONTINGENT LIABILITIES

### Capital commitments

As at 31 December 2017, the Group had capital commitments to construct the Zhezkazgan-Beineu and Arkalyk-Shubarkol railway lines, purchase long rails, develop a railway junction in Astana including a railway station, acquire freight and passenger electric locomotives, freight and passenger diesel locomotives and obligations under the Construction of the Kuryk Port Ferry Complex and the Operation of Universal Freight and Passenger Ferries project of KZT 1,119,544,186 thousand (31 December 2016: KZT 1,136,590,240 thousand).

### Other contractual liabilities

The Group, represented by its subsidiary KTZ Express JSC, has contingent liabilities under three agreements to provide freight handling services and freight storage in the future with Continental Logistics LLP, Sberbank of Russia SB JSC and Odyssey Investments Group LLP dated 20 November 2015; Aktau Marine North Terminal LLP, Sberbank of Russia SB JSC and Inter Port Development PTE LTD dated 28 December 2015; and Continental Logistics Shymkent LLP and Odyssey Investments Group LLP dated 15 August 2016 ("the Agreements"). The Agreements stipulate that the Group has to acquire a minimum volume of freight storage services for 10, 13 and 15 years, which is a potentially onerous term. The service period under the Agreement dated 20 November 2015 started from 15 September 2016.

During 2017, under the Agreement dated 20 November 2015, the Group failed to meet the obligations to acquire the minimum storage services from Continental Logistics LLP. However, the Group does not expect that it will incur losses in connection with its failure to meet minimum freight storage services, because it received confirmation from Continental Logistics LLP that it has no intentions to claim in relation to the execution of this agreement.

Based on an assessment, Group management believes that as at 31 December 2017 and 31 December 2016 that there is no high probability of

non-performance of its obligation to acquire minimum freight storage service volumes. Accordingly, the Group had not provided for the contingent liability.

### Contingent liabilities

#### *Legal claims*

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

#### *Contingent liabilities related to the Kazakhstan taxation system*

After a thematic tax audit of the VAT refund for the reporting periods 2011-2015, the subsidiary Suburban Transportation JSC was subject to additional VAT of KZT 1,472,946 thousand and late payment interest of KZT 130,326 thousand because budget subsidies allocated to compensate carrier losses to transport passengers on socially significant routes were not included in taxable turnover.

As at 31 December 2017, the Group had not provided for the above amounts because it believes that the tax authorities' actions contradict tax law and is disputing the charges in court and state bodies.

Due to the uncertainties inherent to the Kazakhstan tax system, the ultimate amount of taxes, fines and late payment interest may exceed the amount expensed as at 31 December 2017. It is not possible to determine the value of any unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome.

#### *Insurance*

The insurance market is still in the early stages of development in Kazakhstan and, in common with

other state-owned enterprises, the Group does not, with the exception of obligatory passenger insurance with regard to personal injury, death and loss or damage to passenger property, maintain any insurance against the risk of damage to any of its properties, assets or equipment (including infrastructure, rolling stock and stations) nor against business interruption or third party liability in respect of property or environmental damage arising from accidents to the Group's property or

relating to the Group's operations. The Group maintains the required insurance coverage under policies purchased from commercial insurance operators in Kazakhstan.

#### Guarantees

As at 31 December 2017, guarantees are as follows:

Lender	Purpose of the guarantee	Guarantee issue date	Guarantee maturity	Guarantee value
Eurasian Development Bank	Execution of the obligations of the joint venture Electrovoz Kurastyru Zauyty LLP to finance construction of a locomotive production plant	17 September 2012	until 2023	KZT 2,370,000 thousand
Development Bank of Kazakhstan	Execution of the obligations of the associate Aktobe Rail and Section Mill Plant LLP to finance the construction of a rail and section mill plant in Aktobe	4 July 2013	until 2033	KZT 24,089,150 thousand

Note 21 discloses the fair value of these guarantees. As at 31 December 2017 and 2016, the Group had no obligations related to the guarantees listed above, which would require recognition of provisions for these guarantees.

In order to avoid non-compliance with respect to obligations to its creditors, the Group received a waiver related to the non-application of financial covenants as at 31 December 2017 under the financial guarantee contract with Development Bank of Kazakhstan JSC.

