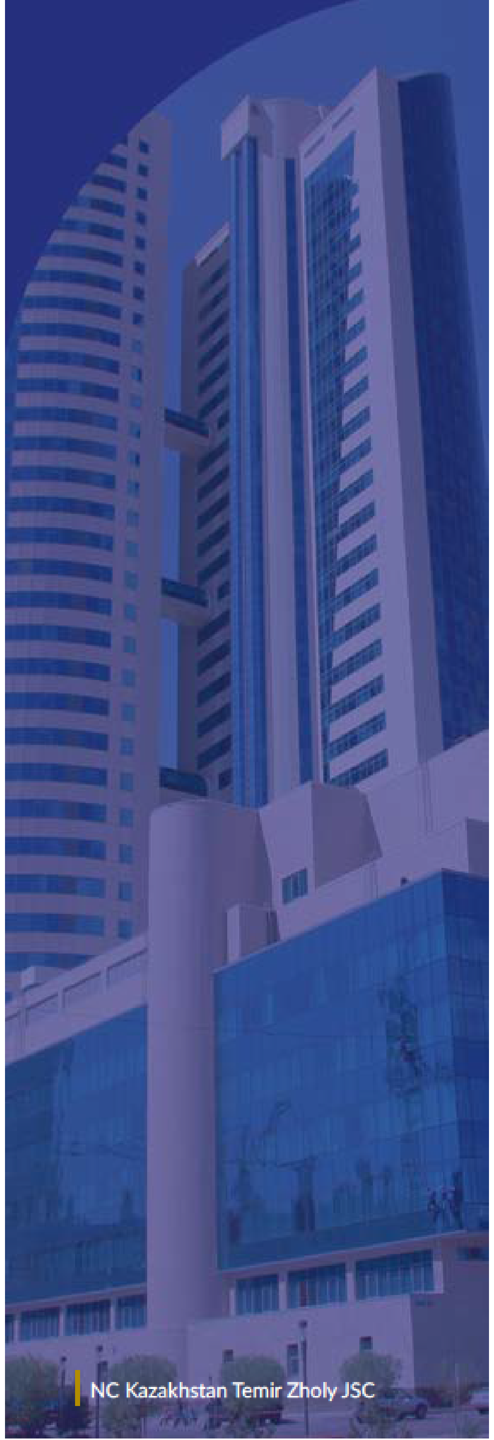
Contents

2019 ANNUAL REPORT

KAZAKHSTAN RAILWAYS



Contents

Contents

Company in numbers

GRI 102-1, 102-2, 102-7

KEY INDICATORS FOR 2019

Operating Performance

	2017	2018	2019
Cargo Traffic, billion t-km	206	220	224
Cargo Transported, thousand tons	272,1	282,9	283,9
Transit in Containers, thous. TEU	347,5	537,4	664,6
Passenger Traffic, billion p-km	15,1	14,9	14
Passengers Despatched, thousand passengers	18 354	17 719	16 546

Financial Indicators

	2017	2018	2019
Income from Main Activities, billion tenge	913,1	1044,2	1139,1
Operating Profit, billion tenge	105,1	128	170,1
EBITDA, billion tenge	212	249,1	313,9

Personnel and Social Sphere

	2017	2018	2019
Staffing Number, people	137 021	135 952	127 860
Expenditures on Social and Economic Development, million tenge	9 183	10 328	10 799
Number of Training Hours per 1 Employee	18,2	19,49	36,9

Labour Protection

	2018	2019
Lost Time Injury Frequency Rate (LTIFR), the rate of frequency of registered accidents with loss of working time	0,22	0,23

Traffic Safety

	2017	2018	2019
Number of Traffic Violations	248	179	173

Ecology

	2017	2018	2019
Environmental Costs, million tenge	663	678,5	701,6
Amount of waste, thousand tons	92,4	89,1	81,7

Energy consumption

	2017	2018	2019
Energy Consumption, thousand tce	1 238,04	1 292,85	1 260,3
Fuel and Energy Saving, million tenge	33 156	37 023	39 181

Procurement

	2017	2018	2019
Purchases made, million tenge	861 633	516 143	614 345
Local Content, %	84	79	79

Contents

Main events of 2019

JANUARY

On January 23, projected traffic volumes for 2019 have been approved during the meeting of the delegations of NC KTZ JSC and Urumchi Railway LLC in Urumchi (People's Republic of China).

On January 28, Chairman of the Management Board of NC KTZ JSC Sauat Mynbayev met with the heads of railways - participants of the United Transport and Logistics Company - Eurasian Railway Alliance (OTLC ERA) - in Moscow (Russian Federation).

FEBRUARY

On February 15, Chairman of the Management Board of NC KTZ JSC Sauat Mynbayev conducted negotiations with Ambassador Extraordinary and Plenipotentiary of Afghanistan to Kazakhstan Mohammad Farhad Azimi.

On February 26, Deputy Chairman of the Management Board of NC KTZ JSC Pavel Sokolov met with President of Lianyungang Port Zhu Xianyang and Head of the Transport Department of Jiangsu Province Ding Junhua.

Since February 1, Kaztemirtrans JSC performs the services of the car operator.

MARCH

On March 13, NC KTZ JSC and Nazarbayev University (Nur-Sultan, Republic of Kazakhstan) signed a Memorandum of Cooperation.

On March 29, the Ministry of Industry and Infrastructure Development of the Republic of Kazakhstan, NC KTZ JSC, and the Agency of the Republic of Kazakhstan for Civil Service Affairs and Anti-Corruption signed a Roadmap to eliminate domestic corruption in the field of railway transport.

APRIL

On April 4, representatives of the railway administrations of Kazakhstan, China, Iran, Turkmenistan, and Uzbekistan met in Almaty (Republic of Kazakhstan) to discuss further development of cargo transportation along the common international transport corridor.

On April 16, the first Kazakh feeder ship «Turkestan» with containers was forwarded from the Port of Aktau (Republic of Kazakhstan) to the Port of Baku (Republic of Azerbaijan).

MAY

On May 14-15, the delegation of NC KTZ JSC headed by First Deputy Chairman of the Management Board of the Company Kanat Almagambetov took part in the 70th Meeting of the Council for Railway Transport of the Commonwealth Member States in Helsinki (Finland).

On May 15, Chairman of the Management Board of NC KTZ JSC Sauat Mynbayev and Chairman of the Management Board of China Cosco Shipping Corporation Limited Xiu Lirong met within the framework of the XII Astana Economic Forum in Nur-Sultan (Republic of Kazakhstan).

On May 23, the delegation of NC KTZ JSC took part in the 27th Meeting of the Asia-Pacific Regional Assembly of the International Union of Railways (APRA UIC) in Manila (Philippines).

JUNE

On June 4, NC KTZ JSC, Russian Railways JSC, and Belarusian Railways signed a Joint-stock Agreement (corporate agreement) in respect of the United Transport and Logistics Company - Eurasian Railway Alliance (UTLC ERA) in Moscow (Russian Federation).

JULY

On July 1, the Mobius electronic ticket sale information program excluding speculative manipulations was introduced.

On July 30, NC KTZ JSC and Alstom signed a Memorandum of Cooperation in the development of digital technologies for railway signaling, centralization, and blocking.

AUGUST

On August 3, Kazakhstan's ore was sent to China for the first time via the Altynkol – Khorgos railway crossing.

On August 20, fifteen-year bonds of the first issue (KZ2C00005866) in the amount of 40 billion tenge were placed within the second bond program.

Contents

SEPTEMBER

On September 6, the new Development Strategy of NC KTZ JSC until 2029 was approved.

On September 19, the Second Meeting of Heads of Railway Administration Heads of the Member States of the Shanghai Cooperation Organization took place in Nur-Sultan.

On September 19-20, Nur-Sultan hosted the XXVIII plenary session of the Coordinating Council for Trans-Siberian Transport (CCTT) International Association.

On September 28, a mass marathon organized by NC KTZ JSC was held, «First Marathon: for the GOOD of change! Take Part in the First One!»

On September 30, Development of Corporate Culture document, which defines the company's values and principles, as well as a Communication Plan for the implementation of corporate culture, was adopted.

OCTOBER

On October 21, a new container service was launched between Xi'an (China) and Prague (Czech Republic) on the route of the Trans-Caspian International Transport Route (TITR) through Kazakhstan.

On October 28-30, NC KTZ JSC, Russian Railways JSC, Belarusian Railways, South Caucasus Railway CJSC, and NC Kyrgyz Temir Zholu SE signed a Memorandum of Cooperation in the field of technical policy in railway transport in Sochi (Russian Federation),.

On October 29, the delegation of NC KTZ JSC took part in the 28th Meeting of the Asia-Pacific Regional Assembly of the International Union of Railways (APRA UIC) in Tokyo (Japan).

NOVEMBER

On November 6, a delegation of NC KTZ JSC headed by Chairman of the Company's Management Board Sauat Mynbayev participated in the reception ceremony of the Xian - Ankara - Prague train in Ankara (Republic of Turkey).

On November 11, NC KTZ JSC, Transmashholding CJSC (Russian Federation), and LocoEech-Signal LLC (Russian Federation) signed a Roadmap on Joint Projects aimed at innovative and technological development and traffic safety.

On November 13, in Istanbul (Republic of Turkey), KTZ Express JSC and Pasifik Eurasia Lojistik Dış Ticaret A. Ş signed a Memorandum of Cooperation aimed at developing transportation along the «Southern Corridor» through the territory of Kazakhstan.

DECEMBER

On December 6, in Berlin (Federal Republic of Germany), NC KTZ JSC and Deutsche Bahn AG signed a Memorandum of Cooperation in the field of railway transportation.

On December 25, the second feeder vessel «Beket Ata» with a capacity of 224 TEU was launched from the port of Aktau (Republic of Kazakhstan) on the route Aktau-Baku (Republic of Azerbaijan) -Aktau.

On December 27, the Head of State signed the Law of the Republic of Kazakhstan «On Amendments and Additions to Some Legislative Acts of the Republic of Kazakhstan on Railway Transport» developed by NC KTZ JSC and the Law of the Republic of Kazakhstan «On Amendments and Additions to Some Legislative Acts of the Republic of Kazakhstan on Improvement of Rehabilitation and Bankruptcy Procedures, Budget and Tax Legislation and Legislation on Railway Transport», which has been adopted taking into account proposals of NC KTZ JSC.

Contents

CHRISTIAN KUHN

Chairman of the Board of Directors of NC KTZ JSC

Chairman of the Board of Directors address

GRI 102-14

Dear shareholder, partners, investors, and readers of the annual report!

2019 has been a year of transition for the National Company Kazakhstan Temir Zholy Joint-Stock Company (NC KTZ JSC).

Measured against 2018, NC KTZ JSC's freight traffic has grown by 1,8%, mostly driven by a further increase in import and transit. In passenger traffic, NC KTZ JSC did not reach the planned volumes of traffic, mainly due the lack of wagons in peak periods caused by delayed deliveries of new and repairs of existing equipment. With only moderate growth of traffic volumes, NC KTZ JSC managed to increase its revenues by 9% and its gross profit by 18%.

In 2019 the various efforts made have led to first improvements of asset and labor productivity as well as energy efficiency. Work on operational efficiency will continue in 2020 and further as a basis for sustainable profits from our operating activities.

Despite the improved operational performance, NC KTZ JSC completed 2019 with a loss of 70 billion Tenge. This loss is mainly associated with losses on foreign currency debt, the restructuring of our debt portfolio through the partial buy-back of Eurobonds, and provisions for early retirement of employees and some non-core activities.

In September 2019, NC KTZ JSC has approved its new Development Strategy until 2029. Strategic priorities in the medium term are the strengthening of NC KTZ JSC's core business in rail transportation and infrastructure, supporting logistics activities, the improvement of tariff regulation for freight and passenger transportation and the divestment from non-core activities. Further sustained growth in rail traffic, namely in transit, and increased operational efficiency will ensure financial stability.

To improve the quality and performance of our passenger service, NC KTZ JSC has started to cooperate with Deutsche Bahn AG in the management of its passenger company. In 2020 we expect to see first results of this cooperation with better cleaning, improved facilities and the preparation for a new generation of passenger wagons.

While NC KTZ JSC has started to discontinue certain non-rail related activities, in November 2019 NC KTZ JSC was able to negotiate the gaining of full control of its subsidiary Kedentransservice by acquiring the 50% of shares held by PJSC Transcontainer. The closing of transaction was completed in May 2020.

Safety of the railway and of our employees remain our top priority. Compared with other CIS railways, NC KTZ JSC already has one of the best safety levels, and NC KTZ JSC is now striving to catch up to worldwide best practice. In 2019 NC KTZ JSC has introduced a new approach on labor safety and has launched a company-wide campaign to further raise standards and awareness for safety. Our goal is zero injuries.

NC KTZ JSC continues to be the largest employer in Kazakhstan and pays high attention to the social situation of its employees which we continuously monitor through a social stability index. Parallel to implementing measures for operational efficiency, NC KTZ JSC has started to develop instruments for relocation and retraining of personnel as well as an early retirement program.

Good corporate governance and sustainable development are key components of NC KTZ JSC's Strategy. Their implementation continues throughout the company, and also in 2019 NC KTZ JSC has introduced numerous improvements in this sphere.

NC KTZ JSC for the first time publishes a report in the format of an integrated report. Further implementing the principles of sustainable development, the Company is aiming to provide stakeholders with a broader overview of performance including financial and non-financial information. You can find the detailed financial results for 2019 and our activities for sustainable development in this Integrated Annual Report which I recommend for your reading.

I would like to thank our customers and employees, the sole shareholder and our other stakeholders for their cooperation and support in 2019, and I am looking forward to continue our way together in 2020.

Sincerely yours,
Chairman of the Board of Directors
of NC KTZ JSC
C. Kuhn

Contents

SAUAT MUKHAMETBAYEVICH MYNBAYEV

Chairman of the Board of NC KTZ JSC

Address by the Chairman of the Management Board

GRI 102-14

Dear readers of the Annual report, colleagues, and partners!

The past 2019 is the first full year of work of the Company's Management Board with a completely new membership. As the Chairman of the Management Board, I would like to thank the employees of the Company for their professional work and a contribution to the development of the Company.

I want to highlight that by the results of the year we achieved a positive dynamics in the indicators of the production program compared to 2018:

- *freight traffic increased by 1,84% mainly due to transit, the growth of which amounted to 3,7%. At the same time revenues from transit increased by 22%, expanding the share of transit income in total revenues from 25.6% to 28%;*
- *container transit exceeded the fact of the 2018 by 24 %. The growth in the context of routes amounted to:*
  - *China – Europe – China - by 12 %;*
  - *China – Central Asia – China - by 56%;*
  - *Trans-Caspian International Transport Route - by 89%;*
  - *China – Iran - by 443%.*

In 2019 compared with the previous year, the Company has improved the financial results by 16 billion tenge, although it still remains negative. It is important to highlight that generated loss is not associated with performance indicators of the reported year. Thus, operating profit for 2019 amounted to 170 billion tenge, exceeding the fact of 2018 by 33%. The negative financial result of the Company is connected with financial and accounting operations - this is due to the difference in the value of bonds refinancing from foreign currency debt to tenge, as well as the creation of reserves for loss-making assets, recorded in 2019.

In 2019, we began work on the financial rehabilitation of the Company - the share of debt in hard currency decreased for 20% from 57% to 36.7%. The measures taken will reduce the impact of currency fluctuations on the financial results of the Company in the long term prospective.

Last year, the Company launched a consistent reform of the tariff regulation system. The key objective of transformations in the regulatory environment and tariff methodology will be the alignment of the conditions for the provision of services by carriers, including private carriers, to create equal, fair and non-discriminatory conditions for doing business. You can find more details on the issue in the chapter «Regulatory environment».

A significant event of the past year is a change in the business model of our subsidiary Kaztemirtrans JSC - freight wagons were removed from the lease and transferred to independent operational management at Kaztemirtrans JSC. According to the results of 2019 Kaztemirtrans JSC managed to increase the profitability of the rolling stock from independent operations in average by 20%, reduce the empty mileage coefficient and at the same time optimize overhead costs. The net additional effect of the transfer of freight cars from lease to own operation amounted to about 10.4 billion tenge.

Also in 2019, large attention was paid to the development of passenger transportation. In 2019, the fleet of passenger cars was renewed by 91 units.

Since July 1, 2019, we have changed the ticketing information system. The modernized system creates transparency in the sale of electronic tickets for all passengers and eliminates the possibility of speculative manipulations with the sale of tickets.

To improve the quality of services provided to passengers a new international standard was introduced since November 2019 to provide high-quality bedding and soft removable equipment in trains.

Along with these activities, in 2019, the Company took measures on increasing operational efficiency and reducing operating costs, among which I would point out the following:

- *the speed of transit trains in the direction of China - Europe from 1011 to 1108 km / day was increased;*
- *12 non-core assets which created a loss by the results of previous years were removed;*
- *the terms of the long-term maintenance contract for existing Talgo wagons were revised and as a result the planned costs were reduced by a total amount of more than 96 billion tenge, including - in the amount of more than 4 billion tenge for 2020;*
- *according to the results of 2019, with a freight traffic exceeding the fact of 2018, diesel fuel was purchased less by the amount equivalent to the average monthly consumption in 2018;*
- *the cost of equipping locomotives with fuel was optimized by 30%.*

In 2019, quite serious work was implemented within the framework of the elimination of corruption incidents in the Company:

First of all, a new transparent employment scheme has been developed.

Secondly, we switched to paperless control technology for freight cars.

Thirdly, in order to reduce corruption risks in the procurement sphere, we created a special procurement rooms in all branches and subsidiaries, equipped with audio and video recordings. These offices are required to held negotiations with potential suppliers on procurement issues, including the consideration of complaints and appeals by potential suppliers.

I want to emphasize that the Company will continue to work to combat corruption - a number of relevant measures have already been planned for 2020, including in cooperation with representatives of the Anti-Corruption Service.

The train traffic safety and labor protection remain the main priority and the most important component of the Company's business. According to the results of 2019, the number of traffic safety violations was reduced by 3% to the level of 2018. The number of deaths in 2019 was halved compared to 2018 (from 9 to 4), but our goal is to create conditions of zero injuries.

The main and most valuable resource of NC KTZ JSC is the employees of the Company. In 2019, the Company fulfilled all obligations in the social sphere, continued the implementation of all adopted policies and programs for training and advanced training, and increased the salary of employees.

In 2019, as part of youth policy, the Company determined a pool of 100 young people of KTZ. This is a reserve of future leaders of the railway industry. Currently, a three-year development program for our reservists is being developed, the final result of which should be the rotation of young people in the field.

I express my gratitude to our partners and clients for successful joint activities. I am sure that our further cooperation will continue to remain effective and fruitful.

Sincerely yours,
Chairman of the Management Board
of NC KTZ JSC
S.Mynbayev

Business Model

Partners
- Suppliers of goods and services
- Railway administrations
- Transpoartation and logistics companies

Key Activity
- Services of the backbone railway network
- Freight transportatation
- Passenger transportation

Key Stakeholders
- Costumers
- Shareholder
- Board of Directors
- Employees
- Provessional unions
- State authorities
- Investors and Debtors
- Mass Media
- Population
- Partners

Value Offer

Providing safe, reliable freight and passenger transportation services provided in accordance with established requirements

Resouces
- Backbone railway network
- Locomotives
- Freight Cars
- Passenger Cars

Segment of consumers
- Private passenger railway companies
- Passengers
- Private companies that own their own fleet of freight cars
- Shippers

COST STRUCTURE

Operation and maintenance of the main railway network
Repair and service of freight and passenger cars
Energy costs
Costs of remuneration of employees

PROFIT FLOWS

Income from passenger transportation
Income from freight transportation
Income from freight forwarding and freight car operations

Development Strategy

GRI 102-26

In September 2019, the Board of Directors of NC KTZ JSC approved the new Development Strategy until 2029.

MISSION

As a system-forming transport company in Kazakhstan, we provide a high-quality basis for sustainable business growth for our clients, create value for the Shareholder and benefit consumers and society as a whole by providing safe and competitive transportation services.

VISION

We are a highly efficient transport company operating in accordance with best business practices.

We are a reliable provider of transport infrastructure services including cargo and passenger transportation.

We are a leader among our peers in terms of sustainable development, quality, and cost-effectiveness of services provided due to the improvement of business processes, digitalization of activities, and enhancement of employee professionalism.

In the short term, the most urgent tasks will be to remove the Company from the financial risk zone and stabilize its financial situation. The key measures in this direction that are already being implemented are the reduction of the share of debt in hard currency, the complete reform of tariff regulation and increase of operational efficiency.

In 2019, the Company actively carried out work in these areas.

STRATEGIC GOAL: Removing the Company from the financial risk zone and ensuring financial stability.

As a result of the work on debt refinancing, the share of foreign currency liabilities in relation to all borrowed loans for 2019 was reduced by 20%.

STRATEGIC GOAL: Improving the Company's efficiency

A program to improve operational efficiency has been developed and launched. The company actively participated in the implementation of this program and, according to the results of 2019, achieved the following results:

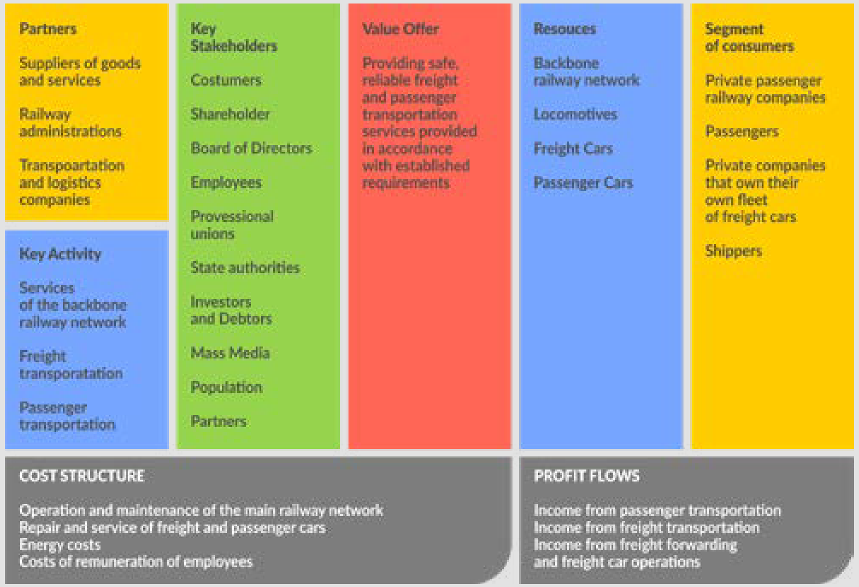
- The 12 non-core assets were removed from the portfolio of the Company, the total loss of which at the end of 2018 amounted to 5 billion tenge;
- The effectiveness of management of freight cars has improved. All freight cars were taken out of rental and transferred to independent operational management to the subsidiary of NC KTZ JSC – Kaztemirtrans JSC. In order to reduce the downtime of wagons in the repair and to concentrate efforts on transportation activities, the technical and service maintenance of freight wagons was transferred to a service company;
- The speed of transit container trains in the direction of China - Europe increased by 10%;
- The fuel efficiency has improved due to the reduction of discrepancies in diesel metering devices from 6.8% at the end of 2018 to 1.04% at the end of 2019 (GOST standard is no more than 1.3%);
- The prices for diesel fuel equipment services were reduced by 31%;
- The terms of the contracts for the purchase and service of locomotives with General Electric were changed in favor of NC KTZ JSC;
- The work was carried out to significantly reduce operating costs in the passenger transportation sector. The contract for the supply of new Talgo cars was terminated due to their unprofitability. For the existing fleet of Talgo wagons, the terms of the maintenance contract have been changed significantly reducing the cost of servicing the wagons.

Strategic goals on maintaining the necessary level of train safety, improving the quality of services provided, increasing the level of corporate governance and maintaining social stability will be realized throughout the entire period of the Development Strategy.

In accordance with the Development Strategy, by the decision of the State Commission for Modernization under the Government of the Republic of Kazakhstan, the Company IPO was postponed no earlier than 2023 or until the achievement of positive financial indicators and the creation of a favorable institutional environment.

Contents

Business Model



Development Strategy

GRI 102-26

In September 2019, the Board of Directors of NC KTZ JSC approved the new Development Strategy until 2029.

MISSION

As a system-forming transport company in Kazakhstan, we provide a high-quality basis for sustainable business growth for our clients, create value for the Shareholder and benefit consumers and society as a whole by providing safe and competitive transportation services.

VISION

We are a highly efficient transport company operating in accordance with best business practices.

We are a reliable provider of transport infrastructure services including cargo and passenger transportation.

We are a leader among our peers in terms of sustainable development, quality, and cost-effectiveness of services provided due to the improvement of business processes, digitalization of activities, and enhancement of employee professionalism.

In the short term, the most urgent tasks will be to remove the Company from the financial risk zone and stabilize its financial situation. The key measures in this direction that are already being implemented are the reduction of the share of debt in hard currency, the complete reform of tariff regulation and increase of operational efficiency.

In 2019, the Company actively carried out work in these areas.

STRATEGIC GOAL: Removing the Company from the financial risk zone and ensuring financial stability.

As a result of the work on debt refinancing, the share of foreign currency liabilities in relation to all borrowed loans for 2019 was reduced by 20%.

STRATEGIC GOAL: Improving the Company's efficiency

A program to improve operational efficiency has been developed and launched. The company actively participated in the implementation of this program and, according to the results of 2019, achieved the following results:

- The 12 non-core assets were removed from the portfolio of the Company, the total loss of which at the end of 2018 amounted to 5 billion tenge;
- The effectiveness of management of freight cars has improved. All freight cars were taken out of rental and transferred to independent operational management to the subsidiary of NC KTZ JSC – Kaztemirtrans JSC. In order to reduce the downtime of wagons in the repair and to concentrate efforts on transportation activities, the technical and service maintenance of freight wagons was transferred to a service company;
- The speed of transit container trains in the direction of China - Europe increased by 10%;
- The fuel efficiency has improved due to the reduction of discrepancies in diesel metering devices from 6.8% at the end of 2018 to 1.04% at the end of 2019 (GOST standard is no more than 1.3%);
- The prices for diesel fuel equipment services were reduced by 31%;
- The terms of the contracts for the purchase and service of locomotives with General Electric were changed in favor of NC KTZ JSC;
- The work was carried out to significantly reduce operating costs in the passenger transportation sector. The contract for the supply of new Talgo cars was terminated due to their unprofitability. For the existing fleet of Talgo wagons, the terms of the maintenance contract have been changed significantly reducing the cost of servicing the wagons.

Strategic goals on maintaining the necessary level of train safety, improving the quality of services provided, increasing the level of corporate governance and maintaining social stability will be realized throughout the entire period of the Development Strategy.

In accordance with the Development Strategy, by the decision of the State Commission for Modernization under the Government of the Republic of Kazakhstan, the Company IPO was postponed no earlier than 2023 or until the achievement of positive financial indicators and the creation of a favorable institutional environment.

1.

About the Company

GRI 102-1, 102-5

NC KTZ JSC is a transport and logistics holding, operator of the backbone railway network of the Republic of Kazakhstan, and national railway carrier of cargo and passengers.