#### Finance lease

In July 2017, the Group, represented by its subsidiary Passenger Transportation JSC, entered into a finance lease agreement with DBK-Leasing JSC to lease 62 passenger cars made by Tulpar-Talgo LLP

for KZT 18,891,579 thousand, for 20 years and at interest of 1.75% per annum. The concession period for the principal is 6 years. The Group acts as lessee. The finance lease is due to start in December 2018. The Company acted as guarantor for these liabilities.

In addition, as disclosed in Note 17, the Group, represented by its subsidiaries KTZ Express JSC and Kaztemirtrans JSC, entered into finance lease agreements with DBK-Leasing JSC for platform cars and low-sided cars, which are expected to be supplied during 2018-2019.

### 30. SUBSIDIARIES

Information on the composition of the Group as at the end of the reporting period is as follows:

Subsidiary	Nature of activities	Country of residence	Ownership share, %	
			2017	2016
1. Kaztemirtrans JSC	Freight wagon operation	Kazakhstan	100	100
2. Passenger Transportation JSC	Passenger transportation	Kazakhstan	100	100
3. KTZ-Freight Transportation JSC	Freight transportation and locomotive haulage	Kazakhstan	100	100
4. KTZ Express JSC	Multimodal freight services	Kazakhstan	100	100
5. Temirzholsu JSC	Utilities	Kazakhstan	100	100
6. Remlocomotive JSC	Rolling stock production	Kazakhstan	100	100
7. Transtelecom JSC	Communication services	Kazakhstan	51	100
8. Militarised Railway Security JSC	Security services	Kazakhstan	100	100
9. Kamkor Repair Corporation LLP	Production of machinery	Kazakhstan	100	100
10. Vokzal-Service JSC	Railway stations activities	Kazakhstan	100	100
11. M. Tynyshpaev Kazakh Academy of Transport and Communications JSC	Education, training and retraining	Kazakhstan	100	100
12. Aktau International Sea Commercial Port National Company JSC <sup>4</sup>	Sea port services, loading, unloading vessels servicing	Kazakhstan	100	100
13. Port Kuryk LLP	Transfer of cargo and vessels servicing	Kazakhstan	100	100
14. KTZ Finance OJSC	Bond issues to finance the projects and activities of the KTZ NC JSC group of companies	Russia	100	-

During 2016, the subsidiaries KTZ-Freight Transportation JSC and KTZ Express JSC were reorganised through the merger of the subsidiaries Locomotive Service Centre JSC and Kaztrans-service JSC to them, respectively.

During 2016, the Group's 100% share in Almaty Wagon Repair Plant JSC and Magistral kyzmet LLP were sold to a third party (Note 27) along with a 49% share in Transtelecom JSC (Note 14).

<sup>4</sup> In November 2013, the Shareholder transferred a 100% ownership interest in JSC National Company Aktau International Sea Commercial Port to the Group's trustee management. JSC National Company Aktau International Sea Commercial Port is recognised as a Group subsidiary although the Group does not legally hold shares in it.

### 31. RELATED PARTY TRANSACTIONS

For the purpose of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party when making financial or operational decisions. In addition, parties under common control within the Group are considered to be related. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Related parties may enter into transactions that might not be necessarily available to unrelated parties, 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 which the Group entered into significant transactions or had significant balances outstanding as at 31 December that are not outlined elsewhere in these notes are detailed below.

		Shareholder	Associates	Joint ventures in which the Group is a participant	Companies in the Shareholder group	Other related parties
Amounts due from related parties for goods, services and non-current assets	2017	6,772	9,135,188	304,966	1,008,789	
	2016	-	9,580,245	7,397,824	1,656,854	
<i>including allowances for doubtful debts</i>	2017	-	(12,136)	(23,896)	(31,905)	
	2016	-	(16,763)	(191,312)	(33,552)	
Amounts due to related parties for goods, services and non-current assets	2017	-	4,335,511	2,173,343	2,689,154	191,895
	2016	-	1,619,534	4,299,385	3,816,564	-
Current accounts and deposits	2017	-	-	-	-	338
	2016	-	-	-	-	309
Restricted cash	2017	-	-	-	-	-
	2016	-	-	-	-	357,811
Loans issued	2017	-	-	-	-	-
	2016	-	-	99,428	-	-
<i>including loan impairment allowances</i>	2017	-	-	-	-	-
	2016	-	-	(590,075)	-	-
Loans received	2017	105,738,753	-	-	-	37,476,232
	2016	152,960,581	-	-	-	43,813,136
Finance lease liabilities	2017	996,218	-	-	-	13,888,552
	2016	-	-	-	-	136,052
Dividends receivable	2017	-	-	-	-	-
	2016	-	-	1,663,776	-	-
Dividends payable	2017	16,424,670	-	-	-	-
	2016	16,424,670	-	-	-	-

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

		Shareholder	Associates	Joint ventures in which the Group is a participant	Companies in the Shareholder group	Other related parties
Sale of goods, services and non- current assets	2017	2,858,090	1,116,750	24,155,035	15,853,907	-
	2016	-	636,232	39,022,259	16,957,257	-
(Accrued) / recovered allowances for doubtful debts	2017	-	4,627	-	1,648	-
	2016	-	(16,763)	(191,312)	1,420,483	-
Purchase of goods, services and non-current assets	2017	2,820,994	45,970,234	661,753	12,318,660	278
	2016	-	55,815,681	3,782,148	10,068,762	19
Loan issue	2017	-	-	12,512	-	-
	2016	-	-	810,928	-	-
Loan repayment	2017	-	-	-	-	-
	2016	-	-	2,093,503	-	-
Receipt of loans	2017	25,000,000	-	-	-	-
	2016	5,500,000	-	-	-	1,070,299
Repayment of loans received	2017	75,000,000	-	-	-	6,646,986
	2016	48,948,658	-	-	-	7,527,599
New finance lease agreements	2017	894,841	-	-	-	13,518,959
	2016	-	-	-	-	-
Payments of finance lease obligation	2017	51,121	-	-	-	76,474
	2016	-	-	-	-	-
Finance income	2017	-	-	13,949	-	42,706
	2016	-	-	225,229	-	-
Finance costs	2017	5,913,857	-	872	-	2,823,312
	2016	8,761,044	-	58,425	-	3,523,381
Dividends due	2017	-	-	-	-	-
	2016	-	-	3,128,141	-	-
Charter capital contribution	2017	69,174,567	-	-	-	-
	2016	128,066,584	-	-	-	-

As at 31 December 2017 and 2016, certain Group borrowings of KZT 3,285,544 thousand and KZT 4,096,677 thousand, respectively, were guaranteed by the Kazakhstan Government.

As at 31 December 2017, certain borrowings of associates were guaranteed by the Group to meet bank obligations (Notes 21 and 29).

Transactions with Shareholder group companies, associates and joint ventures and other related parties mainly comprise transactions with KazMunaiGas National Company JSC (fuel), Kazakhtelecom JSC (communication services), Kazatomprom National Nuclear Company JSC (electricity), KEGOC JSC (electricity), Kazpost JSC (postal services), Kazakhstan Engineering National Company JSC (engineering production) and Samruk-Energo JSC (electricity). The Group also provides freight transportation services to Shareholder associates and joint ventures.

In addition, during 2017, the Group, represented by its subsidiary Airport Management Group LLP, provided an interest-free, reimbursable financial aid of KZT 27,500,000 thousand (2016: KZT 500,000 thousand), out of which KZT 4,000,000 thousand were repaid during the year, to organisation under trust management, Nursultan Nazarbayev International Airport JSC (previously Astana

International Airport JSC) to finance working capital.

As at 31 December, the Group recognised constructive obligations to build the following facilities for the benefit of the Shareholder:

	Current liabilities				Total	Non-current liability
	Teleradio complex equipment	Mangistau social facilities	Astana kindergarten	Ice Palace		Ice Palace
<b>As at 1 January 2016</b>	28,238,638	247,276	1,702,660	-	30,188,574	48,601,265
Additions	-	-	195,587	-	195,587	-
Decrease	-	-	(30,315)	-	(30,315)	(823,196)
Disposal	(28,238,638)	-	(1,825,478)	-	(30,064,116)	-
Transfers	-	-	-	47,778,069	47,778,069	(47,778,069)
<b>As at 31 December 2016</b>	-	247,276	42,454	47,778,069	48,067,799	-
Additions	-	-	-	5,733,368	5,733,368	-
Disposals	-	-	-	(53,511,437)	(53,511,437)	-
<b>As at 31 December 2017</b>	-	247,276	42,454	-	289,730	-

As at and for the years ended 31 December, the Group incurred the following costs related to the construction of facilities for the benefit of the Shareholder for the above constructive obligations:

	Current assets				Total	Non-current assets
	Teleradio complex equipment	Mangistau social facilities	Astana kindergarten	Ice Palace		Ice Palace
<b>As at 1 January 2016</b>	28,238,638	247,276	1,672,345	-	30,158,259	41,268,374
Additions	-	-	-	-	-	6,509,695
Disposals	(28,238,638)	-	(1,629,891)	-	(29,868,529)	-
Transfers	-	-	-	47,778,069	47,778,069	(47,778,069)
<b>As at 31 December 2016</b>	-	247,276	42,454	47,778,069	48,067,799	-
Disposals	-	-	-	(47,778,069)	(47,778,069)	-
<b>As at 31 December 2017</b>	-	247,276	42,454	-	289,730	-

In May 2017, the Ice Palace, which is accounted for as an asset for the benefit of the Shareholder, in accordance with a decision of the Ultimate Shareholder, was transferred free of charge to the Astana city administration. As a result of the transfer, a VAT of KZT 5,733,368 thousand was recognised as a distribution to the Shareholder in retained earnings (Note 15).

*Compensation of key management personnel of the Group*

Key management personnel comprise members of the Group's Management Board and Board of Directors, totalling 16 persons as at 31 December 2017 (31 December 2016: 14 persons). Total compensation to key management personnel included in personnel costs in the consolidated ▶

statement of profit or loss and other comprehensive income comprised KZT 454,669 thousand for the year ended 31 December 2017 (31 December 2016: KZT 574,755 thousand tenge). Compensation to key management personnel mainly consists of contractual salary costs as stated in labor agreements and bonuses based on operational results.

## 32. FINANCIAL INSTRUMENTS, FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES, AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group's principal financial instruments consist of loans, debt securities issued (bonds), finance lease liabilities, cash and cash equivalents and short-term deposits as well as trade accounts receivable and trade accounts payable. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and credit risk. The Group further monitors the market risk and liquidity risk arising from all financial instruments.

### *Capital risk management*

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to the Shareholder by optimising debt and equity balance. The Group's overall strategy remains unchanged from 2016.

The Group's equity structure includes net debt (loans, debt securities and finance lease liabilities less cash and cash equivalents) and Group equity (which comprises share capital, foreign currency

translation and cash flow hedge reserves, retained earnings and non-controlling interests).

### *Financial risk management objectives*

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

### *Interest rate risk*

The interest rate risk to the Group is the risk of changes in market interest rates reducing the overall return on the Group's investments and/or increasing cash outflow on its loans and debt securities. The Group limits its interest rate risk by monitoring changes in interest rates in the currencies in which its financial instruments are held, and by maintaining a balance between its loans with fixed and variable interest rates.

The Group's exposure to the interest rate risk mainly relates to its borrowings with variable interest rates.

The following table shows the sensitivity of the Group's profit before tax and equity to possible changes in interest rates on borrowings (through the effect on interest for variable interest rate borrowing) with all other variables remaining constant.

	31 December 2017		31 December 2016	
	Increase / (decrease) in interest rates in basis points	Effect on profit before tax / equity	Increase / (decrease) in interest rates in basis points	Effect on profit before tax / equity
US\$	70/(8)	(154,270)/17,631	60/(8)	(499,987)/66,665
KZT	70/(8)	(843,355)/96,383	60/(8)	(303,857)/40,514

### Currency risk

The Group undertakes transactions denominated in foreign currencies; consequently, exposing itself exchange rate fluctuations.

A significant portion of the Group's short-term and long-term foreign currency debt is denominated in US\$. A change in the KZT value against the US\$, or any other foreign currency in which debt is denominated will result in a foreign exchange gain or loss.

The Group maintains a portion of its cash and cash equivalents and other financial assets in US\$ in order to partially offset any foreign currency gain or loss on borrowings.

The following table reflects the sensitivity of the Group's profit before tax and equity to potential changes in the US\$, Euro, Russian Rouble and other exchange rates, provided all other parameters remaining constant.