The KTZ Group of Companies is the largest owner of locomotives, freight and passenger cars in the country, as well as the largest employer.

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.

In terms of cargo traffic and revenue, NC KTZ JSC is one of the 15 largest railway companies in the world.

Transportation activities of NC KTZ JSC provide economic connectivity with 14 regions of the Republic of Kazakhstan and 3 cities of national significance, and with five neighboring countries: China, Russia, Uzbekistan, Kyrgyzstan and Turkmenistan - through 16 junction points.

By the length of railways, Kazakhstan ranks 3rd among the CIS and Baltic countries with a gauge of 1520 mm.

Length of Kazakhstan's Railways, thousand km

21 Total length of main lines

16 Operational length

Resources and Assets

Locomotives	Freight cars
1,6 thousand	47,9 thousand
Passenger cars	**Employees**
2 thousand	127 thousand employees

1.1.

Business line of the Company

GRI 102-2, 102-6

- Backbone railway network services;
- Railway cargo transportation;
- Railway passenger transport;
- Transport and logistics services;
- Operating freight cars.

1.2.

Company history

Kazakhstan Temir Zholy Republican State Enterprise was established by Decree 129 of the Government of the Republic of Kazakhstan as of January 31, 1997 «On Reorganization of Enterprises of Railways of the Republic of Kazakhstan» by merging the following republican state enterprises:

- Almaty Railway Administration;
- Tselinnaya Railway Administration;
- West-Kazakhstan Railway Administration.

By Decree 310 of the Government of the Republic of Kazakhstan as of March 15, 2002, National Company Kazakhstan Temir Zholy Closed Joint-stock Company was formed by merging Kazakhstan Temir Zholy Republican State Enterprise and its subsidiaries.

In 2004, NC KTZ CJSC was transformed into NC KTZ JSC. In this regard, there was adopted the program of restructuring of railway transport of the Republic of Kazakhstan for 2004-2006, aimed at developing competition in the industry and attracting private investment. As part of the implementation of this program, there was created Locomotive JSC on the basis of the locomotive facilities, and the entire inventory fleet of cars was allocated to an independent enterprise - Kaztemirtrans JSC.

Since 2005, subsidies have been allocated from the national budget to cover losses of passenger carriers.

In June 2016, the cargo carrier "KTZ-Freight transportation" JSC was created by separating transportation activities and infrastructure.

Over the years of independence, about 2.5 thousand km of new railways were built, or 12% of the total length of railway lines.

1.3.

Regulatory environment

In the previous years, as part of the work on the liberalization of the industry, the state price regulation has been removed from:

- rail freight car rental services and car (container) operator services;
- services for the transit transportation of goods by rail through the Republic of Kazakhstan;
- services for the transportation of goods in containers, contrailer shipments, empty containers, and empty fitting platforms by rail.

In 2019, under the pilot regime, admission to the main railway network of two private freight carriers in limited areas was made, during which the imbalances of the current tariff regulatory system for the main railway network services and freight transportation services by rail (locomotive traction) were aggravated. The key ones are the presence in the tariffs of KTZ of multiple cross-subsidization between types of cargo, as well as passenger transportation at the expense of freight.

At the same time, private freight carriers are not liable for any subsidies and are free to choose the type of transportations.

NC KTZ JSC made proposals for the consistent reform of the tariff regulation system.

The first step in this direction is the separation of the financial flows of passenger and freight traffic.
On January 1, 2020, the Law of the Republic of Kazakhstan "On Amendments and Additions to Some Legislative Acts of the Republic of Kazakhstan on Railway Transport" came into force. These amendments, as well as the introduction of the necessary by-laws, will allow in 2020 to implement a new model for subsidizing passenger transportation. However, all support for passenger traffic, including private passenger carriers, lies with the National Freight Carrier.

Today, about 40 companies are licensed in the freight transportation market.

The next step in transformations in the regulatory environment and the tariff methodology will be the alignment of the conditions for the provision of services by carriers to create equal, fair and non-discriminatory conditions for doing business by introducing differentiation of tariffs for services of the main railway network by the type of section (electrified or non-electrified), and locomotive traction by type of traction (electric and heat traction).

In addition in 2019, the Law of the Republic of Kazakhstan «On Railway Transport» was amended in terms of defining the concept of «cargo transit» and determining the procedure for carrying out cargo transit transportation by the authorized body.
The volume of cargo transportation using logistics schemes that allow freight shippers to avoid paying the railway transit tariff on the territory of the Republic of Kazakhstan increases annually.

This scheme allows freight shippers to avoid paying the transit tariff since the level of transit tariffs is higher than the level of export-import tariffs, which subsequently negatively affects the financial and economic indicators of NC KTZ JSC.

In this regard, in order to resolve this problem, the Law of the Republic of Kazakhstan «On Railway Transport» provides for the right of the carrier to receive copies of shipping documents from the shipper and consignee during the transit of cargo, and the duty of the shipper's representative to notify the carrier about the transit of cargo before sending the cargo. At the same time, a corresponding draft by-law regulating the procedure for cargo transit transportation has been developed, which is currently undergoing approval by state authorities.

These measures will minimize the prerequisites for the use of «hidden» transit schemes by shippers.

1.4.

Asset structure

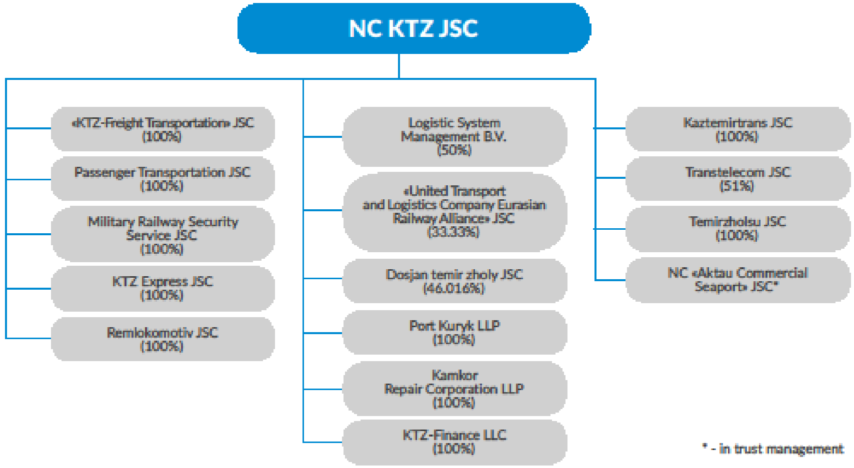
GRI 102-7, 102-10, 102-49

The NC KTZ JSC Group of Companies includes 56 organizations.The Company's corporate portfolio is represented by five blocks:

- backbone railway network including the branch of NC KTZ JSC - Directorate of the Backbone Railway Network;
- cargo transportation performed by «KTZ-Freight transportation» JSC and Kaztemirtrans JSC;
- transport and logistics block including KTZ Express Group of Companies, UTLCERA, Kuryk Port and others;
- passenger transportation performed by the Group of Companies of Passenger Transportation JSC;
- specialized auxiliary block including TransTeleCom JSC, Military Railway Security Service JSC, Temirzholsu JSC, and others.

Structure of the NC KTZ JSC Group of Companies

as of January 1, 2020



* - in trust management

In accordance with the state privatization program and the instructions of the Sole Shareholder, we continue our work on the alienation of non-core assets of the KTZ Group of Companies.

In 2016-2018, 22 assets were sold, 2 companies were reorganized, and 9 companies were liquidated. In 2019, 12 non-core assets were removed (Khorgos ICBC JSC, airports etc.).

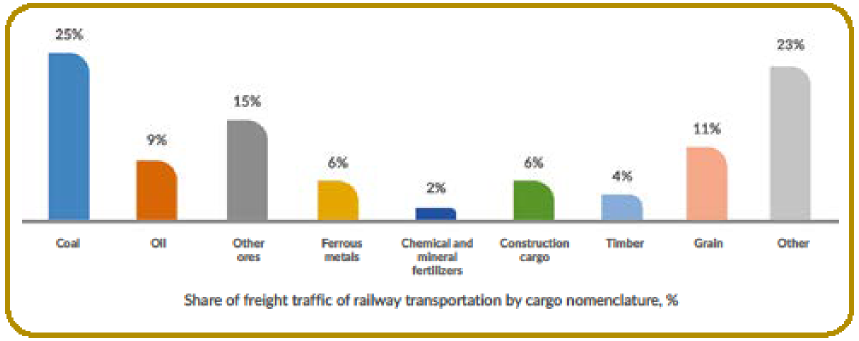
1.5.

Geography and Target Markets

GRI 102-6

FREIGHT TRANSPORTATION MARKET

In 2019, the structure and share of the main commercial products presented for transportation by rail did not change and remained the same.



Share of freight traffic of railway transportation by cargo nomenclature, %

The dynamics of the volume of goods transported by rail correlates with the dynamics of the country's economic growth. Kazakhstan's GDP growth in 2019 amounted to 4%, including in the mining industry 3.7%, manufacturing 4.4%, transportation and warehousing 5.1%. Foreign trade turnover increased by 1.1% - imports increased by 11.5%, exports decreased by 4.7%.

In 2019, freight transportation by rail increased to the level of 2018 in the following transportation modes:

- Republican – by 0.38%,
- import – by 14.95%
- transit – by 3.67%

The export transpoartation decreased by 0.12%.

The increase in cargo transportation occurred according to the following nomenclature of goods:

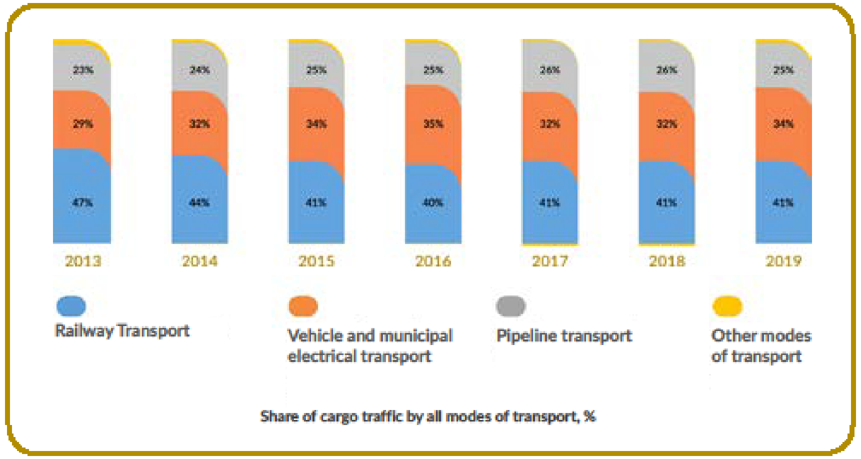
- ore - by 10.3%
- ferrous metals - by 6.8%
- construction cargo - by 1.4%
- timber cargo - by 4.6%
- other goods - 6%

The turnover of oil cargo, chemical and mineral fertilizers, grain cargo decreased compared to the previous period.

A promising highly profitable segment is transit container transportation. In 2019, the volume of container traffic amounted to 664.6 thousand TEU, which is 24% more than in 2018.

The main share in transit container traffic is occupied by the route China - Europe - China, whose share is 52%.

The share of the railway transport market in the country in the total freight traffic in 2019 did not change compared to previous years.



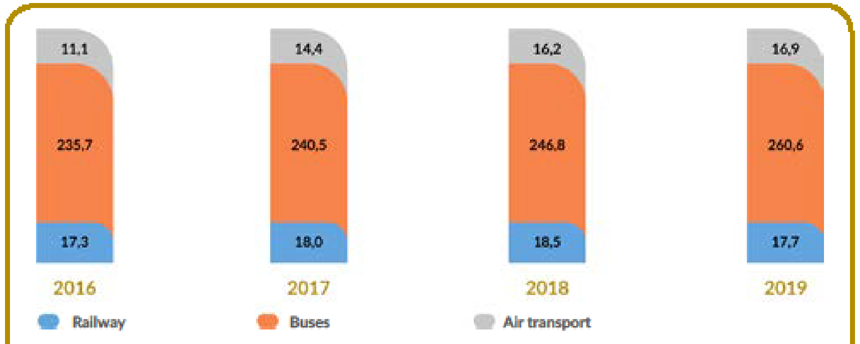
Share of cargo traffic by all modes of transport, %

Historically, the growth of tariffs for the services of the main railway network and locomotive traction was significantly inferior to the growth of consumer price indices and producer prices of industrial products in Kazakhstan. These and other systemic shortcomings of the tariff regulatory environment, on which the Company is currently working, have led to the fact that, at the end of 2019, 78% of the freight turnover is transported below cost.

Contents

PASSENGER TRANSPORTATION MARKET

The Republic of Kazakhstan is a country with a vast territory, low population density, and sharply continental natural conditions. This determines the features of the passenger transportation market, its share in the economy with a small capacity, high indicators of medium-range transportation, and high requirements for reliability, quality, and carrying capacity.



Dynamics of passenger traffic on types of transport, billion p-km

By the end of 2019, passenger traffic by all types of transport increased by 4.9 % to 295.2 billion p-km. At the same time, the highest growth rate was demonstrated by road transport, which increased by 8.3% over 3 years.

Rail passenger traffic in 2019 decreased by 4.3% compared to 2018 and amounted to 17.7 billion p-km. The main reasons for the decrease in passenger traffic are increased competition from road and air transport and a shortage of cars of Passenger Transportation JSC due to the delay in the implementation of the passenger car repair program by contractors and the failure to deliver 62 cars by Tulpar-Talgo LLP.

The number of passengers sent by enterprises belonging to the Group of Companies of Passenger transportation JSC and by trains of other railway administrations passing through the territory of the Republic in 2019 amounted to 16,546 thousand passengers, including:

- by trains formed by Passenger transportation JSC – 12,704 thousand passengers;
- by trains formed by Suburban Transportation JSC – 3,461 thousand passengers;
- for trains of other railway administrations - 382 thousand passengers.

To improve the quality of services provided and to prevent abuse and speculation by persons involved in the sale of tickets, a new Mobius ticketing system was developed and introduced. The improved Mobius electronic travel document sales system has helped minimize the practice of creating an artificial ticket shortage. The implemented waiting list in the new version of the ticketing site bilet.railways.kz allows buyers to get into the electronic queue without having to have tickets in the ticketing system and not to purchase tickets from "resellers". At the same time, the site administration constantly monitors the electronic queue. For example, over 60 user accounts were blocked, for each of which an invalid number of travel documents was issued.

In 2019, the Company attracted a qualified team of specialists and managers from the German railway company «Deutsche Bahn» for managerial positions in Passenger Transportation JSC. The main task set before them is the introduction of new standards, techniques, procedures with which the Company connects the passenger service to a new level of quality.

1.6.

Participation in associations and external initiatives

GRI 102-12, 102-13

since 1992

Council for Railway Transport Of the Commonwealth Member States

Moscow, Russian Federation

www.sovetgt.org

since 1993

Organization for Railway Cooperation (OSJD) (participation of the Republic of Kazakhstan)

Warsaw, Republic of Poland

www.osjd.org

since 1998

International Coordinating Council for Trans-Eurasian Transportation

Bern, Swiss Confederation

www. icctt.com

since 2001

Shanghai Cooperation Organization (participation of the Republic of Kazakhstan)

Beijing, People's Republic of China

www.sectsco.org

since 2001

Association of National Freight Forwarders of Kazakhstan

Almaty, Republic of Kazakhstan

www.kffanek.kz

since 2004

International Union of Railways (UIC)

Paris, French Republic

www.uic.org

Ассоциация Налогоплательщиков Казахстана

since 2009

Kazakhstan Taxpayers Association

Almaty, Republic of Kazakhstan

www.ank.kz

since 2010

Union of Machine Builders of Kazakhstan

Nur-Sultan, Republic of Kazakhstan

www.smkz.kz

since 2010

International Union of Railway Athletes (USIC)

Prague, Czech Republic

www.usic-sports.org

since 2011

United Nations Global Compact

New York, United States of America

www.unglobalcompact.org

since 2013

KAZLOGISTICS Union of Transport and Logistics Organizations and Associations

since 2015

KAZLOGISTICS Corporate Fund

Nur-Sultan, Republic of Kazakhstan

www.kazlogistics.kz

since 2014

Association of Railway Equipment Manufacturers Non-Profit Partnership

Moscow, Russian Federation

www.opzt.ru

since 2013

Coordinating Council of the Trans-Caspian International Transport Route

since 2014

National Chamber of Entrepreneurs of the Republic of Kazakhstan «Atameken»

Nur-Sultan, Republic of Kazakhstan

www.atameken.kz

since 2015

Eurasian Economic Union (participation of the Republic of Kazakhstan)

www.eaeunion.org

since 2016

Association for the Development of Competition and Commodity Markets

Nur-Sultan, Republic of Kazakhstan

www.ark.org.kz

since 2017

Trans-Caspian International Transport Route International Association

Nur-Sultan, Republic of Kazakhstan

www.middlecorridor.com

EXTERNAL INITIATIVES

since 2011

ISO (International Organization for Standardization) is the international organization for standardization which the main organization for regulating and organizing work in the field of standardization worldwide

VISION ZERO

Safety.Health.Wellbeing.

since 2019

Vision Zero International Movement of the International Social Security Association (ISSA) to promote the concept of zero injuries

PARIS AGREEMENT

since 2015

Within the framework of the Agreement, NC KTZ JSC participates in the development of a strategy for low-carbon development in the Republic of Kazakhstan until 2050

2.

Business results

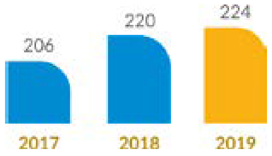
2.1.

Key Production and Financial Indicators

GRI 102-7

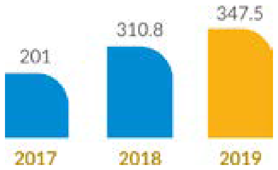
PRODUCTION INDICATORS

Cargo Traffic, billion t-km



In 2019, the tariff turnover amounted to 224 billion t-km, 1.8% higher than the result of 2018.

Transit TrafficChine-EU-China, thous. TEU

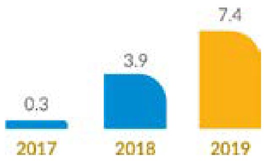


In 2019, 347.5 thousand TEU were transported in direction of China – Europe – China, which is 12% higher than in 2018.

Russia, China-CA and other directions, thous. TEU

In the direction of Russia, China-Central Asia, and other directions, the volume of transit container traffic amounted to 304 thousand TEU, which is 37% higher than in 2018.

Trans-Caspian International Transport Route, thous. TEU



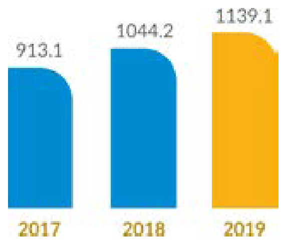
The transit Trans-Caspian international transport route traffic amounted to 7.4 thousand TEU, which is 89% higher than in 2018.
The increase in traffic was achieved due to the transfer of four sea vessels to professional management on the bare boat charter of the national sea shipping company KazMorTransFlot and the organization of regular feeder service with a clear schedule (transportation of containers on dry cargo vessels) along the Aktau-Baku route.

Passenger Traffic «Passanger Transportation», billion p-km

By the end of 2019, passenger traffic decreased by 6% compared to the level of 2018 and amounted to 14 billion pass-km. The decrease is due to the failure to deliver cars by Tulpar-Talgo LLP, the introduction of the emergency mode at Arys station, transfer of Train No. 309/310 on route Aktobe Mangistau to the private carrier, the delay in implementation of the passenger car repair program because of increasing tariffs by maintenance enterprises, and reduction of assorted inter-state trains subject to seasonal demand.

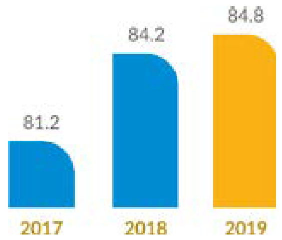
FINANCIAL INDICATORS

Income from operations, billion tenge



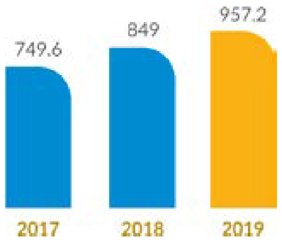
Revenues from core operations for 2019 amounted to 1,139. 1 billion tenge, which is 9% higher than in 2018, mainly due to an increase in revenue from freight transportation by 12.7% and passenger transportation by 0.7%.

Income from passenger transportation, billion tenge



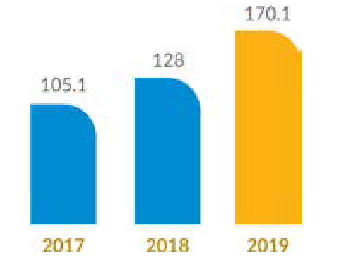
Revenue from passenger transportation increased by 0.7%, mainly due to a 2.4% change in the revenue rate for intra-Republic traffic.

Income from freight transportation, billion tenge



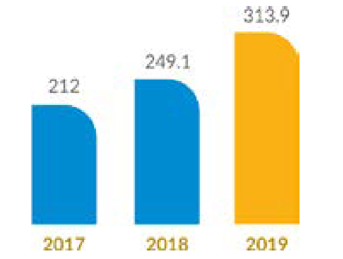
Revenue from freight transportation increased by 12.7% mainly due to an increase in revenue from operating the freight car fleet, changes in the exchange rate (Swiss franc) based on transit traffic revenue calculations, an increase in revenue from changes in the average level of tariff increases, an increase in cargo traffic by 1.8%, etc.

Operating profit, billion tenge



Operating profit for 2019 amounted to 170.1 billion tenge, which is 32.9% higher than in 2018.

EBITDA, billion tenge



EBITDA for 2019 amounted to 313.9 billion tenge, which is 26% higher than in 2018.

The Company ended 2019 with a negative financial result of 70.3 billion tenge. The improvement of 16.1 billion tenge was mainly due to a 9% increase in core business income and a decrease in the negative exchange rate difference (balance).

2.2.

Debt Burden

Most of the income and investment program of NC KTZ JSC depend on the level of tariffs set by the authorized body.

For many years, the average annual increase in tariffs has been lower than the rate of inflation and price growth in Kazakhstan's industry. Railway transport actually subsidized other sectors of the economy. This led to a high degree of depreciation of production assets. To reverse the trend of aging and disposal of assets in the railway industry, JSC NC KTZ was forced to launch a large-scale program of asset modernization, including by attracting borrowed funds.

An ambitious investment program, a regulatory system that restrains the growth of tariffs, the presence of a mechanism for cross-subsidizing passenger transportation and low-income goods at the expense of high-income ones led to a significant increase in the Company's debt. At the same time, the bulk of loans for the Group of companies were attracted in "hard" currencies (US dollars, euros, Japanese yens, Swiss francs) and at the beginning of 2019 the share was 57%.

In 2019, serious work was done to reduce foreign exchange risks, optimize debt and service loans in order to ensure the short and long term timely fulfillment of obligations to creditors on attracted loans and issued bonds.

IN THE REPORTING YEAR, THE FOLLOWING ACTIONS OF THE PLAN WERE IMPLEMENTED:

- a ban has been imposed on the implementation of new major capital projects without receiving the appropriate recommendation from the Investment and Strategic Committee of Samruk-Kazyna JSC until the Company enters the green zone of credit risk;
- the share of foreign currency liabilities in relation to all loans raised in 2019 decreased from 57% to 36.7%;
- EBITDA improved by 26% to 313.9 billion tenge;
- work on increasing the tariffs of backbone railway network (from January 1, 2019) by an average of 3.9% has been carried out;
- performance of target indicators for the costs of the depot and overhaul repair of passenger cars, maintenance of locomotives, etc. was provided

2.3.

Improving the efficiency

During the reporting period the Company conducted comprehensive to improve the efficiency of production processes, modernize and develop production facilities, increase labour productivity, automate process management, optimize the structure of production assets, and save energy and resources.

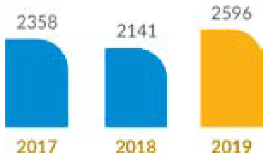
Average daily productivity of the locomotive, thousand t-km gross

The increase of the indicator compared with 2018 is due to increasing average daily mileage of the locomotive inter alia in connection with an increase in efficiency engines, saving fleet of locomotives to the amount of work done, and increasing the percentage of exiting the regular and container trains.

Dynamics of changes in specific diesel fuel consumption for train traction, kg / changes

In 2019, a reduction in the specific consumption for train traction, both for train traction in general and in freight traffic, was achieved through the use of the automated control system «Power Traction Dispatcher» and the implementation of other energy-saving measures.

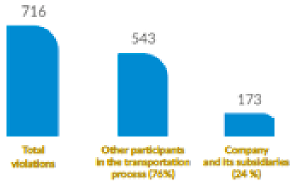
Labour productivity, given thousand tn km/person



The growth in labor productivity in 2019 is associated with an increase in cargo traffic by 1.8% and a decrease in the number of employees by 5.4%

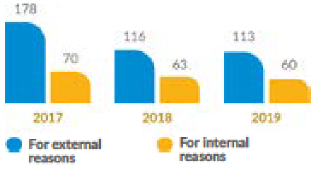
TRAFFIC SAFETY OF TRAINS

Violations of traffic safety by all participants in the transportation process



In 2019, all participants in the transportation process committed 716 traffic safety violations, including structural divisions and subsidiaries of the Company - 173 cases of violations or 24% of the total number of violations.

Traffic safety violations by the Company and its subsidiaries



Traffic Violations by the Company and its Subsidiaries

Due to the systematic measures taken and preventive work done to ensure traffic safety in 2019, the number of violations amounted to 173, which is 3% less than that of 2018.

The reduction in the number of traffic safety violations was achieved through the implementation of a set of organizational and technical measures, including measures to prevent injuries to people on railway tracks, increase the level of traffic safety culture, improve the reliability of rolling stock, track, power supply and contact network devices, signaling and communication, as well as internal control measures.

2.4.

Major investment projects

GRI 203-1

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

In 2019, investments in the amount of 150 billion tenge were allocated for the development of railway infrastructure and the renewal of rolling stock.

THE FOLLOWING MAJOR EVENTS WERE CARRIED OUT USING THE MENTIONED FUNDS:

within the framework of the Nurly Zhol state program of infrastructure development:

- work on the implementation of the project for the construction of a ferry complex in the port of Kuryk and the operation of universal cargo and passenger ferries continued;
- work on improving the track with all types of repairs in the amount of 650 km was completed.

as part of the rolling stock upgrade:

- 13 locomotives were purchased and 54 locomotives were overhauled;
- major repairs of 2,931 freight cars were carried out;
- 91 passenger cars were purchased and 3 passenger cars were overhauled.

Measures aimed at updating and rehabilitating the railway infrastructure, developing transport logistics, and improving traffic safety were implemented.

2.5.

Business transformation

The updated Digital Transformation Program was approved by the Decision of the Management Board of NC KTZ JSC as of July 18, 2019. The program is one of the tools for achieving the goals of the Company's Development Strategy until 2029.

THE PROGRAM INCLUDES 13 INITIATIVES:

- Production safety.
- High-performance culture.
- Improving operational efficiency.
- Increase in transit traffic.
- Logistics development.
- Creating a full-fledged company for operating cars.
- Improving the efficiency of the IT function.
- Improving operational efficiency through data analysis (Big Data).
- Improving the efficiency of the transportation process.
- Modernization of railway infrastructure.
- Development of passenger transportation of NC KTZ JSC.
- Implementation of the cyber shield of the Samruk-Kazyna Group.
- Implementing a new purchasing model.

3.

Corporate governance and ethics

GRI 102-5, 103-3

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

The new version of the Corporate Governance Code was approved by the Decision of the Sole Shareholder as of May 27, 2015 (Minutes of the Management Board meeting of Samruk-Kazyna JSC No. 22/15).

Corporate governance of NC KTZ JSC is annually evaluated for compliance with the best practice according to the methodology of diagnostics of corporate governance in the companies of the Samruk-Kazyna JSC Group.

The rating of corporate governance is an indicator of the assessment.

In 2019, the Internal Audit Dpartment of NC KTZ JSC conducted diagnostics of the level of corporate governance. Based on the results of the diagnostics, the corporate governance rating of NC KTZ JSC was determined at the level of «BB», which according to the specified Methodology corresponds to the average level of corporate governance.

The assigned corporate governance rating in comparison with the 2018 level - «B», determined by an independent consultant, has improved by one position and corresponds to the target values of the Company's key performance indicators in 2019.

In 2019, the Company continued to work on the implementation of the action plan for improving the corporate governance system, developed based on the results of an independent diagnostics in 2018.

Contents

2.4.

Major investment projects

GRI 203-1

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

In 2019, investments in the amount of 150 billion tenge were allocated for the development of railway infrastructure and the renewal of rolling stock.

THE FOLLOWING MAJOR EVENTS WERE CARRIED OUT USING THE MENTIONED FUNDS:

within the framework of the Nurly Zhol state program of infrastructure development:

- work on the implementation of the project for the construction of a ferry complex in the port of Kuryk and the operation of universal cargo and passenger ferries continued;
- work on improving the track with all types of repairs in the amount of 650 km was completed.

as part of the rolling stock upgrade:

- 13 locomotives were purchased and 54 locomotives were overhauled;
- major repairs of 2,931 freight cars were carried out;
- 91 passenger cars were purchased and 3 passenger cars were overhauled.

Measures aimed at updating and rehabilitating the railway infrastructure, developing transport logistics, and improving traffic safety were implemented.

2.5.

Business transformation

The updated Digital Transformation Program was approved by the Decision of the Management Board of NC KTZ JSC as of July 18, 2019. The program is one of the tools for achieving the goals of the Company's Development Strategy until 2029.

THE PROGRAM INCLUDES 13 INITIATIVES:

- Production safety.
- High-performance culture.
- Improving operational efficiency.
- Increase in transit traffic.
- Logistics development.
- Creating a full-fledged company for operating cars.
- Improving the efficiency of the IT function.
- Improving operational efficiency through data analysis (Big Data).
- Improving the efficiency of the transportation process.
- Modernization of railway infrastructure.
- Development of passenger transportation of NC KTZ JSC.
- Implementation of the cyber shield of the Samruk-Kazyna Group.
- Implementing a new purchasing model.

3.

Corporate governance and ethics

GRI 102-5, 103-3

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

The new version of the Corporate Governance Code was approved by the Decision of the Sole Shareholder as of May 27, 2015 (Minutes of the Management Board meeting of Samruk-Kazyna JSC No. 22/15).

Corporate governance of NC KTZ JSC is annually evaluated for compliance with the best practice according to the methodology of diagnostics of corporate governance in the companies of the Samruk-Kazyna JSC Group.

The rating of corporate governance is an indicator of the assessment.

In 2019, the Internal Audit Dpartment of NC KTZ JSC conducted diagnostics of the level of corporate governance. Based on the results of the diagnostics, the corporate governance rating of NC KTZ JSC was determined at the level of «BB», which according to the specified Methodology corresponds to the average level of corporate governance.

The assigned corporate governance rating in comparison with the 2018 level - «B», determined by an independent consultant, has improved by one position and corresponds to the target values of the Company's key performance indicators in 2019.

In 2019, the Company continued to work on the implementation of the action plan for improving the corporate governance system, developed based on the results of an independent diagnostics in 2018.

Contents

3.1.

Corporate governance structure

GRI 102-18

3.2.

Sole shareholder

The supreme body is the Sole shareholder - Samruk-Kazyna JSC.

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 law and the Charter.

The Sole Shareholder has the right to cancel any decision of other bodies of the Company on issues related to the internal activities of the Company.

3.3.

Board of Directors

GRI 102-24

The Board of Directors is the management body of NC KTZ JSC, which performs general management of the Company's activities, except for issues related to the exclusive competence of the Sole Shareholder of the Company as per the Law «On Joint-stock Companies» and the Company's Charter.

The Board of Directors determines strategic goals and priority areas of development, sets the main guidelines for the Company's long-term activities, and ensures that the required financial and human resources are available to implement the goals. The Board of Directors controls the activities of the executive body of NC KTZ JSC.

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

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

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 Company's Management Board cannot be elected as the Chairman of the Board of Directors.

STRUCTURE OF THE BOARD OF DIRECTORS

GRI 102-22, 102-23

At the end of 2019, the Board of Directors of NC KTZ JSC was represented as follows:

- Christian Kuhn - Independent Director - Chairman of the Board of Directors;
- Sauat Mukhametbayevich Mynbayev - Chairman of the Management Board of NC KTZ JSC;
- Yernar Beysenuly Zhanadil - Co-Managing Director for Economics and Finance of Samruk-Kazyna JSC - Representative of the interests of the Sole Shareholder;
- Andrey Nikolayevich Kravchenko - Managing Director for Legal Support and Risks - member of the Management Board of Samruk-Kazyna JSC - Representative of the interests of the Sole Shareholder;
- Almassadam Maydanovich Satkaliyev - Managing Director for Asset Management and Privatization of Samruk-Kazyna JSC - Representative of the interests of the Sole Shareholder;
- Nurzhan Talipovich Baydauletov - Representative of the interests of the Sole Shareholder;
- Lutz Freytag - Independent Director;
- Yermek Askerbekovich Kudabayev - Independent Director;
- Kerstin Boecker - Independent Director.

Contents

CHRISTIAN KUHN

CHAIRMAN OF THE BOARD OF DIRECTORS, INDEPENDENT DIRECTOR

Member of the Board of Directors since 2014.

Year of birth: 1965

Citizenship:
Germany

Education:
Technical University of Darmstadt, Darmstadt, Germany, Master of Engineering.
Gottfried Wilhelm Leibniz University of Hanover, Hanover, Germany, Engineering, PhD.

Work Experience:
1996 - 2005 head of sales, then Managing Director of Connex Cargo Logistics
2005 - 2011 - Managing Director, Member of the Management Board of Deutsche Bahn AG's freight business.
2005 - 2009 - head of the steel and coal industry division of Stinnes Freight Logistics/Railion Deutschland AG.
2009 - today - held various senior positions in international logistics companies, as well as worked as an independent consultant and independent director in companies in the field of railway and logistics.

No owned shares of the Company, its suppliers or competitors.

SAUAT MUKHAMETBAYEVICH MYNBAYEV

MEMBER OF THE BOARD OF DIRECTORS, CHAIRMAN OF THE MANAGEMENT BOARD

Member of the Board of Directors since 2018.

Year of birth: 1962

Citizenship:
Republic of Kazakhstan

Education:
Lomonosov Moscow State University, Russian Federation, Candidate of Economic Sciences.

Work Experience:
Started his career in 1989 as a teacher at Alma-Ata Institute of National Economy.
Senior positions in commercial organizations and the banking sector.
Over the years, he occupied the posts of Minister of Finance, Agriculture, Energy and Mineral Resources, Oil and Gas, Industry and Trade of Kazakhstan; Deputy Head of the Presidential Administration, Deputy Prime Minister of Kazakhstan; Chairman of the Management Board of Kazakhstan Holding for State Assets Management «Samruk» JSC.
2013 - 2018 - Chairman of the Management Board of NC KazMunayGas JSC.
November 20, 2018 - present - Chairman of the Management Board of NC KTZ JSC.

No owned shares of the Company, its suppliers or competitors.

YERNAR BEYSHENULY ZHANADIL

MEMBER OF THE BOARD OF DIRECTORS, REPRESENTATIVE OF THE SOLE SHAREHOLDER'S INTERESTS

Member of the Board of Directors since 2018.

Year of birth: 1984

Citizenship:
Republic of Kazakhstan

Education:
Manchester Business School, UK, Master in Finance and Accounting.

Work Experience:
Over the years, he worked in Philip Morris Kazakhstan, Elitstroy LLP, PricewaterhouseCoopers, Samruk-Kazyna JSC.
2016 - 2018 - Financial Controller and Managing Director for Finance and Operations of Samruk-Kazyna JSC.
Since 2018, Co-Managing Director for Economics and Finance of Samruk-Kazyna JSC.

No owned shares of the Company, its suppliers or competitors.

ALMASSADAM MAYDANOVICH SATKALIYEV

MEMBER OF THE BOARD OF DIRECTORS, REPRESENTATIVE OF THE SOLE SHAREHOLDER'S INTERESTS

Member of the Board of Directors since 2018.

Year of birth: 1970

Citizenship:
Republic of Kazakhstan

Education:
Al-Farabi Kazakh National University, Republic of Kazakhstan, Mechanical Engineer, Applied Mathematician.
Russian Presidential Academy of National Economy and Public administration, Russian Federation, Master of Economics.
Nazarbayev University, High School of Business (Cooperation Program with Fuqua School of Business at Duke University), Republic of Kazakhstan, Master of Business Administration.
Stanford University Business School, United States of America.

Work Experience:
Over the years, he occupied the senior positions in the national companies KazTransOil, KEGOC, Samruk; as well as the post of Vice-Minister of Energy and Mineral Resources of the Republic of Kazakhstan.
Since 2018, held the position of Managing Director for Asset Management and Privatization of Samruk-Kazyna JSC.

No owned shares of the Company, its suppliers or competitors.

ANDREY NIKOLAYEVICH KRAVCHENKO

MEMBER OF THE BOARD OF DIRECTORS, REPRESENTATIVE OF THE SOLE SHAREHOLDER'S INTERESTS

Member of the Board of Directors since 2018.

Year of birth: 1966

Citizenship:
Republic of Kazakhstan

Education:
Kirov Kazakh State University, Republic of Kazakhstan, lawyer
Moscow Business School, Russian Federation, Master of Business Administration.

Work Experience:
Over the years, he occupied the posts Prosecutor, Senior Prosecutor of Taldykorgan region; Deputy Prosecutor General of the Republic of Kazakhstan.
2018 to the present – Managing Director for Legal Support and Risks - member of the Management Board of Samruk-Kazyna JSC.

No owned shares of the Company, its suppliers or competitors.

NURZHAN TALIPOVICH BAYDAULETOV

MEMBER OF THE BOARD OF DIRECTORS, REPRESENTATIVE OF THE SOLE SHAREHOLDER'S INTERESTS

Member of the Board of Directors since 2018.

Year of birth: 1960

Citizenship:
Republic of Kazakhstan

Education:
Moscow Institute of Railway Transport, Russian Federation, Management of Railway Transport Processes.

Work Experience:
Fulfilled his carrier from the train compiler to the management positions of Kazakhstan Temir Zholy RSE.
Over the years, he held the post of the Director of Railway Transport Department of the Ministry of Transport and Communications of the Republic of Kazakhstan; Vice-Minister of Transport and Communications of the Republic of Kazakhstan; Chairman of the Committee of Communications of the Ministry of Transport and Communications of the Republic of Kazakhstan; senior positions in Samruk-Kazyna JSC.
2016 - present - Chairman of the Board of Directors of Kazakhtelecom JSC.

No owned shares of the Company, its suppliers or competitors.

LUTZ FREYTAG

MEMBER OF THE BOARD OF DIRECTORS, INDEPENDENT DIRECTOR

Member of the Board of Directors since 2019.

Year of birth: 1958

Citizenship:
Germany

Education:
University of Tübingen, Germany, Physics, PhD
University of Frankfurt, Germany, Bioinformatics, Master of Science

Work Experience:
Over the years, he held the positions of financial director of Stinnes BauMarkt AG, Raab Karcher Baustoffe GmbH, Parsytec AG, Isola AG, Railion Deutschland AG, Schenker AG.

No owned shares of the Company, its suppliers or competitors.

YERMEK ASKERBEKOVICH KUDABAYEV

MEMBER OF THE BOARD OF DIRECTORS, INDEPENDENT DIRECTOR

Member of the Board of Directors since 2019.

Year of birth: 1970

Citizenship:
Republic of Kazakhstan

Education:
Moscow Institute of Steel and Alloys, Russian Federation, Engineer-Economist
Kazakhstan Institute of Management, Economics, and Forecasting, Republic of Kazakhstan, Master of Business Administration.

Work Experience:
Over the years, he held the positions of director of the Astana office of Ernst & young Kazakhstan LLP, financial director of Kazakhoil Aktobe LLP, Bekem Metals Inc, and Chagala Group Limited, Managing Director for Economics and Finance of KazPetroDrilling JSC, etc.
2016 - present - Managing Director for Economics and Finance of Intelligent Consulting Solutions LLP.

No owned shares of the Company, its suppliers or competitors.

KERSTIN BOECKER

MEMBER OF THE BOARD OF DIRECTORS, INDEPENDENT DIRECTOR

Member of the Board of Directors since 2019.

Year of birth: 1964

Citizenship:
Germany

Education:
Bayreuth University, Germany, Master of Business Administration, PhD in Law
American School of International Management, United States of America, Master of International Management

Work Experience:
Over the years, she held senior positions in Daimler-Benz InterServices AG, Mercedes-Benz Credit Corporation, DaimlerChrysler Services AG, Infineon Technologies AG, as well as the positions of Vice President for Management Development, Vice President for Administrative Management, and Vice President for Total Remuneration and Performance Management at thyssenkrupp AG.
2014 - present – Chief Human Resources Officer and Member of the Executive Board of thyssenkrupp System Engineering GmbH.

No owned shares of the Company, its suppliers or competitors.

Contents

CHANGES TO THE BOARD OF DIRECTORS IN 2019

GRI 102-24

During the reporting year, the Company's Board of Directors underwent the following changes:

- By the decision of the Board of Samruk-Kazyna JSC as of January 28, 2019 (Minutes No. 03/19), the composition of the Board of Directors of NC KTZ JSC has been determined in the number of 9 people. Tito Uakhapovich Syzdykov's powers were terminated prematurely and the new members of the Board of Directors were elected:
  Lutz Freytag - Independent Director;
  Yermek Askerbekovich Kudabayev - Independent Director.
- In June 2019, due to the expiration of the term of office of the former Board of Directors of the Company, the Board of Directors of Samruk-Kazyna JSC (Minutes No. 20/19) elected a new Board of Directors of NC KTZ JSC consisting of C. Cuhn, Chairman of the Board of Directors, and members of the Board of Directors S. M. Mynbayev, Ye. B. Zhanadil, A. N. Kravchenko, A.M. Satkaliyev, N. T. Baydauletov, Ye. A. Kudabayev, and L. Freytag
- In August 2019, a new Independent Director of the Board of Directors, Kerstin Boecker, was elected by the decision of the Board of Directors of Samruk-Kazyna JSC (Minutes No. 26/19).

ACTIVITIES OF THE BOARD OF DIRECTORS

In 2019, 21 meetings of the Board of Directors of NC KTZ JSC were held, of which 15 meetings were held in person and 6 in absentia, at which 193 issues were considered.

During the reporting period, the Board of Directors discussed issues in the field of sustainable, strategic, and innovative development, in the field of investment strategy and asset management, issues related to financial stability and operating activity of NC KTZ JSC, issues in financial reporting, external and internal audit, risk management and internal control, corporate governance, compliance functions, as well as issues related to the activities of the Board of Directors and related committees of the Company.

Attendance of meetings by members of the Board of Directors in 2019 averaged 87%.

Besides, in 2019, the Board of Directors approved a number of documents, including:

- Development Strategy of NC KTZ JSC until 2029;
- Roadmap for Implementation of the Business Transformation Program of NC KTZ JSC for 2019-2021;
- Debt and Financial Stability Management Policy of NC KTZ JSC and its subsidiaries;
- Personnel Policy of NC KTZ JSC for 2019-2028;
- Guidance on the Internal Control System of NC KTZ JSC;
- Action Plan for the interaction of NC KTZ JSC with investors in the international capital markets for 2020-2021;
- Action Plan for improving the corporate risk management system and internal control system;
- Development Plan of NC KTZ JSC for 2020-2024;
- Strategic Plan of the Internal Audit Department of NC KTZ JSC for 2019-2021.

Attendance of in-person meetings by members of the Board of Directors in 2019

Members of the Board of Directors	January 8, 2019	February 14, 2019	April 3, 2019	April 18, 2019	May 15, 2019	May 28, 2019	May 30, 2019	June 17, 2019	June 29, 2019	September 6, 2019	Ocotber 17, 2019	November 1, 2019	November 22, 2019	November 28, 2019	December 24, 2019	%
C. Kuhn	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	100
S.M. Mynbayev	+	+	+	+	+	-	+	+	-	+	+	+	+	+	-	80
Ye.B. Zhanadil	-	+	+	+	+	-	-	+	+	+	-	-	-	+	+	60
A.M. Satkaliyev	+	+	+	+	+	-	+	-	-	+	+	+	+	-	+	73
A.N. Kravchenko	+	-	+	+	+	+	+	+	+	+	+	+	+	-	+	87
N.T. Baydauletov	+	+	+	+	+	-	+	+	+	+	+	+	+	+	+	93
S.A. Svyatov powers terminated on June 24, 2019.	+	+	+	+	+	+	+	-	-							78
T.U. Syzdykov powers were terminated prematurely on January 28, 2019.	+															100
L. Freytag elected as a member of the Board of Directors on January 28, 2019		+	+	+	+	+	+	+	+	+	+	+	+	+	+	100
Ye.A. Kudabayev elected as a member of the Board of Directors on January 28, 2019		+	+	+	+	+	+	+	+	+	-	-	-	-	-	64
K. Boecker elected as a member of the Board of Directors on August 12, 2019										+	+	+	+	+	-	83

EVALUATION OF THE BOARD OF DIRECTORS' PERFORMANCE

GRI 102-28

In accordance with the Corporate Governance Code of NC KTZ JSC, the Board of Directors, committees, and members of the Board of Directors shall be assessed on an annual basis. At the same time, at least once every three years, the assessment is carried out with the involvement of an independent professional organization.

The assessment should determine the contribution of the Board of Directors and each of its members to the growth of long-term value and sustainable development of the organization, as well as identify areas and recommend measures for improvement. The results of the assessment are taken into account when re-electing or early terminating the powers of members of the Board of Directors.

BOARD OF DIRECTORS TRAINING

GRI 102-27

Every year, members of the Board of Directors undergo professional and advanced training that includes economic, environmental, and social topics. In 2019, members of the Board of Directors were trained on the following topics: Strategic Thinking for Value Creation, Behavioral Security Dialogues. Besides, members of the Board of Directors N. T. Baidauletov and A. N. Kravchenko completed training under the Institute of Directors (IoD) program.

INVOLVEMENT OF INDEPENDENT DIRECTORS

When selecting independent directors, the Company is guided by the requirements of the Corporate Governance Code and the Company's Charter, as well as national legislation, which determine the procedure for searching and selecting candidates for the position of independent directors on a competitive basis.

The decision to appoint independent directors shall be made by the Sole Shareholder.

In accordance with the Company's Corporate Governance Code, the Board of Directors has established the independence of the directors and considers that C. Kuhn, L. Freytag, Ye. A. Kudabayev, and K. Boecker are independent in nature and decision-making. The Board of Directors also found that there are no relationships or circumstances that have or may have a significant impact on the independent decisions of these directors.

COMMITTEES UNDER THE BOARD OF DIRECTORS

GRI 102-18, 102-20, 102-22, 102-31

In order to improve the efficiency of the Board of Directors and improve the corporate governance structure, the following four committees have been formed under the Board of Directors:

- Nomination and Remuneration Committee;
- Strategy and Finance Committee;
- Committee for Environmental Protection and Safety;
- Audit Committee.

The activities of the Board of Directors' committees are regulated by the relevant regulations on them. According to the regulations on committees, only independent directors can be elected as members of the Audit Committee, and independent directors shall form a majority in other committees. The chairman of the Board of Directors' Committees shall be independent directors.

In 2019, 46 meetings of the Board of Directors' Committees were held, where 354 issues, including those submitted to the Board of Directors' meetings, were considered and discussed within the competence of each Committee, and recommendations on them were made.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is an advisory body of the Board of Directors.

The Committee established to develop and submit recommendations to the Board of Directors on the issues of the election or appointment of candidates for independent directors, Management Board, or Corporate Secretary subject to the provisions of internal documents of the Company, appropriate remuneration of directors, Management Board members, Corporate Secretary, and Corporate Secretary's office in accordance with the goals, objectives and current position of the Company and the remuneration level in companies similar in type and scope of activities; the Committee also concerns the issues of the introduction of a structured and transparent system of remuneration of directors, Management Board members and Corporate Secretary.

In 2019, the Nomination and Remuneration Committee held 14 in-person meetings, where 97 issues were considered.

Composition of the Nomination and Remuneration Committee

K. Boecker	**Chairwoman of the Committee, Independent Director**
C. Kuhn	member of the Committee, Independent Director
A.N. Kravchenko	member of the Committee, representative of the Sole Shareholder's interests
Ye.A. Kudabayev	member of the Committee, Independent Director

Attendance by current members of the Committee in-person meetings of the Nomination and Remuneration Committee in 2019

Committee members	Meeting attendance
K. Boecker elected as a member of the Committee on September 6, 2019	3 out of 3
C. Kuhn elected as a member of the Committee on January 8, 2019	12 out of 12
A.N. Kravchenko elected as a member of the Committee on January 8, 2019	11 out of 12
Ye.A. Kudabayev elected as a member of the Committee on January 8, 2019	10 out of 13

Contents

Strategy and Finance Committee

The Strategy and Finance Committee of the Board of Directors of NC KTZ JSC is a permanent advisory body of the Board of Directors of NC KTZ JSC, formed to improve the efficiency of the Board of Directors and improve the corporate governance system of NC KTZ JSC.

The main task of the Committee is a preliminary comprehensive study of issues within its competence and preparation of recommendations for the Board of Directors to adopt informed and balanced decisions.

The Committee is responsible for issues related to strategic development, issues related to financial stability, and issues related to investment strategy and asset management.

In 2019, the Strategy and Finance Committee held 14 in-person meetings, where 93 issues were considered.

Composition of the Strategy and Finance Committee

L. Freytag	**Chairman of the Committee,Independent Director**
C. Kuhn	member of the Committee,Independent Director
N.T. Baydauletov	member of the Committee,representative of the Sole Shareholder's interests
Ye. Zhanadil	member of the Committee, representative of the Sole Shareholder's interests
Ye.A. Kudabayev	member of the Committee,Independent Director

Attendance by current members of the Committee in-person meetings of the Strategy and Finance Committee in 2019

Committee members	Meeting attendance
L. Freytag elected as a member of the Committee on January 8, 2019	14 out of 14
C. Kuhn	13 out of 14
N.T. Baydauletov elected as a member of the Committee on January 8, 2019	14 out of 14
Ye. Zhanadil	7 out of 14
Ye.A. Kudabayev elected as a member of the Committee on January 8, 2019	7 out of 14

Committee for Environmental Protection and Safety

The Committee for Environmental Protection and Safety of the Board of Directors of NC KTZ JSC is a permanent advisory body of the Board of Directors of NC KTZ JSC, formed to improve the efficiency of the Board of Directors and improve the corporate governance system of NC KTZ JSC.

The main task of the Committee is a preliminary comprehensive study of issues within its competence and preparation of recommendations for the Board of Directors to adopt informed and balanced decisions.

The Committee is responsible for issues related to occupational safety and health, as well as issues related to the Company's operation, environmental protection, traffic safety, and sustainable and innovative development.

In 2019, the Committee for Environmental Protection and Safety held 6 in-person meetings, where 47 issues were considered.

Composition of the Committee for Environmental Protection and Safety

C. Kuhn	**Chairman of the Committee,Chairman of the Board of Directors**
N.T. Baydauletov	member of the Committee,representative of the Sole Shareholder's interests
A.M. Satkaliyev	member of the Committee, representative of the Sole Shareholder's interests
K. Boecker	member of the Committee,Independent Director

Attendance by current members of the Committee of in-person meetings of the Committee for Environmental Protection and Safety in 2019

Committee members	Meeting attendance
C. Kuhn	6 out of 6
N.T. Baydauletov elected as a member of the Committee on January 8, 2019	6 out of 6
A.M. Satkaliyev elected as a member of the Committee on January 8, 2019	3 out of 6
K. Boecker elected as a member of the Committee on Spetember 6, 2019	3 out of 3

Contents

Audit Committee

The Audit Committee of the Board of Directors of NC KTZ JSC is a permanent advisory body of the Board of Directors of NC KTZ JSC, subordinate to the Board of Directors and acting within the powers granted to it by the Board of Directors.

The main task of the Committee is a preliminary comprehensive study of issues within its competence and preparation of recommendations for the Board of Directors to adopt informed and balanced decisions.

The Committee is responsible for financial reporting, external audit, risk management and internal control, corporate governance, internal audit, and compliance functions.

In 2019, the Audit Committee held 12 in-person meetings, where 117 issues were considered.

Composition of the Audit Committee

Ye.A. Kudabayev	**Chairman of the Committee,Independent Director**
L. Freytag	member of the Committee,Independent Director
K. Boecker	member of the Committee,Independent Director

Attendance by current members of the Committee of in-person meetings of the Audit Committee in 2019

Committee members	Meeting attendance
Ye.A. Kudabayev elected as a member of the Committee on January 8, 2019	9 out of 12
L. Freytag elected as a member of the Committee on January 8, 2019	12 out of 12
K. Boecker elected as a member of the Committee on Spetember 6, 2019	4 out of 4

Interaction of members of the Board of Directors with the Company

During the reporting period, members of the Board of Directors actively participated in events initiated by the Company.

The members of the Board of Directors continued working on the Job Matching project related to conformity assessment of officers for CEO-1 positions of and key CEO-2 positions for the transition to target organizational structure of NC KTZ JSC in connection with which the members of the Board of Directors participated in the activities of the Job Matching project, including meetings and interviews with top managers of the Company.

In 2019, members of the Board of Directors visited a number of facilities, such as Khorgoz-Eastern Gates FEZ, the port of Kuryk, the ferry complex (Aktau), and railway stations (Nur-Sultan), where they got acquainted with the activities of the company.

Besides, a number of working meetings and meetings with top managers of the Company were held at the initiative of members of the Company's Board of Directors.

3.4.

Management Board

The Management Board is a collegial executive body of NC KTZ JSC, which is responsible for resolving all issues of the Company's activities that are not included in the Law «On Joint-stock Companies», 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, determination of quantitative composition and terms of powers of the Management Board, election of Management Board members and early termination of their powers fall within the competence of the Board of Directors of NC KTZ JSC. The Sole Shareholder is responsible for the nomination and early termination of the powers of the Chairman of the Management Board.