	31 December 2017			31 December 2016		
	Exchange rate increase / (decrease)	Effect on profit before tax	Effect on equity	Exchange rate increase / (decrease)	Effect on profit before tax	Effect on equity
US\$	10%/ (10%)	(69,162,051)/ 69,162,051	-	13%/ (13%)	(102,659,544)/ 102,659,544	-
Euros	13.5%/ (9.5%)	(8,522,080)/ 5,997,020	-	15%/ (15%)	(8,309,478)/ 8,309,478	-
Russian Roubles	16%/ (16%)	(13,531,143)/ 13,531,143	-	23%/ (19%)	(124,392)/ 102,759	-
Swiss Francs	11.5%/ (11.5%)	168,942)/ 168,942	(11,349,035)/ 11,349,035	15%/ (15%)	24,266)/ (24,266)	(14,257,966)/ 14,257,966
Other currencies	11.5%/ (11.5%)	(224,267)/ 224,267	-	15%/ (15%)	(653,534)/ 653,534	-

On 7 August 2015, the Group began cash flow hedging to decrease the risk of a change in the KZT equivalent of revenue denominated in Swiss francs. Eurobonds issued on 20 June 2014 on the Swiss Stock Exchange are used as hedging instruments. The hedged item is revenue from transit traffic in Swiss Francs. As a result of hedging, in 2017 an effect of KZT 3,479,319 thousand was recognised in other comprehensive income (2016: KZT 4,417,426 thousand).

### Credit risk

Credit risk arising from a party's inability to meet the terms of the Group's financial instrument contracts is generally limited to the amounts, if any, by which the counterparty's obligations exceed the Group's obligations to that party. It is the Group's policy to enter into financial instruments with a range of creditworthy parties. The maximum exposure to credit risk is represented by the carrying value of each financial asset.

Credit risk concentrations may arise from exposure to a single debtor or to groups of debtors having similar characteristics such that their ability to meet

their obligations is expected to be affected similarly by changes in economic or other conditions.

The Group has procedures in place to ensure that sales are only made to customers with the appropriate credit history and that an acceptable credit exposure limit is not exceeded. Credit risk is minimised by the fact that the Group operates on a prepayment basis with the majority of its customers.

The Group does not guarantee the obligations of other parties, other than those disclosed in Note 29.

### Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Group manages market risk through periodic estimates of potential losses that could arise from adverse changes in market conditions.

### Liquidity risk

The Group manages short-term, mid-term and long-term financing liquidity risk in accordance with Shareholder requirements. The Group manages liquidity risk by maintaining adequate reserves, bank loans and accessible credit lines by constant monitoring projected and actual cash flows and comparing the maturity of financial assets and liabilities.

As at 31 December 2017, the Group has also credit lines available in Halyk Bank JSC and Citibank of Kazakhstan for a total of KZT 49,969,900 thousand.

The Group controls and monitors compliance with the covenants set by the Shareholder and credit/guarantee agreements on a regular basis.

As at 31 December 2017, the Group negotiated with EBRD to reset financial covenants thresholds as to avoid a breach of obligations to creditors. Likewise, waivers were received agreeing not to

apply financial covenants as at 31 December 2017 within the framework of credit agreements with HSBC France and Development Bank of Kazakhstan JSC.

To refinance long-term borrowings received by the subsidiaries Kaztemirtrans JSC and KTZ-Freight Transportation JSC from the Shareholder for KZT 75,000,000 thousand, the Group issued debt securities in Russia of RUR 15 billion.

To refinance certain loans, the Group issued and placed bonds in Kazakhstan for KZT 25,000,000 thousand.

The following tables reflect the contractual terms of the Group's financial liabilities. The table was prepared based on the undiscounted cash flows on financial liabilities based on the earliest date at which the Company can be required to pay. The table includes both interest and principal cash flows.

	Up to 1 month	1-3 months	3 months – 1 year	1-5 years	Over 5 years	Total
<b>2017</b>						
<b><u>Non-interest bearing:</u></b>						
Accounts payable	70,133,933	1,082,851	42,347,181	-	-	113,563,965
Other current liabilities	-	-	8,734,941	-	-	8,734,941
<b><u>Interest bearing:</u></b>						
Borrowings	20,154,364	10,205,376	114,331,234	628,068,550	1,704,444,008	2,477,203,532
Finance lease	694,836	527,195	3,628,608	29,132,709	74,556,577	108,539,925
Financial guarantees	1,829,137	2,967,968	9,347,533	27,214,045	-	41,358,682
	<b>92,812,270</b>	<b>14,783,390</b>	<b>178,389,497</b>	<b>684,415,304</b>	<b>1,779,000,585</b>	<b>2,749,401,045</b>
<b>2016</b>						
<b><u>Non-interest bearing:</u></b>						
Accounts payable	109,480,452	12,922,007	2,051,340	-	-	124,453,799
Other current liabilities	-	-	4,351,172	-	-	4,351,172
<b><u>Interest bearing:</u></b>						
Borrowings	14,822,109	11,378,646	166,484,226	695,639,570	1,474,260,485	2,362,585,036
Finance lease	506,501	8,091,690	26,978,086	28,728,978	27,591,296	91,896,551
Financial guarantees	1,688,336	1,735,191	7,414,780	30,845,534	-	41,683,841
	<b>126,497,398</b>	<b>34,127,534</b>	<b>207,279,604</b>	<b>755,214,082</b>	<b>1,501,851,781</b>	<b>2,624,970,399</b>