STRUCTURE OF THE MANAGEMENT BOARD

At the end of 2019, the Management Board of NC KTZ JSC was represented as follows:

- Sauat Mukhametbayevich Mynbayev - Chairman of the Management Board;
- Kanat Yesmukhanovich Almagambetov - First Deputy Chairman of the Management Board;
- Serik Sakbaldiyevich Abdenov - Deputy Chairman of the Management Board for Corporate Affairs and HR;
- Dair Adilbekovich Kusherov -Deputy Chairman of the Management Board for Finance;
- Pavel Vladimirovich Sokolov - Deputy Chairman of the Management Board for Logistics;
- Meyramkul Altynbekovna Duzbayeva - Managing Director for Development;
- Ardak Zhumagulovich Mukushev - Managing Director for Legal Support.

SAUAT MUKHAMETBAYEVICH MYNBAYEV

MEMBER OF THE BOARD OF DIRECTORS, CHAIRMAN OF THE MANAGEMENT BOARD

Member of the Management Board since 2018.

Year of birth: 1962

Citizenship:
Republic of Kazakhstan

Education:
Lomonosov Moscow State University, Russian Federation, Candidate of Economic Sciences.

Work Experience:
Started his career in 1989 as a teacher at Alma-Ata Institute of National Economy.
Senior positions in commercial organizations and the banking sector.
Over the years, he occupied the posts of Minister of Finance, Agriculture, Energy and Mineral Resources, Oil and Gas, Industry and Trade of Kazakhstan; Deputy Head of the Presidential Administration, Deputy Prime Minister of Kazakhstan; Chairman of the Management Board of Kazakhstan Holding for State Assets Management «Samruk» JSC.
2013 - 2018 - Chairman of the Management Board of NC KazMunayGas JSC.
November 20, 2018 - present - Chairman of the Management Board of NC KTZ JSC.

State and Industry Awards:
Order of Friendship (Russia, 2004).
Order of Barys, 3rd class (2005).
Order of Barys (2012).

KANAT YESMUKHANOVICH ALMAGAMBETOV

MEMBER OF THE MANAGEMENT BOARD

Member of the Management Board since 2018.

Year of birth: 1962

Citizenship:
Republic of Kazakhstan

Education:
Almaty Institute of Railway Transport Engineers, major in Railway Operations.
Kazakh Academy of Transport and Communications named after M. Tynyshpaev, major in Economics and Management of Railway Transport.

Work Experience:
Fulfilled his carrier from the train compiler to the management positions of Kazakhstan Temir Zholy RSE.
Over the years, he held the positions of Director of the Akmola Department of Transportation Branch of NC KTZ JSC, Vice-President, President of Kaztemirtrans JSC, Managing Director for the Transportation Process, Operational Work of NC KTZ JSC, Adviser to the President of NC KTZ JSC.
2015 - 2018 - General Director of KAZLOGISTICS Union of Transport and Logistics Organizations and Associations.
December 4, 2018 - present - Acting First Deputy Chairman of the Management Board of NC KTZ JSC.

State and Industry Awards:
Honourary badge - Honourary Railway Worker (1999).
Jubilee Medal - Kazakhstan temir zholyna 100 zhyl (2004).
Lapel Badge - Birtutas Kazakh temir zholyna 50 zhyl (2008).
Lapel badge - Dostyk-Alashankou temir zholdarynyn tuyiskenine 20 zhyl» (2010).
Order of Kurmet (2010).

SERIK SAKBALDIYEVICH ABDENOV

MEMBER OF THE MANAGEMENT BOARD

Member of the Management Board since 2018.

Year of birth: 1977

Citizenship:
Republic of Kazakhstan

Education:
Kazakh Institute of Law and International Relations, major in Law.
Karaganda Economic University of Kazpotrebsoyuz, major in Economics.
Russian Academy of National Economy under the President of the Russian Federation, Federal State budgetary Educational Institution of Higher Professional Education (MBA).

Work Experience:
Started his career in 1998 as a chief specialist of the Ministry of Justice of the Republic of Kazakhstan.
Over the years, he held the positions of Vice-Minister of Labour and Social Protection of the Republic of Kazakhstan of the Ministry of Labour and Social Protection of the Republic of Kazakhstan; Minister of Labour and Social Protection of the Republic of Kazakhstan; Adviser to the Chairman of the Management Board; Managing Director for Human Resources Management and Remuneration; Vice-President for Human Resources Management of NC KazMunayGas JSC.
November 2018 - present - Deputy Chairman of the Management Board for Corporate Affairs and HR of NC KTZ JSC.

State and Industry Awards:
Jubilee Medal - Kazakstan Respublikasy Parlamentine 10 zhyl (2006).
Jubilee Medal - Astananyn 10 zhyldygy (2008).
Order of Parasat (2009).
Certificate of Honour of the Ministry of Health of the Republic of Kazakhstan (2012).

DAIR ADILBEKOVICH KUSHEROV

MEMBER OF THE MANAGEMENT BOARD

Member of the Management Board since 2018.

Year of birth: 1977

Citizenship:
Republic of Kazakhstan

Education:
Indiana University, Bachelor of Finance.
Kazakh State Academy of Management, major in International Economics.

Work Experience:
Over the years, he held the positions of Deputy Director, Director of the Corporate Finance Department of INTERGAS Central Asia JSC, Financial Director of KazTransOil JSC, Director of the Corporate Finance Department, Managing Director for Economics and Finance, Deputy General Director for Economics and Finance of KazTransGas JSC.
December 2018 - present - Deputy Chairman of the Management Board for Finance of NC KTZ JSC.

State and Industry Awards:
Jubilee Medal - Kazakhstan Republikasynyn Tauelsizdigine 25 zhyl (2016).
Order of Kurmet (2017)

PAVEL VLADIMIROVICH SOKOLOV

MEMBER OF THE MANAGEMENT BOARD

Member of the Management Board since 2019.

Year of birth: 1978

Citizenship:
Russian Federation

Education:
Saint-Petersburg State University of Railway Transport, major in (railway) transport organization and management, railway engineer.
Saint Petersburg State University, Marketing Management, marketer.
Corporate University of Russian Railways JSC, Corporate Management.

Work Experience:
Over the years, he held the positions of the Deputy Director of the center for sales and organization of intermodal transport of TransContainer JSC, General Director of JSC Russian Railways Logistics, First Deputy General Director of Novorossiysk Commercial Seaport PJSC.
February 2019 - present - Deputy Chairman of the Management Board for Logistics of NC KTZ JSC.

MEYRAMKUL ALTYNBEKOVNA DUZBAYEVA

MEMBER OF THE MANAGEMENT BOARD

Member of the Management Board since 2019.

Year of birth: 1966

Citizenship:
Republic of Kazakhstan

Education:
Lenin Kazakh Polytechnic Institute.
Satpayev Kazakh National Technical University.

Work Experience:
Began her career from the position of master of the main production of KazZoloto ODC in 1987.
Over the years, she held positions of Deputy Chairman of the State Property and Privatization Committee of the Ministry of Finance of the Republic of Kazakhstan, Executive Director of NC KazakhOil JSC and NC KazMunayGas JSC, Director of the Department of Strategy and Corporate Governance of Kazakhstan Holding for the Management of State Assets "Samruk" JSC, the first head of commercial companies, the Deputy Chairman of the Management Board - a member of the Management Board of NCE RK «Atameken».
2016 - present - member of the Presidium of NCE RK «Atameken».
December 2018 - present - Managing Director for Development of NC KTZ JSC.

State and Industry Awards:
Letter of Gratitude from President of the Republic of Kazakhstan N. Nazarbayev (2001).
Jubilee medal – 10 years of the Constitution of the Republic of Kazakhstan (2005).
Order of Kurmet of the Republic of Kazakhstan (2012).
Medals of the Ministry of Industry and Infrastructure Development of the Republic of Kazakhstan, NCE RK Atameken, and Kazenergy, AGMP, KazAPO and other industry associations.

ARDAK ZHUMAGULOVICH MUKUSHOV

MEMBER OF THE MANAGEMENT BOARD

Member of the Management Board since 2018.

Year of birth: 1978

Citizenship:
Republic of Kazakhstan

Education:
Gumilyov Eurasian University, major in Law and Methods of Legal Education.
Kazakh Economic University named after T. Ryskulov, major in Economics.

Work Experience:
He started his career working in the internal affairs bodies of the Astana Police Department, held various positions in the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan, as well as the Ministry of Oil and Gas of the Republic of Kazakhstan.
Since 2014, he held senior positions in NC KazMunayGas JSC.
Since November 30, 2018, he held the positions of the Director of the Department of Legal Support and Judicial and Claim Work, Deputy Chairman of the Board for Legal Affairs of NC KTZ JSC.
February 25, 2019 - present – Managing Director for Legal Support of NC KTZ JSC.

State and Industry Awards:
Certificate of Appreciation of the Minister of Energy and Mineral Resources of the Republic of Kazakhstan (2008).
Jubilee Medal - Kazakhstan Respublikasynyn tauelcizdigine 20 zhyl (2011).
Jubilee Medal of the Ministry of Energy of the Republic of Kazakhstan - Kazakhstan Republikasy kubyr koligine 80 zhyl (2015).

ACTIVITIES OF THE MANAGEMENT BOARD IN 2019

In 2019, 47 meetings of the Management Board of NC KTZ JSC were held, including one in absentia. Decisions on 360 issues were considered and adopted.

During the reporting period, the Company's Management Board considered issues related to the Company's operating activities, implementation of the development strategy, decisions of the Sole Shareholder and the Board of Directors of NC KTZ JSC.

As a result of consideration of issues by the Company's Management Board, 72 issues were submitted to the Board of Directors for consideration, 2 issues on conclusion major transactions were submitted to the Board of Directors for consideration after the decision of the Company's Management Board, and 1 issue on the conclusion of a transaction in which the Company has interests was also submitted to the Board of Directors.

Besides, in 2019, the Management Board approved 39 internal documents, as well as reports approved by the Management Board's decision and sent 25 documents to the Board of Directors for consideration including:

- Report on the Implementation of the Action Plan to improve corporate governance of NC KTZ JSC for 2018-2020 based on the results of 2018;
- Current status of the implementation of the Business Transformation Program of NC KTZ JSC and the Roadmap for the Implementation of the Business Transformation Program of NC KTZ JSC for 2019-2021;
- Report on the state of comprehensive safety and labour protection in NC KTZ JSC at the end of 2018;
- Annual financial statements of NC KTZ JSC for 2018.

COMMITTEES UNDER THE MANAGEMENT BOARD

In order to improve the effectiveness of the Management Board's decisions, there are five committees:

- Risk Committee;
- Development Committee;
- Investment Committee;
- Budget Committee;
- Credit Committee.

Activities of the Management Board Committees in 2019

	Meetings	Issues considered
Risk Committee	5	16
Development Committee	8	15
Investment Committee	22	86
Budget Committee	21	48
Credit Committee	12	14

The activities of the Management Board committees are regulated by the relevant regulations on them.

In 2019, 68 meetings of the Management Board Committees were held, where 179 issues were considered and discussed within the competence of each Committee.

Risk Committee

The purpose of the Committee is to facilitate the effective performance of the functions of the Company's Management Board in the field of corporate risk management. The Committee ensures the reliability and effectiveness of the risk management system, as well as coordinates the activities and provides methodological support on internal control and business continuity issues of the Company.

Main functions of the Committee:

- approval of the risk register, risk map, risk matrix and controls, and the Company's risk appetite;
- coordination of the Company's key risk indicators and tolerance levels for key risk indicators;
- review and analysis of the results of monitoring and evaluating the effectiveness of the Company's risk management, internal control, and business continuity systems, as well as the development of proposals for their improvement; etc.

Development Committee

The purpose of the Committee is to assist the Company's Management Board in making decisions in the field of strategic management in the Company and its subsidiaries.

Main functions of the Committee:

- review and approval of the Development Strategy and strategic directions of the Company and its subsidiaries;
- review and approval of changes and additions to the Company's Development Strategy;
- development of recommendations on mechanisms for implementing the Company's Development Strategy;
- review and approval of plans to improve strategic management in the Company's subsidiaries; etc.

Budget Committee

The purpose of the Committee is to harmonize long-term, medium-term and current budget planning in NC KTZ JSC and its subsidiaries, improve the efficiency of the Company through the budget planning mechanism, monitor the execution of revenue and expenditure parts of the budgets of NC KTZ JSC and its subsidiaries, analyze the compliance of budgets with the financial strategy and monitor the implementation of the Company's Capital Investment Plan.

Main functions of the Committee:

- review and approval of the production program of NC KTZ JSC and its subsidiaries;
- monitoring the compliance of the indicators of the first five years of the production program with the approved Development Plan of NC KTZ JSC in the case of procurement planning;
- review, approval, and submission of adjustments to the Group's and the Company's budgets to the Company's Management Board for approval as part of the Company's Development Plan;
- review and approval of budgets, production programs of the Company's subsidiaries and their adjustments in the current year within the budget of the Group approved by the Company's Management Board;
- review and approval of budgets, production programs of the Company's structural divisions that are administrators of budget programs, and their adjustments in the current year within the limits of the Company's budget approved by the Management Board; etc.

Investment Committee

The purpose of the Committee is to consider issues related to improving the efficiency of the investment activities of NC KTZ JSC and its subsidiaries.

Main functions of the Committee:

- making decisions related to the implementation of a certain stage of the investment project, the transition to the implementation of the next stage of the project;
- review and development of recommendations on sources and conditions for financing investment projects;
- consideration of investment projects implemented on the basis of instructions of the President of the Republic of Kazakhstan, the Government of the Republic of Kazakhstan or the decision of the Fund;
- consideration of issues related to the acquisition of participation shares (blocks of shares) in the authorized capital of legal entities and the creation of new legal entities within the framework of investment projects; etc.

Credit Committee

The purpose of the Credit Committee is to provide recommendations to the Company's Management Board for making decisions on issues related to providing financial assistance, credit (loan), and issuing guarantees.

Main functions of the Committee:

- consideration of applications for credit (loan), financial assistance, and applications for issuing guarantees;
- development of recommendations to the Company's Management Board on providing credit (loan), financial assistance, and issuing guarantees;
- preliminary determination of the conditions for granting credit (loan), financial assistance, and determining the conditions for issuing guarantees; etc.

3.5.

Remuneration of Company Officials

GRI 102-35, 102-36

Remuneration to members of the Management Board of NC KTZ JSC based on the results of work for the year is paid in accordance with the Regulation on Remuneration and Bonuses for senior employees, employees of the Corporate Ombudsman's office, employees of the Corporate Secretary's Office, Internal Audit Department, and Compliance Service, approved by the Decision of the Board of Directors of JSC NC KTZ as of July 12, 2017 (Minutes No. 5).

The above Regulations are based on the following principles:

- relationship of remuneration to the performance of tasks that meet the interests of NC KTZ JSC and its Sole Shareholder;
- dependence of the remuneration amount on the performance of NC KTZ JSC and the performance of employees.

The decision to pay remuneration to senior employees shall be made by the Board of Directors of NC KTZ JSC.

The procedure for establishing remuneration to members of the Board of Directors shall be provided for by the Regulations on the Formation of the Board of Directors of Samruk-Kazyna JSC, approved by the Decision of the Management Board of Samruk-Kazyna JSC as of September 26, 2016 (Minutes No. 35/16).

Representatives of the Sole Shareholder and the Chairman of the Management Board do not receive remuneration in the Board of Directors.

3.6.

Managing Conflicts of Interest

GRI 102-25

In accordance with the Company's Charter, Codes of Corporate Governance and Business Ethics, the Board of Directors has developed and approved policies to resolve conflicts of interest among employees and officials of the Company, as well as corporate conflicts.

The purpose of the policy is to prevent, promptly disclose, and resolve conflicts of interest.

There are no actual or potential conflicts of interest between the obligations that members of the Board of Directors or the Management Board have to the Company and the private interests or other responsibilities of such a member.

3.7.

Activities of the Corporate secretary's office

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

The Corporate Secretary is subordinate to the Company's Board of Directors and is independent of the Company's executive body.

To ensure that the Corporate Secretary performs its functions, the Company has created a Corporate Secretary's Office. The Office is a structural division of the Company.

In 2019, the Corporate Secretary's Office provided organizational preparation for 15 in-person meetings and 6 in absentia meetings of the Board of Directors and 46 meetings of the Board of Directors' committees.

During the reporting period, the Corporate Secretary and employees of the office of the Corporate Secretary provided a wide range of tasks and functions stipulated by the internal documents of NC KTZ JSC, including tasks to ensure the effective operation of the Board of Directors, as well as clear and effective communication between the Board of Directors, Sole Shareholder, and management of NC KTZ JSC.

3.8.

Corporate governance code

The Corporate Governance Code of NC KTZ JSC (hereinafter referred to as the Code) was approved by the Decision of the management Management Board of Samruk-Kazyna JSC as of 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, taking into account the developing corporate governance practices in Kazakhstan and the world, and the Fund's Transformation Program, approved by the decision of the Board of Directors of the Fund as of September 17, 2014 (Minutes No. 113). The provisions of this Code are applied taking into account the specifics provided for by the legislation of the Republic of Kazakhstan.

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

INFORMATION ON COMPLIANCE OF CORPORATE GOVERNANCE PRACTICES WITH THE PRINCIPLES OF THE CORPORATE GOVERNANCE CODE

The Board of Directors of NC KTZ JSC is responsible for monitoring the implementation of the provisions of the Code.

In accordance with the provisions of the Code, the Office of the Corporate Secretary of NC KTZ JSC developed a Report on compliance/non-compliance with the principles and provisions of the Corporate Governance Code. The report was approved by the Decision of the Board of Directors of NC KTZ JSC as of May 6, 2020 (Minutes No.7).

According to the results of the analysis in practice, the Company complies with 76% of the provisions of the Code, other 13% of all Code provisions are partially complied with, 3% of the provisions are not complied with, and 8% of the provisions of the Code are not applicable to the Company.

3.9.

Information on the activities of the internal audit department

The Internal Audit Department is a body of NC KTZ JSC that monitors the financial and economic activities of the Group of Companies of NC KTZ JSC, assesses in the field of internal control, risk management, execution of documents in the field of corporate governance and consulting in order to improve the activities of the Group of Companies of NC KTZ JSC.

The Department is directly subordinate to the Board of Directors of NC KTZ JSC and reports to it on its work. The Department is supervised by the Audit Committee.

The Department operates in accordance with the Regulations on the Internal Audit Department of NC KTZ JSC, approved by the decision of the Board of Directors of NC KTZ JSC as of May 3, 2018 (Minutes No. 2), in compliance with the mandatory International Professional Practices Framework (IPPF) for internal audit.

In 2019, the Internal Audit Department completed all 18 audit engagements, covering 19 audit objects provided for in the Annual audit plan for 2019, approved by the decision of the Board of Directors of NC KTZ JSC as of October 24, 2018 (Minutes No. 7).

The audit covered such key business processes as investment activities, purchasing activities, safety of fixed assets and inventory, accounts receivable management, information technology and information security, diagnostics of corporate governance of NC KTZ JSC, assessment of the effectiveness of the corporate risk management system and internal control system, and audit of business transformation of NC KTZ JSC.

Thus, the resources of the Internal Audit Department were focused on those business processes and activities of NC KTZ JSC and its subsidiaries that are characterized by risks with high and medium significance according to the Risk Register and Risk Map of NC KTZ JSC. Business processes that are not covered by the Risk Map (factor-risk exposure) and with low risk significance were also audited to confirm the adequacy of the rating criteria and the correctness of determining the risk group, as well as to ensure comprehensive audit coverage.

Based on the results of the audit engagements performed, the Internal Audit Department issued appropriate recommendations and ensured that the audit objects adopted corrective action plans, which are monitored by the Internal Audit Department on a quarterly basis.

The Internal Audit Department constantly conducts methodological work to further improve its activities, including the regulation on the Internal Audit Department of NC KTZ JSC (in a new version) developed and approved by the Board of Directors of NC KTZ JSC with the inclusion of requirements for the Internal Audit Department to perform its activities in compliance with the mandatory International Professional Practices Framework for internal audit. The functions for auditing information technology and information security, advisory services, interaction with the external auditor of NC KTZ JSC, and other internal and external parties providing guarantees and advice were also extended.

In the reporting year, employees of the Internal Audit Department took advanced training and certification courses in the areas of internal audit and control, accounting, IFRS, management basics, and information technology.

The results of the Internal Audit Department are submitted to the Board of Directors of NC KTZ JSC on a quarterly basis.

3.10.

Corporate ethics

GRI 102-16

In 2019, in order to form and maintain ethical standards and norms in the Company, the Board of Directors approved the new Code of Ethics and Conduct of NC KTZ JSC and its subsidiaries (Minutes No. 14).

The Code of Ethics and Conduct is aimed at improving the corporate culture and provides for the principles of conducting an open and honest business, standards, and norms of ethics and behavior based on the declared values, as well as the Company's mission and strategy.

The provisions of the Code apply to all officials and employees of NC KTZ JSC and its subsidiaries, regardless of their position.

Business partners, customers, suppliers, and other third parties who interact with or represent the Company must adhere to the provisions of the Code.

The Code is an open document and is available for review by interested parties on the Company's corporate website (www.railways.kz).

THE CODE DEFINES THE FOLLOWING FUNDAMENTAL CORPORATE VALUES THAT SHAPE THE COMPANY'S OPERATIONS:

SECURITY	We are responsible for the life, health, and safety of each of our employees, passengers, and cargo. This is our top priority. Even the smallest mistake can have a very high price.
LEADERSHIP	It is important for us to work together because we are part of a unified system that works for the benefit of each of our clients and the country as a whole. We pass on the knowledge and experience accumulated over the years to the next generation. We respect and value everyone, regardless of their job level, profession, or personal interest.
AMBITIONS	We meet all difficulties and challenges with dignity, persistently overcome any obstacles on our way because we know that the well-being of our clients depends on us, whose interests and needs are our main priority.
PRIDE	We devote our entire life to the industry, as we deliver critical goods for the population, connect cities and states, and work even in the most remote regions of the country. We are proud of our profession and the fact that our grandfathers and fathers worked on the railway.
RESPONSIBILITY	We provide quality services for all our clients because we are the flagship in the transport services market. We achieve results even in the most difficult situations because we are professionals in our field and rely on experience and rich history.

In order to ensure compliance with the requirements of the Code of Business Ethics, regular monitoring and verification of knowledge of the provisions of the Code is being implemented.

The Company's Compliance Service informs the Company's Board of Directors on a quarterly basis about the Code's compliance practices.

Contents

MECHANISMS FOR PROVIDING CONSULTATIONS ON ETHICS

GRI 102-17

The Company has developed mechanisms through which employees and others can seek advice on corporate ethics and/or report actual and alleged violations of corporate ethics, human rights, unequal conditions of employment and labour, theft, corruption violations committed by employees or officials of the Company, and threats to health, safety, and the environment.

Employees of the Company should contact for these questions:

- their direct senior manager;
- head of the Compliance Service of NC KTZ JSC;
- «hot line» by phone 8-800-080-19-94, e-mail address sk.hotline@deloitte.kz or leaving a message on the site www.sk.deloitte-hotline.com;
- Office of the Ombudsman of NC KTZ JSC (ombudsman@railways.kz either by phone +7 (7172) 60-40-31) or the Ombudsman of Samruk-Kazyna JSC (ombudsman@cscc.kz) (on issues of violation of labour rights);

For other interested persons, requests are accepted through:

- «hot line» by phone 8-800-080-19-94, e-mail address sk.hotline@deloitte.kz or leaving a message on the site www.sk.deloitte-hotline.com;

  The hotline is a confidential information channel and is administered by an independent provider.

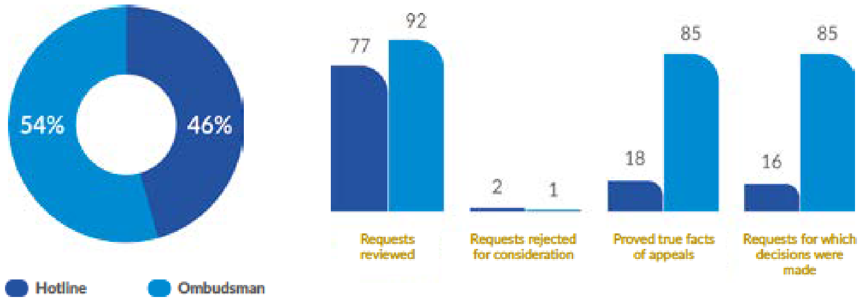
In addition, the Company's management provides personal reception for individuals and representatives of legal entities in accordance with the reception schedule.

More detailed information about the schedule and procedure of receptions can be found on the Company's corporate website www.railways.kz, in the Contacts section.

In 2019, 169 complaints were received through the information channels, 77 of them to the hotline, and 92 to the Ombudsman.

The Company's management met with 37 individuals and legal entities.

Appeals via communication channels in 2019.



Corporate Ombudsman

GRI 412-2

During the reporting period, the office of the Corporate Ombudsman of NC KTZ JSC received oral and written requests from 92 persons, 88 of them in the field of labour relations, including social and housing issues arising from labour relations and corporate ethics.

All received requests were reviewed, and a positive decision was made on 81 of them, which was 88.1%.

Received requests in 2018 and 2019 were reviewed in the corresponding years, there were no transitional balances for the reporting period. In order to prevent conflict situations, work is carried out to study and identify factors that provoke in the field of employee-Company and client-Company, consulting and explaining the current legislation.

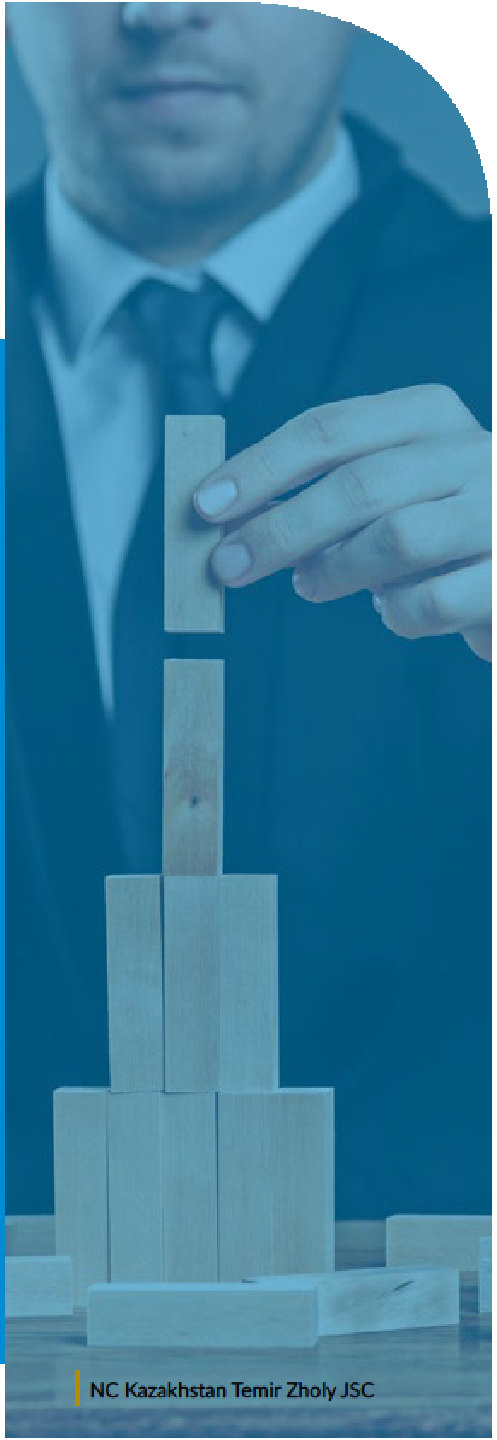
In 2019, meetings were held with the Company's teams and subsidiaries; seminars and lectures attended by more than 200 people were held.