The following table reflects the expected maturity of the Group's financial assets. It was prepared based on undiscounted contractual cash flows for

financial assets, including interest received on these assets, except when the Company expects the cash flow in a different period.

	Up to 1 month	1-3 months	3 months – 1 year	Over 1 year	Unspecified maturity <sup>5</sup>	Total
<b>2017</b>						
<i><u>Interest bearing:</u></i>						
Short-term contributions	13,250,837	402,619	621,695	-	-	14,275,151
Interest on short-term deposits	8,239	3,932	39,696	-	-	51,867
Other financial assets	-	50,000	13,495,858	2,326,310	-	15,872,168
Interest on other financial assets	-	654	286,923	462,075	-	749,652
Cash and cash equivalents	13,881,156	-	-	-	-	13,881,156
<i><u>Non-interest bearing:</u></i>						
Cash and cash equivalents	35,332,927	-	-	-	-	35,332,927
Restricted cash	-	-	517,943	-	-	517,943
Trade accounts receivable	21,423,223	588,443	84,091	42,321	8,404,483	30,542,561
	<b>83,896,382</b>	<b>1,045,648</b>	<b>15,046,206</b>	<b>2,830,706</b>	<b>8,404,483</b>	<b>111,223,425</b>
<b>2016</b>						
<i><u>Interest bearing:</u></i>						
Short-term deposits	25,494,025	809,023	-	-	-	26,303,048
Interest on short-term deposits	30,918	-	35,385	-	-	66,303
Other financial assets	-	3,287,073	11,901,019	2,333,030	-	17,521,122
Interest on other financial assets	-	36,907	325,437	549,700	-	912,044
Cash and cash equivalents	9,981,319	-	-	-	-	9,981,319
<i><u>Non-interest bearing:</u></i>						
Cash and cash equivalents	12,693,806	-	-	-	-	12,693,806
Restricted cash	-	-	1,782,029	-	-	1,782,029
Trade accounts receivable	3,976,777	28,965	11,257,448	270,544	8,094,689	23,628,423
	<b>52,176,845</b>	<b>4,161,968</b>	<b>25,301,318</b>	<b>3,153,274</b>	<b>8,094,689</b>	<b>92,888,094</b>

<sup>5</sup> Due to the uncertainty in the recoverability of doubtful debts, the Group included the presented trade accounts receivable in the 'Indefinite settlement' item

*Fair value of financial instruments*

Fair value is defined as the amount at which an instrument could be exchanged in a current transaction between knowledgeable willing parties according to arm's length conditions, other than in a forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgement is needed to arrive at a fair value, based on current economic conditions and the specific risks attributable to the instrument.

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

*Cash and cash equivalents*

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

*Financial assets and liabilities*

For assets and liabilities maturing within 12 months, the carrying value approximates fair value due to the relatively short-term maturity of these financial instruments.

For financial assets and liabilities maturing in over 12 months, the fair value represents the present

value of estimated future cash flows discounted at year-end market rates.

*Borrowings*

The fair value for bank loans was estimated by discounting the scheduled future cash flows of individual loans through estimated maturity using prevailing market rates as at the respective year-end for debt with a similar maturity and credit-rating profile. The Group's bank loans are mostly provided by international development institutions and foreign banks. Although interest rates on these borrowings are lower than interest rates of private commercial credit institutions in Kazakhstan, they are treated as the market interest rate for this lender category. The fair value of debt securities issued (Eurobonds) has been determined based on market prices at the reporting date.

*Fair value of financial assets and financial liabilities regularly not measured at fair value*

As at 31 December 2017 and 2016, the fair value of financial assets and financial liabilities, except for borrowings and debt securities was not significantly different from cost. The carrying value and fair value of borrowings and debt securities (Eurobonds) as at 31 December is presented as follows:

	31 December 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans issued	23,542,753	23,542,753	969,745	969,745
Other financial assets	15,912,921	15,912,921	17,549,976	17,549,976
Loans	371,209,012	340,652,387	468,338,685	451,931,634
Debt securities issued	893,510,975	983,468,431	771,341,089	790,399,781
Financial guarantees	4,194,045	4,194,045	4,399,245	4,399,245
Financial lease	14,884,770	14,884,770	-	-

*Fairvalue hierarchy*

The Group estimates fair value using the following fair value estimate hierarchy, taking into account the materiality of data used to generate the given estimates:

- ▶ **Level 1:** quotes on an active market (uncorrected) in relation to identified financial instruments
- ▶ **Level 2:** data differing from quotes attributable to level 1, and available directly (i.e. quotes) or indirectly (i.e. data generated from quotes). This category includes instruments estimated using market quotes on active markets for

similar instruments, market quotes for similar instruments on market not treated as active, or other estimation methods, all of whose data used is directly or indirectly based on observable primary data

- ▶ **Level 3:** data that is not available. This category includes instruments estimated using information not based on observable primary data. Moreover, any such unobservable data has a significant impact on an instrument's estimation. This category includes instruments estimated based on quotes for similar instruments that require the use of material unobservable quotes or judgements to reflect the different between instruments

The table below provides an analysis of financial instruments recognised at fair value as at 31 December 2017, broken down into the fair value hierarchy levels.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<i>Financial assets</i>				
Loans issued	-	23,542,753	-	23,542,753
Other financial assets	-	15,912,921	-	15,912,921
<b>Total</b>	<b>-</b>	<b>39,455,674</b>	<b>-</b>	<b>39,455,674</b>
<i>Financial liabilities</i>				
Financial liabilities carried at amortised cost:				
- debt securities issued	983,468,431	-	-	983,468,431
- bank loans	-	254,446,221	5,979,219	260,425,440
- loans from related parties	-	80,226,947	-	80,226,947
- finance lease	-	14,884,770	-	14,884,770
- financial guarantees	-	4,194,045	-	4,194,045
<b>Total</b>	<b>983,468,431</b>	<b>353,751,983</b>	<b>5,979,219</b>	<b>1,343,199,633</b>

The table below provides an analysis of financial instruments carried at fair value as at 31 December 2016, broken down into the fair value hierarchy levels.

	Level 1	Level 2	Level 3	Total
<i>Financial assets</i>				
Loans issued	-	969,745	-	969,745
Other financial assets	-	17,549,976	-	17,549,976
<b>Total</b>	<b>-</b>	<b>18,519,721</b>	<b>-</b>	<b>18,519,721</b>
<i>Financial liabilities</i>				
Financial liabilities carried at amortised cost:				
- debt securities issued	790,399,781	-	-	790,399,781
- bank loans	-	277,311,629	7,705,421	285,017,050
- loans from related parties	-	166,914,584	-	166,914,584
- financial guarantees	-	4,399,245	-	4,399,245
<b>Total</b>	<b>790,399,781</b>	<b>448,625,458</b>	<b>7,705,421</b>	<b>1,246,730,660</b>

The fair values of the financial assets and financial liabilities in levels 2 and 3 have been determined using generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the counterparty credit risk.

For trade accounts receivable and payable, fair value approximates their carrying value and relates to level 3 of the hierarchy.

During 2017 and 2016, there were no transfers between the hierarchy levels.

### 33. EVENTS AFTER THE REPORTING DATE

#### *Loans issued*

In February-March 2018, the financial aid given to Nursultan Nazarbayev International Airport JSC (former Astana International Airport JSC) was partially repaid of KZT 3,000,000 thousand.

#### *Borrowings*

In February 2018, credit committee of Halyk Bank JSC approved the change of interest rate from 13% to 12% per annum for the loans obtained by the Group, represented by KTZ-Freight Transportation JSC, under the credit line agreement dated 12 December 2016. As of date of approval of these financial statements, the addendum is being signed by the parties.

On 12 March 2018, under the EBRD loan agreement dated 19 December 2013, the Company received a loan of US\$ 1,773,474 at interest rate of 6mLIBOR+3% and due in 2023.

In March 2018, the Group, represented by its subsidiary KTZ-Freight Transportation JSC, received short-term loans of KZT 13,000,000 thousand at interest rate of 12% under Halyk Bank credit line agreement dated 26 February 2015.

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