Labour Disputes

The Company and its subsidiaries have conciliation commissions. Conciliation commissions consider individual labour disputes between an employee and an employer before applying to the judicial authorities.

As of the end of 2019, the number of conciliation commissions in the Company's group was 110. The number of labour disputes considered by the Commissions was 118 (95 in 2018), of which 40 were satisfied, and 8 were sent to the court for consideration.

Contents



3.11.

Risk management and internal control

GRI 102-11, 102-15, 102-29, 102-30, 102-31

NC KTZ JSC is aware of 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 implementation of the corporate risk management system in the Company is carried out as part of the implementation of the recommendations of Samruk-Kazyna JSC in accordance with the COSO (Committee of Sponsoring Organizations of the Treadway Commission) model.

NC KTZ JSC has a structural unit responsible for risk management and internal control, which organizes the functioning of the risk management system, ensures the development and updating of local regulations in the field of risk management and internal control, provides methodological support to other structural units in terms of identifying and assessing risks, and provides recommendations. The structural division for risk management and internal control subordinates directly to the Chairman of the Management Board of NC KTZ JSC.

There is the Risk Committee under the Management Board of NC KTZ JSC, which holds meetings on a regular basis.

In 2019, the Company's Risk Committee, Management Board, and Board of Directors continued their work to further improve the corporate risk management system and bring it in line with the best global practices.

The priority of NC KTZ JSC is to introduce elements of risk management and internal control in existing business processes, as well as to develop a culture of risk management.

4.

Sustainable Development

GRI 103-2

NC KTZ JSC provides uninterrupted and high-quality transportation services developing transport and logistics infrastructure and high-speed passenger traffic and implementing the transit and export potential of Kazakhstan, and contributes to the sustainable development of the national economy and society.

The company is the largest employer in Kazakhstan: about 0.8% of the population of the Republic of Kazakhstan is employed in organizations of the NC KTZ JSC group.

The scale of the Company's activities has a significant impact on all aspects of the country's socio-economic development, and the multiplicity of stakeholders imposes a huge responsibility on NC KTZ JSC.

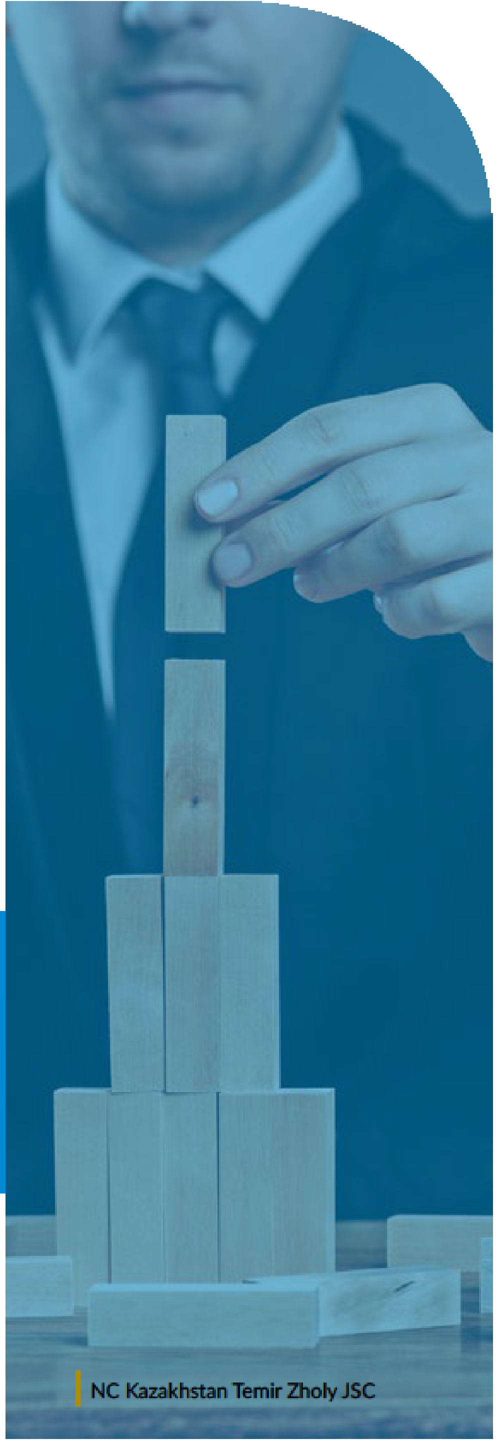
Understanding and realizing the possible consequences of decisions taken today, the Company focuses on achieving a balance of economic, environmental, and social components of development, guided by the principles of sustainable development.

In its activities, NC KTZ JSC strives to:

- ensure the growth of the national economy by developing the transit and export potential of Kazakhstan;
- improve the living conditions of the population of Kazakhstan by creating new jobs, reducing the transport component, increasing the mobility of the population and implementing charitable projects;
- create the most favorable conditions for the life and work of its employees, providing them with a full «social package» and the opportunity to train and improve professional skills;
- ensure traffic safety and labour protection;
- minimize the negative impact on the environment by introducing new technologies and modern rolling stock, developing railway transportation.

In addition, the Company, when interacting with suppliers when purchasing goods, works, and services, obliges suppliers to perform the necessary measures and comply with the regulatory legal acts of the Republic of Kazakhstan on safety, fire safety, labour protection, and ecology.

Contents



3.11.

Risk management and internal control

GRI 102-11, 102-15, 102-29, 102-30, 102-31

NC KTZ JSC is aware of 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 implementation of the corporate risk management system in the Company is carried out as part of the implementation of the recommendations of Samruk-Kazyna JSC in accordance with the COSO (Committee of Sponsoring Organizations of the Treadway Commission) model.

NC KTZ JSC has a structural unit responsible for risk management and internal control, which organizes the functioning of the risk management system, ensures the development and updating of local regulations in the field of risk management and internal control, provides methodological support to other structural units in terms of identifying and assessing risks, and provides recommendations. The structural division for risk management and internal control subordinates directly to the Chairman of the Management Board of NC KTZ JSC.

There is the Risk Committee under the Management Board of NC KTZ JSC, which holds meetings on a regular basis.

In 2019, the Company's Risk Committee, Management Board, and Board of Directors continued their work to further improve the corporate risk management system and bring it in line with the best global practices.

The priority of NC KTZ JSC is to introduce elements of risk management and internal control in existing business processes, as well as to develop a culture of risk management.

4.

Sustainable Development

GRI 103-2

NC KTZ JSC provides uninterrupted and high-quality transportation services developing transport and logistics infrastructure and high-speed passenger traffic and implementing the transit and export potential of Kazakhstan, and contributes to the sustainable development of the national economy and society.

The company is the largest employer in Kazakhstan: about 0.8% of the population of the Republic of Kazakhstan is employed in organizations of the NC KTZ JSC group.

The scale of the Company's activities has a significant impact on all aspects of the country's socio-economic development, and the multiplicity of stakeholders imposes a huge responsibility on NC KTZ JSC.

Understanding and realizing the possible consequences of decisions taken today, the Company focuses on achieving a balance of economic, environmental, and social components of development, guided by the principles of sustainable development.

In its activities, NC KTZ JSC strives to:

- ensure the growth of the national economy by developing the transit and export potential of Kazakhstan;
- improve the living conditions of the population of Kazakhstan by creating new jobs, reducing the transport component, increasing the mobility of the population and implementing charitable projects;
- create the most favorable conditions for the life and work of its employees, providing them with a full «social package» and the opportunity to train and improve professional skills;
- ensure traffic safety and labour protection;
- minimize the negative impact on the environment by introducing new technologies and modern rolling stock, developing railway transportation.

In addition, the Company, when interacting with suppliers when purchasing goods, works, and services, obliges suppliers to perform the necessary measures and comply with the regulatory legal acts of the Republic of Kazakhstan on safety, fire safety, labour protection, and ecology.

4.1.

Sustainable economic development

CREATED AND DISTRIBUTED DIRECT ECONOMIC VALUE

GRI 201-1

Created and distributed direct economic value between 2017 and 2019.

Indicators	2017	2018	2019	Changes 2018/2017, %	Changes 2019/2018, %
EBITDA, billion tenge	212,0	249,1	313,9	18	26
Income from Main Activities, billion tenge	913,1	1 044,2	1 139,1	14,4	9
Cost of Sales, billion tenge	721,3	818,4	872,4	13,5	6,6
Operating Profit, billion tenge	105,1	128,0	170,1	22	33
Net profit for the year, billion tenge	12,1	-86,5	-70,3		
EBITDA margin, %	23,2%	23,7%	27,1%	3	14
Operating efficiency (cost/revenue from sales), %	79%	78%	77%	1,3	-1,3

Expenses for current activities from 2017 to 2019.

Indicators	2017	2018	2019	Changes 2018/2017, %	Changes 2019/2018, %
Total revenue, million tenge	913,1	1 044,2	1 139,1	14,4	9
cargo transportation, billion tenge	749,6	849,0	957,2	13,3	12,7
passenger transportation, billion tenge	81,2	84,2	84,8	3,7	0,7
subsidies, billion tenge	20,5	20,8	31,4	1	51
other, billion tenge	61,2	90,2	65,8	47,4	-27
Operating expenses, billion tenge	1040,0	1231,3	1253,1	18	2
Wages and other payments, billion tenge	277,0	304,0	322,5	10	6
EBITDA, billion tenge	212,0	249,1	313,9	3	26

ECONOMIC IMPACT IN THE REGIONS OF COMPANY OPERATION

GRI 102-15, 102-29, 203-1, 207-1

The Company has direct and indirect economic impact on the regions where it operates.

The Company's impacts, which are determined by the number of jobs, taxes paid, employee wages and development, investments, environmental impacts, and other direct investments are direct economic impacts.

Customer Satisfaction

In order to reveal problematic areas of customer interaction and taking necessary measures to improve them the Company's subsidiaries regularly make the customer satisfaction assessments.

Customer satisfaction level of «KTZ-Freight Transportation» JSC, Kaztemirtrans JSC, and KTZ Express JSC in the period from 2018 to 2019.

	«KTZ-Freight Transportation» JSC	KTZ Express JSC	Kaztemirtrans JSC
2018	60	77	n/a
2019	65	65	74

Tax Deductions

The amount of taxes and other mandatory payments paid by the Company to the budget of the Republic of Kazakhstan in the reporting year amounted to 50,608 million tenge.

Taxes and other mandatory payments to the budget of the Republic of Kazakhstan for 2019 by region, thousand tenge.

Regions of Company Operation	Total, thousand tenge	Share, %
TOTAL	50 608 602	100
Nur-Sultan	20 718 946	40,9
Shymkent	973 785	1,9
Akmola Region	2 977 284	5,9
Aktobe Region	3 984 614	7,9
Almaty Region	3 533 376	7,0
Karaganda Region	5 186 492	10,2
Zhambyl Region	1 964 563	3,9
West Kazakhstan Region	215 966	0,4
East Kazakhstan Region	1 648 776	3,3
North Kazakhstan Region	298 093	0,6
Atyrau Region	1 230 132	2,4
Pavlodar Region	1 670 282	3,3
Kyzylorda Region	1627091	3,2
Turkestan Region	192 017	0,4
Mangystau Region	2 747 761	5,4
Kostanay Region	1 639 424	3,2

Social Support

Expenses for social support of the Company's employees during the reporting period amounted to 10.8 billion tenge (10.3 billion tenge in 2018), including expenses for professional and advanced training, health resort rehabilitation of employees and pensioners, healthy lifestyle and sports development among employees, and others.

Expenses for social support of employees for the period from 2017 to 2019, million tenge.

Provision of drinking water

There is no access to clean drinking water at certain stations and sidings that are served by employees of NC KTZ JSC.

The Company provides localities with delivered water supply both for the Company's employees and the population living in these regions.

In the reporting year, 14,954 people were provided with clean drinking water.

The number of people provided with transported water by NC KTZ JSC by region, people.

Regions	Total, people
TOTAL	**14 954**
Central and Eastern	2 360
Southern	2 805
Northern	3 353
Western	6 436

INDIRECT ECONOMIC IMPACTS

GRI 203-2

In the reporting year, NC KTZ JSC approved the Methods of the Indirect Economic Impact of the Company on the regions of Company operation. This method is aimed at identifying and studying the indirect impact of the Company on the regions of its operation, as well as the ability to demonstrate the specific economic and social benefits of the Company's operation to the population.

Through purchasing and spending of employees, the Company significantly affects other sectors and industries in the country. The Company creates a certain number of additional jobs in contractor companies, which allows them to generate income and wages for their employees, as well as additional tax revenues to the country's budget.

By providing jobs, paying wages, and providing a social package to its employees, the Company has an indirect economic impact on their family members.

The total number of family members of employees of the Company and its subsidiaries is 230,726, including 149,010 children under the age of majority.

Number of family members of employees of NC KTZ JSC for the reporting year, people.

Regions	family members, people	Including: children under the age of majority, people
TOTAL	**230 726**	**149 010**
Republic of Kazakhstan	**229 707**	**144 327**
Nur-Sultan	19 859	14 511
Almaty	17 611	10 343
Shymkent	4 877	3 032
Akmola Region	10 605	6 915
Aktobe Region	21 709	15 278
Almaty Region	11 938	7 304
Karaganda Region	22 894	13 837
Zhambyl Region	18 707	12 855
West Kazakhstan Region	1 905	875
East Kazakhstan Region	11 688	7 432
North Kazakhstan Region	1 807	929
Atyrau Region	15 391	7 899
Pavlodar Region	15 876	8 347
Kyzylorda Region	13 957	8 547
Turkestan Region	13 836	10 168
Mangystau Region	14 426	8 517
Kostanay Region	12 621	7 538

Contents

PROCUREMENT PRACTICE

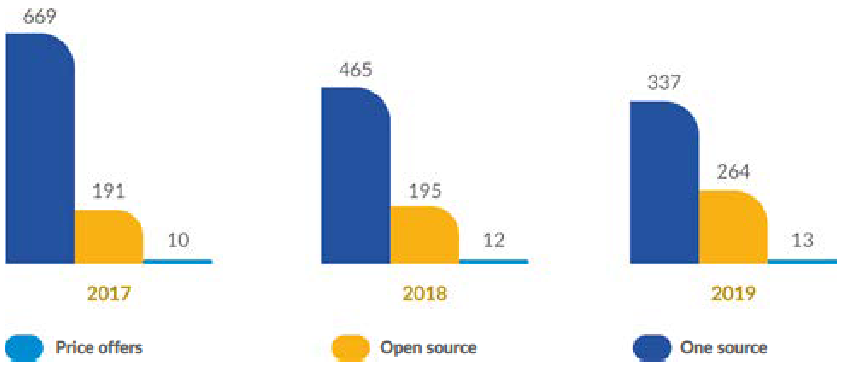
GRI 102-9, 204-1

When carrying out procurement activities, the Company is guided by the Procurement Management Policy and Regulations on Procurement of Goods, Works, and services of Samruk-Kazyna SC and organizations, fifty percent or more of the voting shares (participation interests) of which directly or indirectly belong to Samruk-Kazyna JSC on the right of ownership or trust management.

All information on procurement performed by NC KTZ JSC is published on the corporate website of the Company www.railways.kz, as well as on a specialized purchasing portal www.zakup.sk.kz and is available to all potential suppliers. The e-procurement system has significantly improved the efficiency of the procurement process and made it more transparent.

In the reporting year, purchases were made in the amount of 614 billion tenge.

Purchases of NC KTZ JSC in the period from 2017 to 2019, billion tenge.



The share of local content in purchases of goods, works, and services in the period from 2017 to 2019.

Indicators	2017	2018	2019	Changes 2018/2017, %	Changes 2019/2018, %
Actual share of local content in purchases of goods, works, and services, %	84	79	79	-6	0

Purchases of NC KTZ JSC in the period from 2017 to 2019 by region, million tenge.

	2017		2018		2019	
	Amount of contracts, million tenge	Local Content, %	Amount of contracts, million tenge	Local Content, %	Amount of contracts, million tenge	Local Content, %
Grand total, million tenge	870 133	84	671 827	79	614 345	79
Republic of Kazakhstan	857 411	84	661 049	79	575 743	79
Nur-Sultan	665 907	92	513 505	85	429 305	86
Almaty	124 463	60	60 328	56	60 162	78
Shymkent	2 629	51	2 819	65	4 934	70
Akmola	5 046	46	7 662	48	6 260	75
Aktobe	4 499	78	4 618	79	4 435	79
Almaty	4 495	81	7 931	74	7 703	85
Atyrau	13 233	66	5 243	73	2 223	83
East Kazakhstan	4 283	58	5 627	63	7 412	73
Zhambyl	2 005	55	2 460	65	3 190	78
West Kazakhstan	1 173	80	956	76	518	71
Karaganda	10 523	57	20 091	70	24 799	65
Kostanay	2 129	81	2 403	86	1 984	72
Kyzylorda	999	89	1 496	87	1 511	83
Mangystau	2 419	90	3 454	83	4 083	87
Pavlodar	5 754	67	11 355	69	12 235	69
North Kazakhstan	6 884	84	10 002	60	2 971	62
Turkestan	969	78	1 100	69	2 018	61
Non-residents	12 722	40	10 778	1	38 602	2

ANTI-CORRUPTION

GRI 205-1, 205-2, 205-3

The Company is guided by the principle of intolerance to corruption in its activities. In accordance with the Company's Charter, the Company has established and operates a Compliance Service to ensure compliance with regulatory requirements on anti-corruption issues, as well as to implement mechanisms to prevent corruption risks in accordance with the anti-corruption legislation of the Republic of Kazakhstan and the best international anti-corruption practices of the Organization for Economic Cooperation and Development.

In 2019, in order to minimize corruption risks, the Company implemented the following measures, taking into account the principles of transparency, openness, and digitalization.

In the field of HR.

In the reporting year, the process of search, selection and assesment of the personnel was centralized on the basis of the branch of KTZ NC JSC - Center for the Assessment and Development of Rail Transport Personnel.

According to the procedure of search and selection of the personnel, in 2019 1104 people were employed in the specialty, 705 of which are external candidates.

In the field of procurement.

In 2019, special purchasing offices equipped with audio and video fixation were organized in all branches and subsidiaries of the Company. In the offices, employees of the Company are obliged to negotiate with potential suppliers on procurement issues, including the consideration of complaints and appeals of potential suppliers, and the final discussion of the content of the developed technical specifications.

In the field of service provision.

In order to prevent abuse by persons engaged in passenger tickets resale, amendments were made to the Transportation Rules aimed at automating some business processes. Detailed information is provided in the passenger transportation market subsection. We are actively working to explain and promote the electronic purchase of tickets and services, use of baggage and cargo transportation services through baggage offices and mailings in the media and social networks.

A mobile monitoring group has been set up to monitor compliance with the Transportation Rules and to exclude cases of domestic corruption in passenger transport.

The process of managing freight cars was switched to paperless technology. ACS for CCW is aimed at improving the efficiency and quality of work on servicing shippers and consignees, as it provides for the automation of transport planning processes, registration of transport documents, payment for cargo transportation, electronic preliminary information, and interaction of railway information systems with border states.

Currently, the percentage of electronic transport documents processed using paperless technology in domestic transport is 90%. The transition to paperless control technology for freight cars allowed us to get rid of numerous approvals and unproductive losses, as well as increased efficiency and effectiveness. "Customer's personal account for settlements for freight transportation", provided in the ASU DKR, allows you to track the movement of money on a single personal account of the client / payer.

As part of the implementation of the railcar management and dispatching system, including through the use of IT tools in freight transport, a lease agreement for the automated control system STZh-Complex was signed. The system allows managing the following processes: accounting and maintaining contracts for cargo transportation with clients and agents, analyzing the performance of car fleets, accounting for car downtime, building trips due to the presence of an interactive map of car traffic, etc.

General Anti-Corruption Measures and Control Procedures. The Company has approved and published the following internal documents on anti-corruption issues in the public domain:

- Anti-corruption policy;
- Confidential information policy;
- Code of Ethics and Conduct.

There is a «hotline» operated by an independent provider, through which employees and third parties can report any actual or alleged violations. Banners for the hotline are placed on the Company's websites and administrative buildings. The Compliance Service records all incoming messages via the «hotline», as well as ensures their consideration and providing feedback to applicants;

All concluded agreements and transactions include an anti-corruption clause, including the right of the Company to terminate the transaction unilaterally in case of detection of corruption on the part of the counterparty. In addition, NC KTZ JSC has adopted Rules for the Verification of Civil and Legal Solvency and Business Reputation of Potential Counterparties.

In order to form the principle of zero tolerance for any manifestations of corruption in the Company, the Company's management regularly holds meetings with employees of the Company and its subsidiaries6 with the invitation of law enforcement officials. Thus, since the beginning of 2019, more than 7 meetings have been held in teams both in the corporate center of the Company and in regional divisions.

In addition, special attention was paid to training activities aimed at countering corruption, ethics, and conduct:

- the Company's Complaince - service trained 104 car attendants, 25 station attendants, 20 foremen and site managers, 26 employees of the mobile monitoring group and newly accepted employees of the Central Office of NC KTZ JSC were trained as part of the adaptation course;
- based on the results of the consideration of messages received via the hotline, preventive measures were taken at KTZ Express JSC, Kaztemirtrans JSC, and also the branches of the Company.

In general, in the reporting year, the number of confirmed events of a corrupt nature amounted to 2, including fraudulent actions and abuse of official authority - 1, and also theft - 1. In total - 3 events.

Based on the results of official investigations, a recommendation was issued to send materials to law enforcement agencies for making a procedural decision against 1 employee. Disciplinary measures were applied by terminating the employment contract with 1 employee, and 5 employees were reprimanded in accordance with the labour legislation of the Republic of Kazakhstan.

4.2.

Social responsibility

The Company is the largest employer in Kazakhstan and one of the most geographically widely present employers in the country. These circumstances impose great social obligations on the Company, which the Company fulfills with great honour.

The Company follows the principles of social responsibility and strives to:

- create the most favorable conditions for the life and work of its employees, providing them with a full «social package» and the opportunity to train and improve professional skills;
- improve the living conditions of the population of Kazakhstan by creating new jobs, reducing the transport component, increasing the mobility of the population, and implementing charitable projects.

Social Stability Index

Every year, the Center for Social Interaction and Communication of Samruk-Kazyna JSC conducts a study of the social stability index in the Company and its subsidiaries in order to determine the real assessment of personnel, communication, and social policy through the moods and opinions of employees.

At the end of 2019, the social stability index in NC KTZ JSC was 71%, which is 6% higher than that of 2018.

Thus, the social stability index for the reporting period for the Company is at the level of «above average», which indicates that the Company pays increased attention to the issues of social development in the Company. The social background and mood of the production staff indicate their positive attitude and constructive approach to solving emerging problems.

Based on the results of the research, the Company and its subsidiaries adopt Corrective Action Plans for the coming year, which reflect the recommendations of the experts of the Center for Social Interaction and Communications of Samruk-Kazyna JSC.

COMPANY PERSONNEL

Employees are the most valuable resource for the Company. To ensure favorable working conditions and staff development, the Company implements a systematic social and personnel policy.

In September 2019, the Board of Directors approved the new HR Policy of NC KTZ JSC for 2019-2029. The HR Policy is a fundamental document that defines the main approaches, principles, requirements, and directions for the development of the human resource management function in the Company and its subsidiaries until 2029.

HR policy defines key performance indicators with expected results. At the end of 2019, the efficiency was 97%.

HR Policy initiatives are defined in the following areas:

- corporate culture development;
- leadership development;
- development of HR competencies.

GRI 102-7

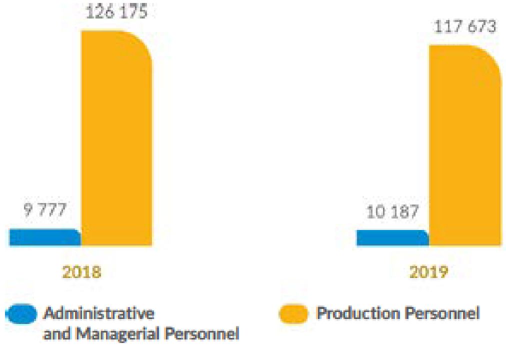
At the end of 2019, the Company's headcount of staff was 127 860 people.

GRI 405-1

The number of employees on the payroll, broken down by gender and region at the end of the reporting period.

		Including	
	Total number	women	men
Total	**127860**	**31381**	**96479**
Nur-Sultan	13 680	5 202	8 478
Almaty	7 103	2 127	4 976
Shymkent	2 666	691	1 975
Akmola	8 291	1 600	6 691
Aktobe	11 882	2 510	9 372
Almaty	8 777	1 638	7 139
Atyrau	6 218	3 051	3 167
East Kazakhstan	8 591	1 898	6 693
Zhambyl	9 223	1 392	7 831
West Kazakhstan	1 687	413	1 274
Karaganda	13 398	3 024	10 374
Kostanay	8 259	2 040	6 219
Kyzylorda	7 023	1 211	5 812
Mangystau	6 107	1 401	4 706
Pavlodar	9 052	2 450	6 602
North Kazakhstan	1 454	429	1 025
Turkestan	4 449	304	4 145

List number of employees, broken down by category in the period 2018-2019.

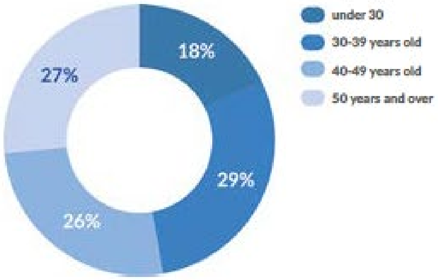


Production personnel out of the total number of employees make up 117,673 people or 92%,

administrative and managerial personnel amounted to 10,187 people or 8% (in 2018, 93% and 7%, respectively).

Contents

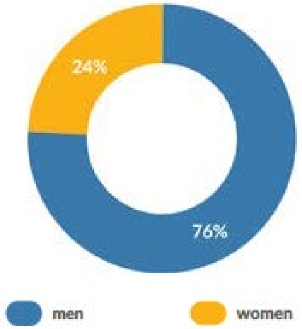
Percentage of employees by age during the reporting period



Employees in the age groups of 30-39 years old, 40-49 years old, and over 50 years old are represented evenly and have small differences in the number.

At the same time, the proportion of young employees under the age of 30 is a minority – 18% of the total number of employees.

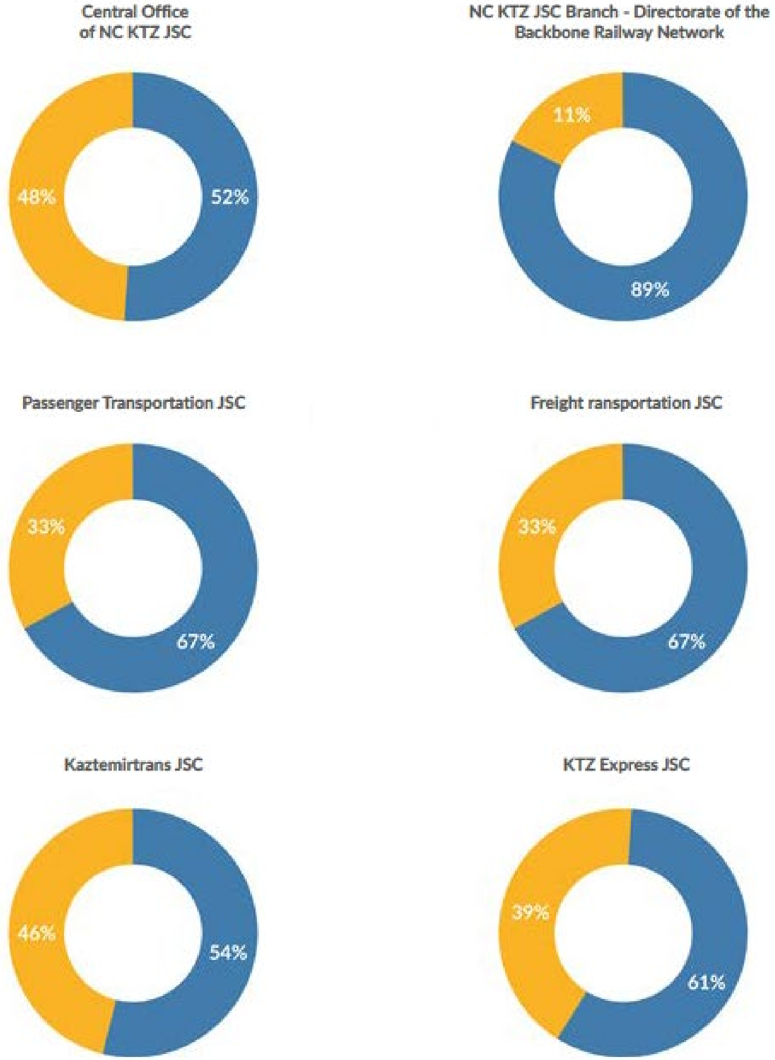
Percentage of employees by gender during the reporting period



The gender structure of the staff is represented by the main share of men and remains unchanged since 2018 - 76% - due to the specifics of the Company's activities.

Women make up 24% of the total staff number.

Structure of the management staff by gender for the reporting period in the Central office of the Company, the branch of NC KTZ JSC - «Directorate of the Backbone Railway Network», and key subsidiaries



GRI 401-1

Number of employees who left the Company, by category

	2017	2018	2019	Changes 2018/2017, %	Changes 2019/2018, %
Administrative and Managerial Staff, people	730	760	835	4,10	9,86
Production Staff, people	8 713	9 183	11 045	5,39	20,27
TOTAL	**9 443**	**9 943**	**11 880**	**5,29**	**19,48**

Number of employees who left the Company, by gender

	2017	2018	2019	Changes 2018/2017, %	Changes 2019/2018, %
Women	2 269	1 822	2 389	-19,7	31,12
Men	7 174	8 121	9 491	13,2	16,87
TOTAL	**9 443**	**9 943**	**11 880**	**5,29**	**19,48**

Number of employees who left the Company, by age

	2017	2018	2019	Changes 2018/2017, %	Changes 2019/2018, %
Women	2 269	1 822	2 389	-19,7	31,12
under 30 years	901	956	1502	6,10	57,11
30-50 years	853	762	706	-10,66	-7,34
over 50 years	515	104	181	-79,80	74,03
Men	7 174	8 121	9 491	13,2	16,87
under 30 years	1603	2179	2133	35,93	-2,11
30-50 years	4666	4610	5995	-1,20	30,04
over 50 years	905	1332	1363	47,18	2,32
TOTAL	**9 443**	**9 943**	**11 880**	**5,29**	**19,48**

Number of employees who left the Company, by region

	2017	2018	2019	Changes 2018/2017, %	Changes 2019/2018, %
Women	2 269	1 822	2 389	-19,70	31,12
Republic of Kazakhstan	**2 269**	**1 822**	**2 389**	**-19,70**	**31,12**
Nur-Sultan	570	445	625	-21,92	40,44
Almaty	270	238	311	-11,85	30,67
Shymkent	30	22	51	-26,66	131,81
Akmola	128	128	98	0	-23,43
Aktobe	206	81	110	-60,67	35,80
Almaty	118	124	108	5,08	-12,90
Atyrau	117	57	53	-51,28	-7,01
East Kazakhstan	121	157	97	29,75	-38,21
Zhambyl	83	56	200	-93,27	257,14
West Kazakhstan	15	19	41	26,66	115,78
Karaganda	131	151	211	15,26	39,73
Kostanay	134	92	127	-31,34	38,04
Kyzylorda	129	16	20	-87,59	25
Mangystau	55	56	109	1,81	96,64
Pavlodar	122	151	186	23,77	23,17
North Kazakhstan	17	12	21	-29,41	75
Turkestan	23	17	21	-26,08	23,52
Men	7 174	8 121	9 491	13,20	16,87
Republic of Kazakhstan	**7 174**	**8 121**	**9 491**	**13,20**	**16,87**
Nur-Sultan	1 093	1 182	1 359	8,14	14,97
Almaty	784	434	615	-44,64	41,70
Shymkent	168	166	296	-1,19	78,31
Akmola	401	751	676	87,28	-9,98
Aktobe	567	742	634	30,87	-14,55
Almaty	345	423	726	22,60	71,63
Atyrau	485	364	370	-24,94	1,64
East Kazakhstan	513	691	803	34,69	16,20
Zhambyl	306	359	615	17,32	71,30
West Kazakhstan	134	137	170	2,23	24,08
Karaganda	734	796	883	8,44	10,92
Kostanay	610	693	936	13,60	35,06
Kyzylorda	170	144	151	-15,29	4,86
Mangystau	242	283	261	16,94	-7,77
Pavlodar	450	773	754	71,77	-2,45
North Kazakhstan	75	73	97	-2,66	32,87
Turkestan	97	110	145	13,40	31,81

Attrition rate by the results of the reporting year is 8.9%

Number of employees employed by the Company, by gender

	2017	2018	2019	Changes 2018/2017, %	Changes 2019/2018, %
Women	3 555	4 029	2 615	13,33	-35,09
Men	9 609	10 039	7 410	4,47	-26,18
TOTAL	**13 164**	**14 068**	**10 025**	**6,86**	**-28,73**

Number of employees employed by the Company, by age

	2017	2018	2019	Changes 2018/2017, %	Changes 2019/2018, %
Women	3 555	4 029	2 615	13,33	-35,09
under 30 years	1 130	1 327	1 122	17,43	-15,44
30-50 years	1 949	2 039	1 272	4,61	-37,61
over 50 years	476	663	221	39,28	-66,66
Men	9 609	10 039	7 410	4,47	-26,18
under 30 years	4 168	4 372	2 905	4,89	-33,55
30-50 years	3 930	3 847	3 344	2,15	-13,07
over 50 years	1 511	1 820	1 161	20,45	-36,20
TOTAL	**13 164**	**14 068**	**10 025**	**6,86**	**-28,73**

Number of employees employed by the Company, by region

	2017	2018	2019	Changes 2018/2017, %	Changes 2019/2018, %
Women	3 555	4 029	2 615	13,33	-35,09
Republic of Kazakhstan	**3 550**	**4 028**	**2 613**	**13,46**	**-35,12**
Nur-Sultan	667	678	513	1,6	-24,33
Almaty	394	430	320	9,13	-25,58
Shymkent	68	60	33	-11,76	-11,76
Akmola	268	349	159	30,22	-54,44
Aktobe	241	277	265	14,94	-4,33
Almaty	195	189	78	-3,07	-58,73
Atyrau	149	180	105	20,80	-41,66
East Kazakhstan	206	302	177	46,6	-41,39
Zhambyl	203	219	123	7,88	-43,83
West Kazakhstan	18	20	22	11,11	10
Karaganda	498	508	290	2,0	-42,91
Kostanay	163	249	168	52,76	-32,53
Kyzylorda	102	80	55	-21,56	-31,25
Mangystau	120	130	54	8,33	-58,46
Pavlodar	203	280	189	37,93	-32,50
North Kazakhstan	35	67	48	-80	-28,35
Turkestan	20	10	14	-50	40
Men	9 609	10 039	7 410	4,47	-26,18
Republic of Kazakhstan	**9 586**	**9 964**	**7 319**	**3,94**	**-26,54**
Nur-Sultan	1 434	1 835	1 174	27,96	-36,02
Almaty	896	969	716	8,14	-26,10
Shymkent	134	248	58	85,07	-76,61
Akmola	767	598	471	-22,03	-21,23
Aktobe	495	533	532	7,7	-0,18
Almaty	520	515	380	-0,96	-26,21
Atyrau	420	431	299	2,61	-30,62
East Kazakhstan	591	609	639	3,04	4,92
Zhambyl	407	460	275	13,02	-40,21
West Kazakhstan	235	130	56	-44,68	-56,92
Karaganda	789	896	749	13,56	-16,40
Kostanay	787	653	759	-17,02	16,23
Kyzylorda	373	401	93	7,50	-76,80
Mangystau	345	418	214	-87,50	-48,80
Pavlodar	889	945	679	6,29	-28,14
North Kazakhstan	105	111	58	5,71	-47,74
Turkestan	350	212	167	-39,42	-21,22
TOTAL	**13 164**	**14 068**	**10 025**	**6,86**	**-28,73**

GRI 102-8

List of employees by type of employment at the end of 2019

		Including	
	Total number	men	women
List number of employees	127 860	96 479	31 381
full-time employment	127 292	96 433	30 859
part-time employment	568	46	522

GRI 102-8

List of employees by employment contract at the end of 2019

		Including	
	Total number	men	women
List number of employees	127 860	96 479	31 381
Employees working under employment contracts for an indefinite period	126 859	95 801	31 058
Employees working under temporary (fixed-term) employment contracts	1 001	678	323

GRI 102-8

List number of employees by full-time and part-time employees at the end of 2019

		Including	
	Total number	men	women
List number of employees	127 860	96 479	31 381
Full-time employees	127 860	96 479	31 381
Part-time employees	0	0	0

GRI 401-3

List number of employees on maternity leave at the end of 2019

		Including	
	Total number	men	women
Total employees on leave for child care	4 121	57	4 064

List number of employees returned from parental leave at the end of 2019

		Including	
	Total number	men	women
Total employees returned from maternity/paternity leave	374	23	351

The number of employees on parental leave at the end of 2019 was 4,121 people (4,015 in 2018), with a large proportion of women – 98.7 %. The number of women on maternity leave is 4,064 (4011 in 2018).

The number of employees who returned to work after the end of parental leave at the end of 2019 was 374 people (156 in 2018).

Personnel Assessment

GRI 404-3

On December 14, 2017, the Corporate Standard for Human Resource Management of the Samruk-Kazyna Group (Minutes No. 44/17) (hereinafter referred to as the Corporate Standard) was approved by the decision of the Management Board of Samruk-Kazyna JSC.

By the decision of the Management Board of NC KTZ JSC as of October 3, 2019, approved the updated Rules of Assessment Activities of Administrative and Management Employees of NC KTZ JSC and its subsidiaries.

These Rules provide for a process of regular comprehensive assessment of personnel activities according to the talent map (9-cell model). From a quarterly performance assesment, administrative and management personnel switched to a semi-annual performance assesment.

In 2019 - 1,161 employees of the Company's Group were assessed.

SOCIAL POLICY

The Company provides its employees with a social package that includes a wide range of benefits, creates all conditions for professional and personal development, pays special attention to youth policy and promotion of a healthy lifestyle, and conducts a large-scale charity campaign. Significant support is provided to retired employees and their families.

SO, IN THE REPORTING YEAR, THE COMPANY PROVIDED MATERIAL ASSISTANCE:

235 million tenge
To the pensioners in order to improve and maintain health

821 million tenge
To the workers for the birth of a child

41 million tenge
To employees alone raising children with disabilities

79 million tenge
To the employees in the connection to the registration of marriage

In 2019, the Company's social expenditures exceeded the level of 2018 by 11% and amounted to 9.1 billion tenge.

Collective Agreement

GRI 102-41, 402-1

Social guarantees for the protection of labour rights, remuneration, labour protection, health, and recreation of employees and their children, as well as additional standards for improving the social status of employees, are reflected in the Sectoral Agreement on Social and Labour Issues and the Collective Agreement for 2018-2020.

In accordance with the Collective Agreement, the Company has assumed obligations to comply with the norms in the field of social and labour relations, to provide material support and social guarantees to employees, non-working pensioners, and disabled people in the Company, as well as victims of industrial accidents and occupational diseases. In addition, there are a number of obligations to provide social guarantees to young people and employees' families, including summer holidays and rehabilitation of the Company's employees' children.

77,4%
of employees are covered by collective agreements

GRI 402-1

The Company's Collective agreement provides for the Company's obligations to notify employees and their representatives of significant changes in the Company's operations that affect the working conditions of employees. The deadline for notifying employees of the announcement of downtime is no later than fifteen calendar days. The Company undertakes to notify the relevant Trade Union bodies no later than one month in advance of its intention to abolish the Company's structural divisions, while including Trade Union representatives in the relevant commissions or working groups. Also, when increasing the number of employees, it is planned to send notifications about available vacancies to employees who were dismissed due to staff reduction in the last six months, which is not provided by the Labour Code of the Republic of Kazakstan.

Financial Incentives

NC KTZ JSC takes all necessary measures to preserve social stability and improve the labour and motivation of employees.

Average monthly salary level

	2017	2018	2019	Changes 2018/2017, %	Changes 2019/2018, %
Average monthly salary					
of administrative staff, tenge	261 556	291 974	316 443	11,6	8,4
of production personnel, tenge	147 105	164 143	175 411	11,6	6,8

The practice of encouraging employees of regional branches of NC KTZ JSC and subsidiaries who have shown the best results based on the results of rating assessment on the principle of industry competition continues.

Thus, in 2019, bonuses in a total amount of 1.51 billion tenge were paid to employees of linear branches and subsidiaries of NC KTZ JSC.

In addition, in 2019, a bonus in the amount of 7 million tenge was paid to employees of linear branches of the Directorate of the Backbone Railway Network who prevented violations of train safety. A total of 16 million tenge was awarded to masters of industrial training for high-quality training of employees who ensure the safety of train traffic.

Besides in 2019, employees of the group of companies of NC KTZ JSC were paid one-time bonuses for the professional holiday - the Day of Transport Workers - and the Independence Day of the Republic of Kazakhstan.

GRI 405-2

Basic salary level for men and women for the reporting period

	Administrative staff[1]	Production personnel[2]
Base salary amount		
women, tenge	148 000	52 529
men, tenge	148 000	52 529

Note: [1] Manager of the Central office of NC KTZ JSC (13 grade); [2] cleaner of «KTZ-Freight transportation» JSC (2 category).

GRI 202-1

The ratio of the level of the minimum salary of employees by gender to the level of the established minimum salary for the reporting period

Minimum salary	
women, tenge[1]	45 474
men, tenge[1]	45 474
minimum salary[2]	42 500

Note: [1] level of salary of the caretaker of the building of Military Railway Security Service JSC;
[2] the minimum salary of the Republic of Kazakhstan is established by the Law «On the Republican Budget for 2019-2021» as of November 30, 2018, No. 197-VI.

Contents

Improving the level of professional knowledge of employees

GRI 404-2

NC KTZ JSC creates all conditions for professional and personal development and growth, and constant improvement of the level of corporate and managerial competencies of its employees.

The Company's personnel development system provides advanced training programs in accordance with production needs and strategic goals based on training centers of NC KTZ JSC, as well as domestic and foreign educational institutions. On an ongoing basis, employees are being taught the state and English languages.

In total, 36,219 employees of NC KTZ JSC and its subsidiaries were trained in 2019, including:

- 16,333 employees were trained in third-party organizations;
- 11 employees received educational grants (master's/ doctorate) ;
- 677 employees studied the state language;
- 798 employees studied the English language.

Five training centers of the NC KTZ JSC branch - «Training Centers for Railway Transport Workers» located in the regions of the country provided professional training to 18,400 employees, among them:

- Pavlodar Training Center – 2,973 employees;
- Karaganda Training Center – 4,156 employees;
- Aktobe Training Center – 3,592 employees;
- Taraz Training Center – 3,196 employees;
- Nur-Sultan Training – 4 483 employees.

The cost of training the staff of the group of companies of NC KTZ JSC in 2019 amounted to more than 1.7 billion tenge.

36 219
employees received training and advanced training in 2019

GRI 404-1

Number of trained employees and training expenses by gender for the reporting period

	Including	
	Women	Men
Number of trained employees, people	12 676	23 543
Training expenses, thousand tenge	993 798	724 642
Average annual quantity of hours of training per employee	18,05	38,54

Number of trained employees and training expenses by employee category during the reporting period

	Including			
	Senior management	Middle management	Administrative staff	Production personnel
Number of trained employees, people	7	40	7063	29109
Training expenses, thousand tenge	2 750	6 360	548 395	1 160 935
Average annual quantity of hours of training per employee	2,2	2,0	19,83	35,54

CHARITABLE AND SPONSORSHIP ACTIVITIES

Samruk-Kazyna Trust Corporate Fund implements the unified policy on providing charitable assistance to the group of companies of Samruk-Kazyna JSC. Along with this, the Company implements the following programs aimed at promoting a healthy lifestyle, implementing youth policy, providing assistance to vulnerable segments of the population, poor citizens, and others.

Caring for Pensioners

The number of pensioners registered with the Company is more than 48 thousand people.

Created in 2013, the Central Council of Railway Veterans of NC KTZ JSC provides social support to non-working pensioners by:

- visits to sick and lonely pensioners at home and in hospitals;
- congratulations to the anniversaries with significant dates of 70, 80, 90, 100 years;
- providing consulting, explanatory and practical assistance.

The main components of the social package of non-working pensioners of NC KTZ JSC are:

- annual free travel;
- sanatorium and resort improvement;
- payment for dental prosthetics;
- financial assistance for burial;
- one-time financial assistance to anniversaries of 70, 80, 90, 100 years.
- financial assistance under the decision of the Commission for consideration of social and household issues;
- financial assistance for the holidays of the Day of Transport Workers, Victory Day.

Expenses for health resort rehabilitation and material support of pensioners in the reporting period amounted to 701,723 thousand tenge.

It should be noted that NC KTZ JSC is the only national company and the industry as a whole that has an advisory body from among the most experienced veterans of the industry - the Advisory Council - the guardian of the traditions of the railway industry, which is a worthy example to follow, especially for young people working in the Company.

Concern for the Future Generation

NC KTZ JSC pays great attention to the younger generation, as children of railway workers in the future may follow in the footsteps of their parents and make a significant contribution to the development of the railway industry.

The Company annually organizes events for children aimed at improving the image of the railway industry employee among the younger generation, including various competitions with the participation of employees' children.

Children of employees of the Group of Companies of NC KTZ JSC take an active part in corporate events dedicated to state and industry holidays. Thus, in 2019, 120 thousand children took part in various events and competitions organized by the Company.

Paying great attention to the development and improvement of children during school holidays, NC KTZ JSC provides employees' children with vouchers to children's health centers of the country, while simultaneously providing life insurance for children from accidents, provides transportation of children by rail to and from places of recreation. During the reporting period, 7,470 children of the Company's employees visited children's health centers. At the same time, the expenses for the summer holidays of employees' children amounted to 545,210 thousand tenge.

Caring for Young Employees

Today, National Company Kazakhstan Temir Zholy Joint-stock Company employs more than 45 thousand young employees under the age of 35.

A key element of the Company's human resources development is the systematic implementation of the corporate youth policy.

The Youth Policy Program adopted for 2016-2021 consists of a set of programs aimed at improving professional skills, raising corporate morale, developing a system for attracting young people, its effective adaptation and consolidation in the Company, involving young people in solving corporate tasks, developing international youth cooperation, spiritual, moral, and patriotic education of young people, as well as promoting the values of a healthy lifestyle and sports among young people.

The main programs implemented within the framework of youth policy are the corporate camp «Sen bolmasan, kim?», competitions «Project management», «Zhas uzdik maman», the Program «100 young persons of KTZ», the KVN movement.

In 2019, as part of the implementation of the youth policy, 10,000 employees actively participated in these programs.

Assistance to victims in Arys

In 2019, the Company and its employees rendered all possible assistance to the residents of Arys (the Turkestan region) who were affected by the explosions.

Over 180 million tenge was collected by the employees of NC KTZ JSC to provide assistance to the railroad victims of the explosion.

70 million tenge of this funds was transferred to the account of the Turkestan Corporate Social Development Fund under the akimat of the Turkestan region to provide assistance to the victims.

27 employees who lost their houses were sent to Kazakhstani sanatoriums. Children of railway workers received free trips to health camps.

Also, together with the branch trade union, we organized an excursion and rehabilitation tour in the city of Nur-Sultan for 50 children of workers from Arys.

In addition, household goods, bedding, food and clothing were collected and sended to Arys.

On the initiative of young railway workers, within the framework of the project «Let's collect children to school», more than 700 children of railway workers from Arys received assistance from NC KTZ JSC.

Promoting a Healthy Lifestyle

The Company pays great attention to the formation of a healthy lifestyle among its employees and their family members, non-working pensioners.

The organization of mass and physical culture and recreation work in the regions is carried out by 41 sports instructors.

Every year, mass sports events in various sports are held to celebrate Nauryz, Day of Transport Workers, Constitution Day, Independence Day of the Republic of Kazakhstan.

Also, NC KTZ JSC holds Republican Competitions of NC KTZ JSC in winter and summer sports, a sports contest among employees of the Central Office, branches, and subsidiaries of NC KTZ JSC, a sports holiday «Dad, mom, and me are a sports family!».

Every year, about 300 mass sports and fitness events are held, covering more than 15,000 people.

Railwaymen in 2019 took part in 170 (district, regional and national) competitions covering more than 2,300 people. In addition, the administrative building of NC KTZ JSC operates a sports complex (gym and swimming pool), which hosts sectional classes in volleyball, basketball, mini-football, and swimming, where employees can actively relax in their free time after heavy physical and mental loads. More than 34,000 people visit the complex every year.

NC KTZ JSC as a Member of the International Union of Railway Athletes (USIC), which includes 24 states, takes an active part in USIC events, as well as in the Congress of the Union.

Volunteering

The corporate volunteer movement is actively developing in NC KTZ JSC, which contributes to the formation of employees and the expression of their civil position, self-organization, development of a sense of social responsibility, and involvement in what is happening in the country, the development of mutual aid and charity in the society.

Volunteers, the majority of whom are young people, carry out their work in the following areas:

- assistance to low-income, large families;
- crowdfunding (raising funds for the treatment and rehabilitation of children with complex diseases from among the poor);
- support for single elderly people;
- organization of environmental protection events;
- support for cultural organizations;
- visiting orphanages and other organizations;
- support and organization of events for children and adults with disabilities, etc.

Promotion of volunteer activities is carried out by the project «Marathon of Youth Initiatives». In each region, more than 30 actions aimed at socially vulnerable segments of the population were implemented within the framework of this project in the reporting year.

First KTZ Marathon

In 2019, the Company held the first KTZ Marathon under the motto «For the GOOD of change! Take Part in the First One!»

The event is part of the large strategy to improve the corporate culture of NC KTZ JSC, aimed at promoting a healthy lifestyle, developing internal communications, and improving the Company's image.

The marathon was attended by more than 320 employees of the Group of Companies NC KTZ JSC, including those from the regions, industry veterans, as well as family members of employees.

HEALTH, SAFETY AND ENVIRONMENT

The Company's employees are its main value. Therefore, ensuring safe working conditions for employees and protecting their health are tasks of particular importance.

Health protection and medical support

GRI 403-2

The health of employees and medical support are among the most important priorities of the social policy carried out by NC KTZ JSC.

In 2019, contracts for voluntary medical insurance in the amount of 1,758 million tenge were signed for 55,688 employees of the group of companies of NC KTZ JSC.

83,979 people underwent periodic medical examinations. More than 9,000 pre-shift (pre-trip) and post-shift (post-trip) medical examinations of employees were conducted.

The working conditions of railway workers are associated with a number of adverse factors, including significant physical, psycho-emotional overload, traveling nature of work, as well as a long stay in the open air.

Such working conditions are the main risk factor for the development of a number of diseases of the respiratory, cardiovascular, digestive systems, musculoskeletal system, and occupational intoxication.
In the reporting year, based on the results of medical examinations, 67 employees were found temporarily and permanently professionally unfit.

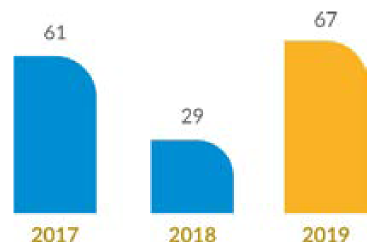
The specialization of the sanatorium named after S. Seyfullin includes diseases of the cardiovascular system and musculoskeletal system, as well as respiratory organs (with the exception of tuberculosis).
The following types of treatment are performed by the experienced and qualified medical staff of the sanatorium:

- *mud therapy (mud applications and galvanic mud, mud of the local therapeutic mud lake);*
- *baths (coniferous, salt, Zalmanov baths, etc.);*
- *therapeutic saunas;*
- *therapeutic showers;*
- *pressure chamber;*
- *colon hydrotherapy;*
- *treatment with an infrared magnetolaser;*
- *hardware physiotherapy treatment (DMV, SMT) darsanval, electrophoresis, magnetotherapy, UTZ, UHF, electroson, ICV;*
- *massage department;*
- *department of physical therapy;*
- *phytotherapy;*
- *ultrasound diagnostics;*
- *halocamera - room of a salt mine.*

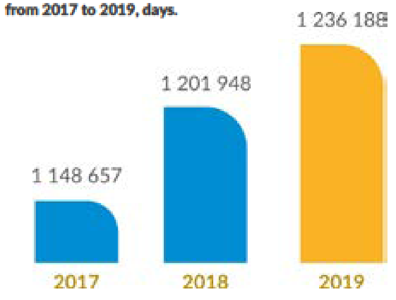
The number of employees deemed permanently or temporarily unfit by region, age, and gender at the end of the reporting period.

	Total number	в том числе:					
		By gender		By age			
		Women	Men	under 35 years old	36-45 years old	46-50 years old	over 50 years old
Republic of Kazakhstan	67	4	63	3	10	14	40
Nur-Sultan	0						
Almaty	8		8			4	4
Shymkent	5	1	4		1	2	2
Akmola	0						
Aktobe	15		15	1	4	3	7
Almaty	10		10				10
Atyrau	2		2			2	
East Kazakhstan	1		1				1
Zhambyl	9		9	1	1	1	6
West Kazakhstan	2		2				2
Karaganda	0						
Kostanay	10	3	7	1	3	2	4
Kyzylorda	2		2				2
Mangystau	0						
Pavlodar	0						
North Kazakhstan	1		1		1		
Turkestan	2		2				2

Dynamics of the number of employees recognized as permanently and temporarily unfit for work in the period from 2017 to 2019.



Dynamics of the number of days of disability due to illness of employees in the period from 2017 to 2019, days.



The number of days of disability due to illness was 1,236,188 days, of which women accounted for 849,914 days or 68.75%, the number of days of disability due to illness for men was 386,274 days or 31.23 %.

An important part of the Company's social policy, which allows purposefully and effectively carry out disease prevention and rehabilitation treatment of the Company's employees, is the organization of health resort care.

During 2019, over a group of companies, more than 10,000 employees and retirees received sanatorium-resort recreation on concessional sanatoriums (more than 5% of the total number), including more than 4,000 in the sanatorium named after Saken Seyfullin, administered by KTZ – Freight transportations.

Occupational Safety and Health

GRI 403-1, 403-3, 403-4

Management of industrial safety processes is performed in accordance with the Guidelines for the industrial safety management system in NC KTZ JSC and its subsidiaries, which is developed in accordance with the requirements of the international standard OHSAS 18001:2007: Occupational Health and Safety Management Systems. Requirements, interstate standard GOST 12.0.230: System of Labour Safety Standards. Labour Protection Management System. General requirements of ILO OSH2001 and is the main document that regulates the activities of safety and labour protection management in the Group of Companies of NC KTZ JSC.

Compliance with the principles of the OHSAS 18001:2007 standard is confirmed by a certificate of compliance received from the international certifying body - SGS Company.

In 2019, the Company improve working conditions, prevent industrial injuries and occupational diseases in accordance with the policy of NC KTZ JSC in the field of labour protection, as well as within the framework of the Collective Agreement.

9.1 billion tenge was spent on the implementation of measures to improve labour conditions and safety for all sources of financing (including subsidiaries), including:

- 2.7 billion tenge for measures to improve labour conditions and safety across all sources of funding;
- 1.7 billion tenge for workwear, footwear and other personal protective equipment;
- 4.7 billion tenge for benefits and compensation for working conditions.

Average expenses for measures to improve labour conditions and safety in terms of one employee of NC KTZ JSC amounted to 38.2 thousand tenge (35 thousand tenge in 2018).

In general, NC KTZ JSC implemented 3,057 measures to create safe working conditions for employees in the workplace.

According to the requirements of industry standards, employees of the Company are provided with certified special clothing and footwear, as well as other personal protective equipment.

As of the end of 2019, according to the results of certification of production facilities according to the working conditions, there were established 21 509 (22 959 in 2018) jobs in the Company, where 47 581 employees or 39% of the total number of employees of NC KTZ JSC are employed in harmful, difficult, and stressful working conditions.

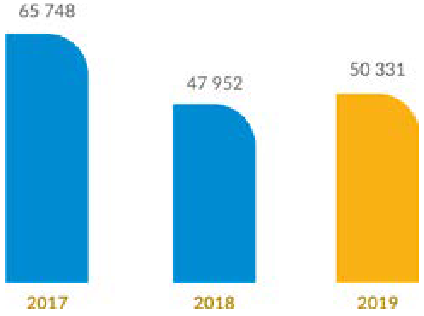
During the reporting period, the largest share of the total number of jobs with harmful, difficult, and stressful working conditions is occupied by jobs with the following production factors:

17,6%	15,8%	3,6%	1,4%	0,3%	0,2%
heaviness of work	loud noise	intensity	electromagnetic radiation	microclimate	chemical factor

The number of employees engaged in heavy work with harmful (especially harmful) and (or) dangerous working conditions by region, age, and gender at the end of the reporting period.

	Total number	Including					
		By gender		By age			
		Women	Men	under 35	36-45 years old	46-50 years old	over 50 years old
Republic of Kazakhstan	50 331	4 049	46 282	15 482	14 515	9 839	10 495
Nur-Sultan	38	31	7	11	11	6	10
Almaty	2	1	1	0	1	0	1
Shymkent	0	0	0	0	0	0	0
Akmola	4 836	395	4 441	1 714	1 317	1 040	765
Aktobe	7 557	920	6 637	1 996	1 507	2 415	1 636
Almaty	4 690	62	4 628	2 015	1 427	725	523
Atyrau	1 146	5	1 141	285	291	185	385
East Kazakhstan	2 280	395	1 885	702	812	301	465
Zhambyl	4 419	127	4 292	1 579	1 245	751	844
West Kazakhstan	492	16	476	153	111	80	148
Karaganda	6 038	133	5 905	1 056	2 861	1 448	676
Kostanay	4 413	262	4 151	935	1 326	801	1 351
Kyzylorda	2 816	97	2 719	948	691	408	769
Mangystau	2 627	186	2 441	1 216	732	291	388
Pavlodar	5 262	1 175	4 087	1 591	1 431	851	1 389
North Kazakhstan	392	39	353	112	120	99	61
Turkestan	3 323	205	3 118	1 169	632	438	1 084

Dynamics of the number of employees engaged in heavy work, with harmful (especially harmful) and (or) dangerous working conditions in the period from 2017 to 2019.



One of the main preventive measures in the occupational safety management system aimed at reducing the number of accidents at work is the training of managers, specialists and employees according to the requirements of occupational safety and health.

In accordance with the Roadmap on Improvement of the Industrial Safety Management System, a program was developed and training of TOP managers, internal trainers, and change leaders of the Company on behavioral safety dialogue was conducted in the amount of 939 hours.

Occupational Injury

GRI 403-2, 403-3

Improving the safety of people working at railway facilities and reducing injuries is one of the Company's priorities.

Forum on Industrial Safety

In 2019, NC KTZ JSC held the First Forum on Industrial Safety. During the forum, the programs of Behavioral Safety Dialogues, Stop the danger!, Accidents without Consequences were launched. An important event was the introduction of the principle of «stop production in the event of a threat to life», according to which every employee of the Company has the right to stop work if they notice a potential danger to themselves and their colleagues in the workplace.

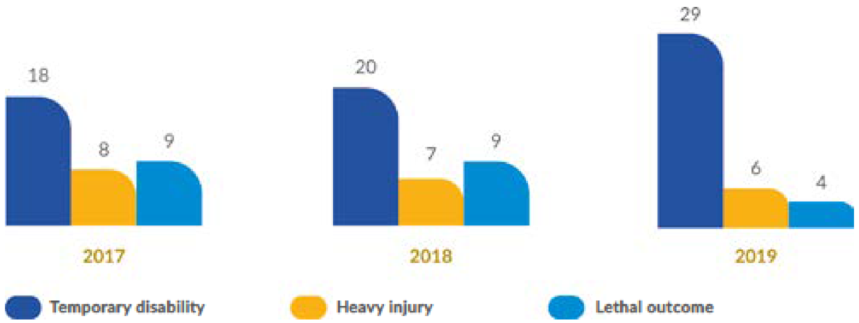
Indicators of industrial injuries in 2019 amounted to 35 accidents (30 cases in 2018), including 3 group accidents (4 cases in 2018), 4 fatal accidents (9 cases in 2018), and 6 accidents resulting in disabilities (6 cases in 2018). The average Disability Injury Frequency Rate along the Company was 0.24 (0.23 in 2018), material damage amounted to 399,941 thousand tenge (454,910 thousand tenge in 2018).

The level of occupational injuries by gender, region, and level of injuries (temporary disability, severe, fatal); by region, age, and gender at the end of the reporting period.

	Total number	Including					
		By gender		By age			
		Women	Men	under 35	36-45 years old	46-50 years old	over 50 years old
Level of injury: temporary disability							
Republic of Kazakhstan	29	5	24	8	5	9	7
Nur-Sultan	3	1	2	1		2	
Almaty	1	1				1	
Shymkent	0						
Akmola	0						
Aktobe	0						
Almaty	1		1	1			
Atyrau	0						
East Kazakhstan	4		4		1	2	1
Zhambyl	4		4	2			2
West Kazakhstan	0						
Karaganda	5	1	4	1	2	1	1
Kostanay	4		4	2	1		1
Kyzylorda	0						
Mangystau	3		3	1	1	1	
Pavlodar	4	2	2			2	2
North Kazakhstan	0						
Turkestan	0						

	Total number	Including					
		By gender		By age			
		Women	Men	under 35	36-45 years old	46-50 years old	over 50 years old
Level of injury: heavy							
Republic of Kazakhstan	6	0	6	2	0	1	3
Nur-Sultan	1		1			1	
Almaty	1		1	1			
Shymkent	0						
Akmola	1		1				1
Aktobe	0						
Almaty	0						
Atyrau	0						
East Kazakhstan	0						
Zhambyl	1		1	1			
West Kazakhstan	0						
Karaganda	1		1				1
Kostanay	0						
Kyzylorda	1		1				1
Mangystau	0						
Pavlodar	0						
North Kazakhstan	0						
Turkestan	0						
Level of injury: fatal							
Republic of Kazakhstan	4	0	4	1	1	2	0
Nur-Sultan	0						
Almaty	0						
Shymkent	0						
Akmola	0						
Aktobe	1		1		1		
Almaty	1		1			1	
Atyrau	0						
East Kazakhstan	1		1			1	
Zhambyl	0						
West Kazakhstan	0						
Karaganda	0						
Kostanay	1		1	1			
Kyzylorda	0						
Mangystau	0						
Pavlodar	0						
North Kazakhstan	0						
Turkestan	0						

Dynamics of injuries in the period from 2017 to 2019.



In the reporting year, the Company took measures aimed at reducing industrial injuries, including:

- conducting comprehensive inspections of the security and labour protection state in 97 enterprise of line-level;
- joining the Company to the concept of zero injuries «VIZION ZERO»;
- holding a Round Table on health issues with the participation of representatives of authorized bodies, 2 regional forums (Atyrau, Aktau) of chief engineers on the topic «Our Safety is Our Life», Forum on Industrial Safety of the Company;
- conducting the Olympiad on safety and labour protection (Nur-Sultan) among HSE specialists;
- proactive tools (checklists, news-sheets, bulletins, posters, memos, security minutes) were developed;
- short film «Life is priceless» was released;
- 18 top managers of the Company were trained under the Behavioral Security Dialogue Program (Nur-Sultan);
- 313 top managers, change leaders, and internal trainers of the Company were trained under the Behavioral Security Dialogue Program (Nur-Sultan, Karaganda, Aktau, Taraz, Aktobe).

4.3.

Environmental responsibility

Despite the fact that rail transport is the most environmentally friendly mode of transport in the world, the Company does not waive its responsibility to minimize the negative impact on the environment.

ENVIRONMENTAL MANAGEMENT SYSTEM

GRI 307-1

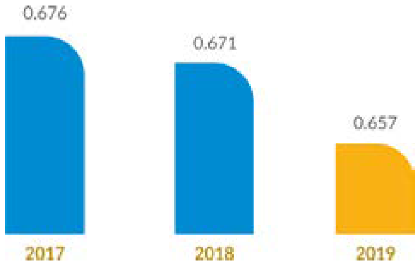
The results of the inspection audit of NC KTZ JSC, conducted in 2019 by the auditors of SGS Kazakhstan LTD, confirmed the compliance of the Company's environmental management system with the requirements of ISO 14001:2015 «Environmental Management Systems».

EMISSIONS TO THE ENVIRONMENT

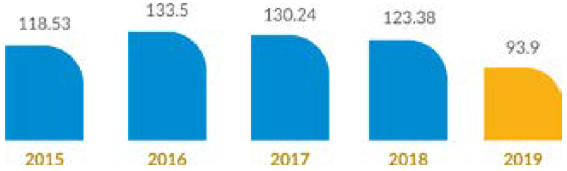
GRI 305-1, 306-2, 307-1

The level of environmental impact in the reporting year decreased in comparison with the indicator of 2018 and amounted to 0.657 (0.671 in 2018).

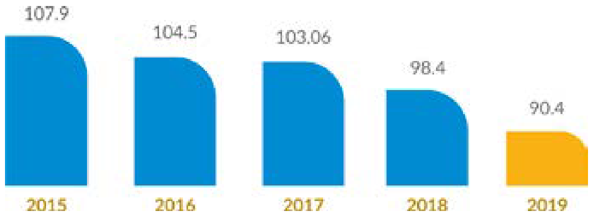
Dynamics of changes in the level of environmental impact in the period from 2017 to 2019.



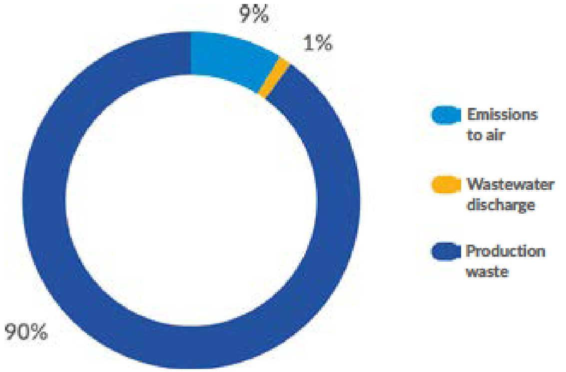
Dynamics of greenhouse gas emissions to the atmosphere from stationary installations in the period from 2015 to 2019, thousand tons.



Dynamics of emissions to the environment in the period from 2015 to 2019, thousand tons.



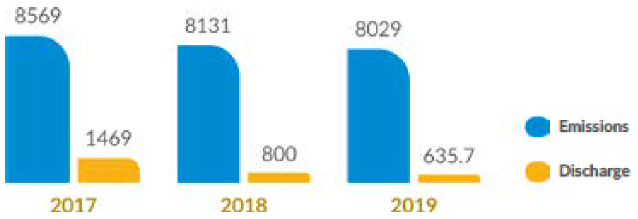
Share of emissions of polluting substances, %



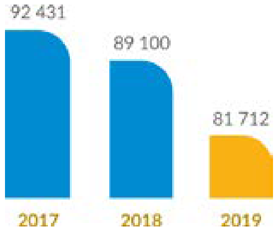
ONGOING MEASURES TO REDUCE EMISSIONS:

- The introduction of diesel locomotives of the EVOLUTION series, which have a reduced emission of pollutants, which will reduce air emissions by more than 2.2 times compared to diesel locomotives of older models.
- Purchase of new passenger cars equipped with closed-type toilets, which will eliminate bacterial contamination of the railway track with fecal microflora.
- Conversion of boiler houses from solid to gaseous fuel, the connection of heating systems of industrial buildings to the city central heat supply systems, which shall help to reduce air pollution from stationary sources.

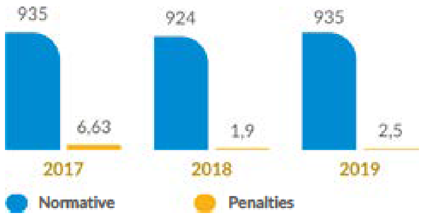
The volume of emissions and discharges of pollutants in the period from 2017 to 2019, tons.



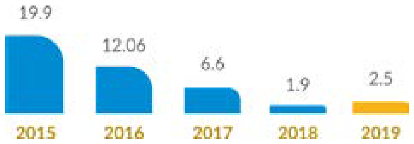
Waste volumes in the period from 2017 to 2019, tons.



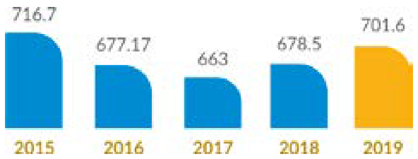
Dynamics of environmental payments in the period from 2017 to 2019, million tenge.



Dynamics of economic penalties for environmental violations in the period from 2015 to 2019, million tenge.



Dynamics of expenditures on environmental protection activities in the period from 2015 to 2019, million tenge.



Funds in the amount of about 700 million tenge for environmental activities are allocated and developed annually.

The structure of expenditures on environmental protection measures is presented as follows:

78,25% to conclude contracts with third-party specialized organizations for the removal and disposal of production and consumption waste

7,04% to develop regulatory permits

0,94% for environmental insurance

12,2% to conclude contracts with third-party specialized organizations for conducting control measurements of the degree of environmental pollution (soil, water, air)

1,25% to train responsible persons for environmental protection

0,45% for landscaping and planting of greenery

Contents

In the reporting year, 161 employees were trained in environmental safety.

The number of trained environmental safety employees in the period from 2017 to 2019, people.

The number of detected and eliminated violations of the Company's requirements of standards and norms in the field of environmental protection in the course of internal control.

Structure of the Company's violations of the requirements identified during internal control, %.

Hitting cattle on railway tracks

Unsupervised cattle grazing on railway tracks is the cause of disruption of the normal operation of railway transport. Grazing livestock near the railway track increases the risk of hitting livestock by railway transport, which leads to the death of the animal. In total, in the period from 2017 to 2019, 7 animals were killed under the wheels of locomotives of NC KTZ JSC.

RESOURCE CONSUMPTION

GRI 303-1

Water Consumption

Dynamics of water consumption by the Company in the period from 2017 to 2019, thousand m^3.

Note. The perimeter of the Company includes data on water consumption of the NC KTZ JSC branch - Economic Administration, the Central Office of KTZ Express JSC, and Temirzholsu JSC.

ENERGY MANAGEMENT SYSTEM

The results of the inspection audit of NC KTZ JSC, conducted in 2019 by the auditors of SGS Kazakhstan LTD, confirmed the compliance of the Company's energy management system with the requirements of ISO 50001:2011 «Energy Management Systems».

Energy Efficiency

GRI 302-1, 302-2, 302-3, 302-4

NC KTZ JSC is a significant energy consumer. In this regard, the Company's Management Board approved the Energy-Saving Program of NC KTZ JSC until 2020, which defines the task of saving 1,942 million tons of coal equivalent (hereinafter referred to as t.c.e.) in the amount of about 152 billion tenge in the period from 2013 to 2020.

At the end of 2019, the general consumption of fuel and energy resources (FER) in NC KTZ JSC amounted to 1,260.3 thousand t.c.e. in the amount of about 164.4 billion tenge, including:

- train traction of 1,157 thousand t.c.e. or 91.8 %;
- non-labour needs of 103.3 thousand t.c.e. or 8.2 %.

31.5% of the electricity and 68.5% of the diesel fuel consumed by the Company was spent on train traction, or up to 91.8% of the total consumption of all types of fuel and energy resources.

Consumption of fuel and energy resources for operational and production (not traction) needs in the period from 2015 to 2019.

Indicator	2015	2016	2017	2018	2019	Changes of 2019/2018, %
Electric power, thousand kWh.	355 708,4	308 603,8	325 668,26	321 256,56	332 086,67	3,37
Coal, tons	43 630,24	38 961,89	31 035,2	33 398,97	31 410,16	-5,95
Natural gas· thousa'd m³	2 362,33	2 282,12	1 890,86	1 872,59	1 869,06	-0,18
Gasoline, tons	9 144,1	8 254,37	7 529,52	7 362,14	7 104,3	-3.5
Diesel fuel, tons	25 676,45	26 227,90	23 890,75	22 522,52	20 695,08	-8,11
Heating oil, tons	344,20	187,20	0	0	0	
Fuel and energy resources consumption, t.c.e.	125 166,1	115 612,5	107 558,1	106 241,6	103 289,5	-2,77
Cost of fuel and energy resources, million tenge (including VAT)	11 446,108	10 727,66	12 481,02	13 576,87	13 305,192	-2
Cost of fuel and energy resources, thousand tenge/t.c.e.	91,44	92,79	116,04	127,79	128,81	0,79

In the period from 2015 to 2018, there is an increase in expenditure on energy resources in monetary terms, while expenditure in physical terms decreases. This is due to the annual increase in energy prices. In 2019, there is a decrease in energy consumption in monetary terms due to the increase in prices for petroleum products in 2018.

Consumption of fuel and energy resources for traction needs (heat and electricity) in the period from 2015 to 2019.

Indicator	2015	2016	2017	2018	2019	Changes of 2019/2018, %
Volume of work, billion t. km. gr.	367,9	363,65	395,695	421,978	423,779	0,43
Fuel and energy consumption for train traction, thousand t.c.e.	1 126,83	1 109,07	1 130,65	1 186,62	1 157,02	-2,49
Energy consumption, kgoe/ 10 t.t.km.gr	30,63	30,50	28,57	28,12	27,30	-2,92

Efficiency of implementation of the energy-saving program of NC KTZ JSC in the period from 2015 to 2019.

Type of energy resource	Indicator	2015	2016	2017	2018	2019	Changes of 2019/2018, %
Electric Power	Energy savings, thousand kW	19 976,35	33 950,40	138 641,0	53 809	22 698	-57,8
	Savings in energy costs, million tenge	277,74	435,47	2 062,02	949,4	336,3	-64,6
Diesel fuel	Savings in diesel fuel, tons	88 427,0	148 082,34	175 239,0	168 813	169 592	0,46
	Cost savings in diesel fuel, million tenge	12 027, 08	17 492,52	31 084,7	36 073,7	38 844,8	7,68
Gasoline	Saving in gasoline, tons	38	12,80	69	0,0	0,0	
	Cost savings in gasoline, million tenge	4,23	1,54	8,94	0,0	0,0	
Total, million tenge		**12 309,05**	**17 929,54**	**33 155,66**	**37 023,1**	**39 181,1**	**5,38**

Efficiency of specific consumption of fuel and energy resources per unit of work in the period from 2015 to 2019, kgoe./10 thousand t. km gross.

Indicator	2015	2016	2017	2018	2019
Efficiency of specific fuel and energy consumption per unit of work, kgoe/10 thousand t. km gross	34,04	33,67	31,29	30,64	29,70

In the framework of the implementation of requirements of the Law of the Republic of Kazakhstan «On Energy Saving and Energy Efficiency», as well as being the subject of the State Energy Registry, NC KTZ JSC undergoes a mandatory energy audit at least once every five years, in the result of which measures aimed at energy saving and increasing energy efficiency and reducing annual costs for fuel and energy resources are developed.

In 2019, Energy Partner LLP conducted an energy audit at the facilities of NC KTZ JSC, which resulted in a conclusion with recommendations for the implementation of 517 measures to improve energy efficiency. The potential for energy saving shall amount to 6,377.86 t.c.e. or 5.2% of total fuel and energy consumption in the base year of 2018. When implementing the measures, the total annual savings in monetary terms shall amount to 852,858,79 thousand tenge.

Contents

5.

About the Report

GRI 102-50, 102-51, 102-52, 102-54

Our Company strives to openly provide timely and complete information about the results of its activities.

Since 2007, NC KTZ JSC has published an annual report and since 2010, a report in the field of sustainable development. Since 2016, the sustainable development report has been compiled in accordance with the GRI (Global Reporting Initiative) Standards.

This year, the Company has prepared an integrated report, following the latest trends in information disclosure, which enables a single document to present a holistic approach to the assessment of the results of the Company not only from financial and social points of view but also from the position of the evaluation of the impact of the Company activities on the environment.

The report includes indicators for the period from January 1, 2019 to December 31, 2019 inclusive, as well as previous periods and forecast values in order to reflect the dynamics of changes in indicators.

In order to allow comparison of data and comparability of some indicators, information is provided taking into account the dynamics of previous reporting periods and plans for the coming years. All sustainable development reports are available on the Company's website: https://www.railways.kz/articles/sustainable-development/sustainability-report.

When preparing the report, the Company followed the principles of determining the report content recommended by the GRI Standards.

The previous Sustainable Development Report for 2018 was published in May 2019.

5.1.

Principles for defining report content and topic boundaries

GRI 102-42, 102-43, 102-45, 102-46, 102-47

Interaction with Stakeholders

In order to better understand the needs of the state, business, and the population, provide effective feedback and respect the interests of stakeholders, the Company strives to build a dialogue with all stakeholders based on the principles of transparency and information openness.

The system of interaction with stakeholders focuses on achieving sustainable development goals and harmonizing the interests of all stakeholders.

The Company sees its social responsibility in being a reliable partner for stakeholders and is guided by the following principles of identifying and selecting stakeholders.

DEPENDENCE
Stakeholders who are highly dependent on the Company's activities

STRATEGIC PARTNERS
Stakeholders with whom cooperation is important in view of the Company's strategic prospects

INTENSITY
Stakeholders, in respect of which the most active response is required

INFLUENCE
Stakeholders who have a high degree of influence on the Company's operations and performance.

Relevance and completeness of reporting

When forming this report, the Company reveals in detail the issues of economic, social and environmental responsibility. In preparing this report, the Company followed the principles for determining the content of the report recommended by GRI.

Stakeholders were identified based on the criteria of independence, group interests, and degree of influence. This report discloses information generated in accordance with the identified expectations of stakeholders.

Boundaries of the Reporting

This sustainable development report covers all of the Company's subsidiaries and affiliates. The report includes financial and non-financial data for all the Company's subsidiaries and affiliates.

5.2.

Significant topics and procedure of their defining

GRI 102-40, 102-43, 102-47, 102-49, 103-1

In order to generate the report, the Company conducted a survey of interested parties to determine the relevance of aspects through an online questionnaire.

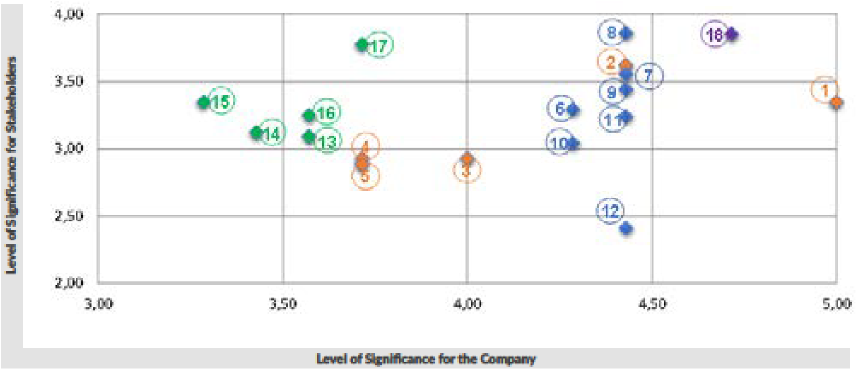
The survey was conducted based on the classification of GRI Standard topics and those identified as significant in previous reporting periods.

Taking into account the specifics of the Company, the questionnaire was developed in 4 languages: Kazakh, Russian, English, and Chinese for the convenience of passing the online survey of interested parties.

The survey was conducted among internal and external stakeholders to assess aspects of sustainable development. Based on the results of the responses, a Relevance Matrix for the aspects of sustainable development was formed.

The questionnaire provided an opportunity for the stakeholders to evaluate the following aspects of the Company's sustainable development in terms of significance according to an increasing rating scale from 1 to 5, where 1 means «not important» and 5 means «very important». Significant aspects were recognized as those aspects that in the sum of their values for the two criteria scored more than 6 points.

Relevant Aspect Matrix



Below is a list of identified significant topics for both the Company and its stakeholders.

Economic aspects	
1.	Relevance of information on the Company's economic indicators
2.	Relevance of customer satisfaction information
3.	Relevance of information on indirect economic impacts of the Company on the regions of its operation
4.	Relevance of information on the Company's procurument practices
5.	Relevance of information on the relationship with the regulator
Social aspects	
6.	Relevance of information on the relationship between employees and management
7.	Relevance of information on prevention of corruption
8.	Relevance of information on health and safety in the workplace
9.	Relevance of information on the provision of a social package to employees
10.	Relevance of information on mechanisms for filing complaints about labour practices
11.	Relevance of information on training and professional growth
12.	Relevance of non-discrimination information
Environmental aspect	
13.	Relevance of information on energy efficiency within the Company
14.	Relevance of information on the Company's compliance with environmental obligations
15.	Relevance of information on expenditures and investments in environmental protection
16.	Relevance of information on reducing emissions of greenhouse gases and other pollutants
17.	Relevance of information on compliance with legal and regulatory requirements
Industry aspects	
18.	Relevance of information on transportation safety

**The report does not contain half-formulas of indicators published in previous reports, as well as changes in the boundaries and coverage of aspects.*

5.3.

Standards and Guidelines

GRI 102-54

The information presented in this report is formed in accordance with the GRI (Global Reporting Initiative) Standards, the requirements of the legislation of the Republic of Kazakhstan, internal requirements and regulations of the Company itself, as well as in accordance with international corporate governance practices.

5.4.

External Verification

GRI 102-32, 102-56

This report has not been independently verified. In the future, the Company plans to introduce similar reporting verification practices.

The accuracy of the data included in the Report is ensured by existing accounting and information collection systems, as well as existing internal control procedures.

However, during the preparation of this report, a number of relevant requests about the Company's impact on such aspects as the economy, environment, and society were sent to subsidiaries and affiliates. After receiving the information, a draft Report was formed, which was agreed with all interested structural divisions of the Company in accordance with the internal regulations. Before publication, this Report shall be submitted for approval by the Company's Management Board and approved by the Company's Board of Directors.

CONTACT INFORMATION

GRI 102-1, 102-3, 102-4, 102-5, 102-6

National Company Kazakhstan Temir Zholy Joint-stock Company
6, D. Kunayev str., Nur-Sultan, Republic of Kazakhstan, 010000
Information Service: +7 (7172) 93-01-13
Press Service: +7 (7172) 60-42-81
www.railways.kz, kense@railways.kz

REPRESENTATIVE OFFICES OF NC KTZ JSC ABROAD

Representative Office in Xinjiang Uygur Autonomous Region of China
Address: 108 Beisanlu street, Urumqi, People's Republic of China
Tel.: +8 10 86 (991)788 82 77 (Head - Abay Serikovich Bulatov)
e-mail: a_bulatov@eahoo.com

Representative Office in the Central Asian region
7 Shevchenko street, Mirabatsky district, Tashkent, Republic of Uzbekistan
Tel.: + 8 10 (99871) 237 90 43 (Director – Nurlan Turasovich Kenzhebekov)
e-mail: ntk77@mail.ru

Representative Office in Turkmenistan
70 Andaliyev street, Ashgabat, Republic of Turkmenistan
Tel.: +8 10 (99312)47 41 29 (Head - Chingiz Abayevich Kakenov)
e-mail: kzhrail@mail.ru

REPRESENTATIVE OFFICES OF «KTZ-FREIGHT TRANSPORTATION» JSC ABROAD

Representative Office in the Russian Federation
21 Goncharnaya street, Moscow, Russian Federation
Tel.: 8(495)514 16 42 (Head - Vladimir Leonidovich Zakharov)
e-mail: ktzrf2012@yandex.ru

Representative Office in China and South-East Asia
People's Republic of China, Beijing
Tel.: + 8 10 (86105) 864 33 27 (Head -Yerik Zhenissovich Aubakirov)
e-mail: ktz_beijing@qq.com, ktzbeijing@mail.ru

Representative Office in the Islamic Republic of Iran
Tehran, Islamic Republic of Iran
Tel.: +8 10 (98938) 231 07 77 (Head - Nurzhan Malikovich Tyrsynbekov)
e-mail: tnm1881@mail.ru

GRI 102-53

Email address for submitting questions about the sustainable developmemnt report:
Sustainability@railways.kz

Contents

5.3.

Standards and Guidelines

GRI 102-54

The information presented in this report is formed in accordance with the GRI (Global Reporting Initiative) Standards, the requirements of the legislation of the Republic of Kazakhstan, internal requirements and regulations of the Company itself, as well as in accordance with international corporate governance practices.

5.4.

External Verification

GRI 102-32, 102-56

This report has not been independently verified. In the future, the Company plans to introduce similar reporting verification practices.

The accuracy of the data included in the Report is ensured by existing accounting and information collection systems, as well as existing internal control procedures.

However, during the preparation of this report, a number of relevant requests about the Company's impact on such aspects as the economy, environment, and society were sent to subsidiaries and affiliates. After receiving the information, a draft Report was formed, which was agreed with all interested structural divisions of the Company in accordance with the internal regulations. Before publication, this Report shall be submitted for approval by the Company's Management Board and approved by the Company's Board of Directors.

CONTACT INFORMATION

GRI 102-1, 102-3, 102-4, 102-5, 102-6

National Company Kazakhstan Temir Zholy Joint-stock Company
6, D. Kunayev str., Nur-Sultan, Republic of Kazakhstan, 010000
Information Service: +7 (7172) 93-01-13
Press Service: +7 (7172) 60-42-81
www.railways.kz, kense@railways.kz

REPRESENTATIVE OFFICES OF NC KTZ JSC ABROAD

Representative Office in Xinjiang Uygur Autonomous Region of China
Address: 108 Beisanlu street, Urumqi, People's Republic of China
Tel.: +8 10 86 (991)788 82 77 (Head - Abay Serikovich Bulatov)
e-mail: a_bulatov@eahoo.com

Representative Office in the Central Asian region
7 Shevchenko street, Mirabatsky district, Tashkent, Republic of Uzbekistan
Tel.: + 8 10 (99871) 237 90 43 (Director – Nurlan Turasovich Kenzhebekov)
e-mail: ntk77@mail.ru

Representative Office in Turkmenistan
70 Andaliyev street, Ashgabat, Republic of Turkmenistan
Tel.: +8 10 (99312)47 41 29 (Head - Chingiz Abayevich Kakenov)
e-mail: kzhrail@mail.ru

REPRESENTATIVE OFFICES OF «KTZ-FREIGHT TRANSPORTATION» JSC ABROAD

Representative Office in the Russian Federation
21 Goncharnaya street, Moscow, Russian Federation
Tel.: 8(495)514 16 42 (Head - Vladimir Leonidovich Zakharov)
e-mail: ktzrf2012@yandex.ru

Representative Office in China and South-East Asia
People's Republic of China, Beijing
Tel.: + 8 10 (86105) 864 33 27 (Head -Yerik Zhenissovich Aubakirov)
e-mail: ktz_beijing@qq.com, ktzbeijing@mail.ru

Representative Office in the Islamic Republic of Iran
Tehran, Islamic Republic of Iran
Tel.: +8 10 (98938) 231 07 77 (Head - Nurzhan Malikovich Tyrsynbekov)
e-mail: tnm1881@mail.ru

GRI 102-53

Email address for submitting questions about the sustainable developmemnt report:
Sustainability@railways.kz

Contents

CONSOLIDATED FINANCIAL STATEMENTS

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Management of Kazakhstan Temir Zholy National Company JSC (the "Company") is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Company and its subsidiaries (collectively – the "Group") as at 31 December 2019, and the 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 ("IFRSs").

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

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and 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 IFRSs;
- maintaining statutory accounting records in compliance with local legislation and IFRSs;
- 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 2020, pre-approved by the Audit Committee of the Board of Directors of the Company and subject to further approval by the Board of Directors and the Shareholder.

On behalf of the Group:

S.M. Mynbayev **Chairman of the Management Board**	**D.A. Kusherov** **Deputy Chairman of the Management Board for Finance**	**N.K. Abilova** **Chief Accountant**
13 March 2020	13 March 2020	13 March 2020

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and the Shareholder of 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 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, 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.

Contents

Why the matter was treated as a key audit matter	How the matter was addressed during the audit
Assessment of potential impairment of property, plant and equipment	
The Group's property, plant and equipment, which is mainly represented by infrastructure and rolling stock, comprises 83% of the Group's total assets. Due to the existence of impairment indicators, in particular, slower growth rate in transit freight transportation compared to the Group's Development Plan, the Group performed an impairment assessment for its property, plant and equipment. In addition, the Group identified one cash-generating unit to which assets relate, which requires significant management judgement. The recoverable amount of the property, plant and equipment was determined through calculating its value in use based on the Group's 2020-2024 Development Plan. Calculation of the value in use reflects management's estimations of the future cash flows derived from the assets, the expectations about the amount or timing of those future cash flows, and other factors. The value in use is sensitive to the small changes in key assumptions. 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 appropriateness of the managements identification of the cash-generating unit, > analysing assumptions used in the determining the discount rate and recalculating it with the assistance of our 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 tariffs growth, freight turnover growth, as well as volume of capital expenditures for assets maintenance and replacement, > challenging projected cash flows, including revenue and operating profit growth assumptions, based on historical data, market forecasts and the Group's 2020-2024 Development Plan. We analysed accuracy of the management's preceding forecasts, appropriateness of the assumptions used in the forecasts, and their consistency with the plans approved by the Board of Directors, and > assessing the completeness and adequacy of disclosures in the consolidated financial statements.
Liquidity and the going concern principle	
As at 31 December 2019, the Group's current liabilities exceeded its current assets by 57,676 million tenge. Current liabilities include borrowings of 90,570 million tenge payable within 12 months from the date of these consolidated financial statements. Also, for the year ended 31 December 2019, the Group incurred losses of 70,325 million tenge. As disclosed in Note 15, the loans received from EBRD and HSBC France with a carrying value of 19,867 million tenge and 57,383 million tenge include certain financial covenants, whereby non-compliance may result in the loans becoming payable on demand. Management had prepared forecasts of the expected financial position and financial results for 2019 and concluded that the Group would not be able to meet certain financial covenants, so that, prior to 31 December 2019, management had requested and received waivers from its creditors regarding non-application of the financial covenants.	Our going concern audit procedures were mainly focused on a critical evaluation of the key assumptions made and conclusions reached by management and included the following: > examining the correctness of assets and liabilities classification, > analysing management's evaluation of the principles of going concern and their plans to settle current liabilities, > analysing current and expected events and conditions, including financial and operating items, which could cast doubts on the Group's ability to continue as a going concern, > 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, the actuarial valuation and hedge effectiveness testing, > analysing downside scenarios affecting the Group's liquidity and its ability to settle obligations, including the ability to generate a sufficient level of cash flows from operating activities to serve and settle its borrowings, as well as the impact of possible

Why the matter was treated as a key audit matter	How the matter was addressed during the audit
Due to the above matters, critical judgements are required by management in respect of the sufficiency of the Group's liquid assets and its ability to settle the current obligations in a due course. Management's plans in respect of this matter are discussed in Notes 2 and 31. Given the pervasiveness of the effect of the going concern conclusion to the financial statements, this is considered to be a key audit matter.	exchange rate fluctuations on liabilities 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 and related covenants, > recalculating financial covenants for mathematical accuracy, > examining waivers received from creditors with respect to non-application of financial covenants as at 31 December 2019, > evaluating external matters that could be an indicator of adverse conditions and events, and > assessing the completeness and adequacy of information disclosed in the consolidated financial statements.

Other Information Included in the Annual Report

Management is responsible for the other information. The other information comprises the information included in the Annual report, but does not include the consolidated financial statements and our auditor's report thereon. 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 IFRSs, 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 communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Olzhas Akhuov
Qualified auditor
Qualification certificate
No.MF-0000715
dated 10 January 2019
Republic of Kazakhstan

Nurlan Bekenov
General Director
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

Nur-Sultan, Republic of Kazakhstan
13 March 2020

Contents

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019
(in millions of Tenge)

	Notes	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	6	2,779,962	2,741,395
Intangible assets		7,774	11,874
Investments in joint ventures	7	17,389	15,493
Investments in associates	7	16,164	16,866
Deferred tax assets	18	501	6,424
Other non-current assets	8	129,784	102,800
Total non-current assets		**2,951,574**	**2,894,852**
Current assets			
Cash and cash equivalents	9	151,581	66,606
VAT recoverable		29,137	18,274
Inventories	10	37,282	35,162
Trade accounts receivable	11	13,244	21,639
Prepaid income tax		2,295	2,311
Contract assets		2,795	3,076
Other current assets	12	47,603	57,177
		283,937	**204,245**
Assets held for sale and for distribution to the Shareholder	13	106,352	99,336
Total current assets		**390,289**	**303,581**
Total assets		**3,341,863**	**3,198,433**
EQUITY AND LIABILITIES			
Equity			
Share capital	14	1,082,299	1,062,635
Additional paid-in capital	14	-	290
Hedging reserve	14	(37,600)	(56,579)
Foreign currency translation reserve	14	6,461	5,892
Retained earnings		78,697	102,243
Equity attributable to the Shareholder		1,129,857	1,114,481
Non-controlling interests		25,647	26,354
Total equity		**1,155,504**	**1,140,835**

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019 (CONTINUED)
(in millions of Tenge)

	Notes	31 December 2019	31 December 2018
Non-current liabilities			
Borrowings	15	1,395,536	1,207,113
Deferred tax liabilities	18	254,968	226,338
Employee benefit obligations	17	39,278	31,948
Lease liabilities	16	20,325	-
Finance lease liabilities	16	-	16,395
Other non-current liabilities	21	28,287	20,984
Total non-current liabilities		**1,738,394**	**1,502,778**
Current liabilities			
Borrowings	15	90,570	175,164
Trade accounts payable	19	116,912	140,222
Other taxes payable		22,231	9,738
Employee benefit obligations	17	5,101	2,797
Lease liabilities	16	6,238	-
Finance lease liabilities	16	-	1,677
Contract liabilities	20	61,662	69,010
Constructive obligation for the benefit of the Shareholder	30	1,164	5,582
Other current liabilities	21	58,431	68,418
		362,309	**472,608**
Liabilities associated with assets classified as held for sale	13	85,656	82,212
Total current liabilities		**447,965**	**554,820**
Total liabilities		**2,186,359**	**2,057,598**
Total equity and liabilities		**3,341,863**	**3,198,433**

On behalf of the Group:

S.M. Mynbayev **Chairman of the Management Board**	**D.A. Kusherov** **Deputy Chairman of the Management Board for Finance**	**N.K. Abilova** **Chief Accountant**
13 March 2020	13 March 2020	13 March 2020

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

Contents

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019
(in millions of Tenge)

	Notes	2019	2018
Continuing operations			
Revenue			
Freight transportation	22	957,195	849,036
Passenger transportation	22	84,781	84,219
Government grants		31,406	20,751
Other revenue	23	65,756	90,168
Total revenue		**1,139,138**	**1,044,174**
Cost of sales	24	(872,366)	(818,448)
Gross profit		**266,772**	**225,726**
General and administrative expenses	25	(96,619)	(97,554)
Finance income		5,256	8,215
Finance costs	26	(176,090)	(103,534)
Foreign exchange loss	31	(11,592)	(112,515)
Share of the profit of associates and joint ventures	7	8,013	3,481
Gain from the disposal of shares in associates and subsidiaries not qualifying as discontinued operations		59	8,333
Assets impairment		(11,062)	(6,009)
Other profit or losses, net		(17,462)	2,595
Loss before income tax		**(32,725)**	**(71,262)**
Income tax expense	18	(24,218)	(2,314)
Loss for the year from continuing operations		**(56,943)**	**(73,576)**
Discontinued operations			
Loss for the year from discontinued operations	13	(13,382)	(12,879)
Loss for the year		**(70,325)**	**(86,455)**
Other comprehensive income/(loss) net of tax:			
Items that will not be subsequently reclassified to profit or loss:			
Remeasurement of employee benefit obligations		(579)	(1,167)
Items that may be reclassified to profit or loss in subsequent periods:			
Net fair value loss on cash flow hedging instruments	14	(26)	(14,026)
Reclassification of the loss on cash flow hedging instruments to the loss for the period	14, 22	19,005	-
Foreign exchange difference on translation of foreign operations		569	1,049
Other comprehensive income/(loss) for the year		**18,969**	**(14,144)**
Total comprehensive loss for the year		**(51,356)**	**(100,599)**
(Loss)/profit for the year attributable to:			
The Shareholder		(70,233)	(87,219)
Non-controlling interests		(92)	764
		(70,325)	**(86,455)**
Total comprehensive (loss)/income attributable to:			
The Shareholder		(51,314)	(101,363)
Non-controlling interests		(42)	764
		(51,356)	**(100,599)**
Loss per share from continuing and discontinued operations, in tenge	27	(141)	(176)
Loss per share from continuing operations, in tenge	27	(115)	(150)

On behalf of the Group:

S.M. Mynbayev **Chairman of the Management Board**	**D.A. Kusherov** **Deputy Chairman of the Management Board for Finance**	**N.K. Abilova** **Chief Accountant**
13 March 2020	13 March 2020	13 March 2020

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

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019
(in millions of Tenge)

	Notes	2019	2018
Cash flows from operating activities:			
Loss for the year		(70,325)	(86,455)
Income tax expenses recognised in profit or loss, including discontinued operations	13, 18	25,322	3,602
Adjustments for:			
Depreciation and amortisation		124,942	121,065
Finance costs	13, 26	183,527	109,367
Assets impairment		10,809	6,302
Finance income		(6,189)	(8,701)
Employee benefit costs and other long-term employee benefits		12,346	5,743
Share of the profit of associates and joint ventures	7	(8,013)	(3,481)
Allowance for impairment of accounts receivable		12,942	8,084
Foreign exchange loss		11,646	112,417
Reclassification of the loss on cash flow hedging instruments to the loss for the period	14, 22	19,005	-
Provisions		15,733	-
Gain from the disposal of shares in associates and subsidiaries not qualifying as discontinued operations		(59)	(8,333)
Other		19,576	12,429
Operating income before changes in working capital and other balances		**351,262**	**272,039**
Change in trade accounts receivable		(11,519)	(16,424)
Change in inventories		1,120	(4,573)
Change in other current and non-current assets (including long-term VAT recoverable)		5,843	(725)
Change in trade accounts payable		13,717	22,209
Change in other taxes payable		(14,773)	(4,501)
Change in other liabilities		5,145	(7,172)
Change in employee benefit obligations		(3,286)	(3,277)
Cash generated from operations		**347,509**	**257,576**
Interest paid		(97,122)	(101,246)
Interest received		3,113	1,782
Income tax paid		(920)	(2,484)
Net cash flows from operating activities		**252,580**	**155,628**
Cash flows from investing activities:			
Purchase of property, plant and equipment, including advances paid for property, plant and equipment		(173,315)	(193,612)
Purchase of intangible assets		(10)	(2,066)
Purchase of investment property		-	(9,063)
Proceeds from the sale of property, plant and equipment		18,352	287
Proceeds from the sale of other non-current assets		1,440	1,402
Investments in associates	7	-	(2,611)
Investments in other financial assets		(1,188)	(86,570)
Proceeds from the disposal of other financial assets		419	127,765
Dividends received from associates and joint ventures	7	6,725	2,248
Net cash proceeds from the sale of subsidiaries		3,515	9,396
Return of advance payment in connection with the termination of the subsidiary sale transaction		-	(8,958)
Other		113	-
Net cash flows from investing activities		**(143,949)**	**(161,782)**

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)**
(in millions of Tenge)

	Notes	2019	2018
Cash flows from financing activities:			
Share capital contribution	14	19,225	-
Proceeds from borrowing		461,863	289,776
Repayment of borrowings		(431,897)	(295,910)
Dividends and distributions paid		(20,665)	(2,709)
Bonds early extinguishment premium and fees paid	26	(45,236)	-
Repayment of lease liabilities		(5,012)	-
Repayment of finance lease liabilities		-	(1,263)
Other		(1,036)	-
Net cash flows from financing activities		**(22,758)**	**(10,106)**
Net increase/(decrease) in cash and cash equivalents		**85,873**	**(16,260)**
Cash and cash equivalents at the beginning of the year	9	68,223	84,384
Effect of changes in foreign exchange rates on cash and cash equivalents balances held in foreign currency		(2,222)	122
Effect of changes in allowance for expected credit losses		(7)	(23)
Cash and cash equivalents at the end of the year	9	**151,867**	**68,223**
Non-cash transactions:			
Purchase of property, plant and equipment from borrowed funds by direct bank transfer to the supplier		12,438	1,054
Railway administrations receivables and payables offset		9,143	7,971
Settlement of borrowings by non-current assets		-	556

On behalf of the Group:

S.M. Mynbayev
Chairman of the Management Board

13 March 2020

D.A. Kusherov
Deputy Chairman of the Management Board for Finance

13 March 2020

N.K. Abilova
Chief Accountant

13 March 2020

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

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**
(in millions of Tenge)

	Share capital	Additional paid-in capital	Hedging reserve	Foreign currency translation reserve	Retained earnings	Equity attributable to the Shareholder	Non-controlling interests	Total equity
As at 1 January 2018	**1,062,635**	**-**	**(42,553)**	**4,843**	**206,602**	**1,231,527**	**26,955**	**1,258,482**
Effect of the application of IFRS 9	-	-	-	-	(8,962)	(8,962)	(131)	(9,093)
As at 1 January 2018 (revised)	**1,062,635**	**-**	**(42,553)**	**4,843**	**197,640**	**1,222,565**	**26,824**	**1,249,389**
(Loss)/profit for the year	-	-	-	-	(87,219)	(87,219)	764	(86,455)
Other comprehensive (loss)/income for the year	-	-	(14,026)	1,049	(1,167)	(14,144)	-	(14,144)
Total comprehensive (loss)/income for the year	-	-	(14,026)	1,049	(88,386)	(101,363)	764	(100,599)
Shares issue (Note 14)	-	290	-	-	-	290	-	290
Dividends declared (Note 14)	-	-	-	-	(1,710)	(1,710)	(1,176)	(2,886)
Other distributions (Note 14)	-	-	-	-	(5,301)	(5,301)	-	(5,301)
Purchase of subsidiary	-	-	-	-	-	-	(58)	(58)
As at 31 December 2018	**1,062,635**	**290**	**(56,579)**	**5,892**	**102,243**	**1,114,481**	**26,354**	**1,140,835**
As at 1 January 2019	**1,062,635**	**290**	**(56,579)**	**5,892**	**102,243**	**1,114,481**	**26,354**	**1,140,835**
Loss for the year	-	-	-	-	(70,233)	(70,233)	(92)	(70,325)
Other comprehensive income/(loss) for the year	-	-	18,979	569	(629)	18,919	50	18,969
Total comprehensive income/(loss) for the year	-	-	18,979	569	(70,862)	(51,314)	(42)	(51,356)
Dividends declared	-	-	-	-	-	-	(774)	(774)
Other contributions (Note 14)	-	-	-	-	47,316	47,316	-	47,316
Shares issue (Note 14)	19,664	(290)	-	-	-	19,374	-	19,374
Disposal of subsidiaries	-	-	-	-	-	-	109	109
As at 31 December 2019	**1,082,299**	**-**	**(37,600)**	**6,461**	**78,697**	**1,129,857**	**25,647**	**1,155,504**

On behalf of the Group:

S.M. Mynbayev
Chairman of the Management Board

13 March 2020

D.A. Kusherov
Deputy Chairman of the Management Board for Finance

13 March 2020

N.K. Abilova
Chief Accountant

13 March 2020

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

1. GENERAL INFORMATION

Kazakhstan Temir Zholy National Company JSC (the "Company") was created in Kazakhstan in accordance with Resolutions of the Kazakhstan Government (the "Ultimate Shareholder") to establish a holding company for government 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, Republic of Kazakhstan.

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

The Group operates a nationwide railway system providing freight and passenger transportation, mainline railway services, providing operation, maintenance and modernisation of railway infrastructure in Kazakhstan. As part of rail industry regulation in Kazakhstan, the Government sets the tariffs the Group charges for its railway network services, its freight customers (according to the Kazakhstan Entrepreneurial Code, this is a temporary measure until 2020) and passenger customers, and partially subsidises specific passenger transportation activities through government grants. These regulated tariffs differ based on the type of freight to be transported. The Government does not regulate international transit and container 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 average growth of 4%. Starting from 5 July 2019, the CRNM agreed an 11.1% increase of tariff for locomotive haulage services (2018: 10%). As a result, an average freight transportation tariff increase in 2019 was 7.2% (2018: 6.8%).

Starting from 21 September 2019, the regulator, represented by the Ministry of Industry and Infrastructural Development of the Republic of Kazakhstan, approved a 10% increase of passenger transportation tariffs for a number of interdistrict routes (2018: 7%).

Operating environment

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.

Group management monitors current economic developments in the country and the world and takes measures it considers necessary to support the sustainability and development of the Group's business for the foreseeable future. In addition, a recent coronavirus outbreak in China may have an impact on the Group's operations. However, the impact of further economic developments on the Group's future operations and financial position is at this stage difficult to determine.

The State controls Group structure and is responsible for long-term railway industry strategy in Kazakhstan. Since 1997, the Kazakhstan national railway industry has been undergoing restructuring, which includes segregating freight transportation and infrastructure, change of regulatory environment and establishing investment-friendly environment.

Under the Group's Development Strategy until 2029, work was continued in 2019 to improve performance, develop transit traffic, optimise corporate portfolio structure in accordance with the state privatisation programme, ensure financial sustainability of the Group, increase the clients' satisfaction, guarantee safety of train traffic and ensure sustainable development of the Group.

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 ("IFRSs") 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 2019, current liabilities exceeded its current assets by 57,676 million tenge (31 December 2018: 251,239 million tenge). Moreover, loss for the year ended 31 December 2019 amounted to 70,325 million tenge (2018: 86,455 million tenge). At the same time, cash inflows from operating activities for the year ended 31 December 2019 amounted to 252,580 million tenge (2018: 155,626 million tenge). As at 31 December 2019, the Group's borrowings of 90,570 million tenge 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. Historically, the Group financed major investment projects using funds from the government and through borrowings, in addition to cash from operating activity. 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 growth, foreign 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 31) 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 29. 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 ("tenge"). The assets and liabilities of foreign operations, where the functional currency is different to tenge, are translated into tenge at the exchange rate effective at the reporting date, while profit and loss items are translated into tenge 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.

Tenge 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. Foreign exchange gains or losses in profit or loss are presented separately in the consolidated statement of profit or loss and other comprehensive income.

The following table presents exchange rates to the tenge as at the relevant date:

	31 December 2019	31 December 2018
US$	382.59	384.20
Euros	429.00	439.37
Swiss Francs	395.16	390.41
Russian Roubles	6.16	5.52

3. SIGNIFICANT ACCOUNTING POLICIES

Adoption of new and revised IFRSs, Interpretations and amendments to existing IFRSs effective from 1 January 2019

The following Standards, Interpretations and amendments were applied by the Group for the first time in 2019:

- IFRS 16 *Leases*. IFRS 16 supersedes IAS 17 and all related interpretations: IFRIC 4 *Determining whether an Arrangement Contains a Lease*; SIC-15 *Operating Leases – Incentives*; SIC-27 *Evaluating the Substance of Transactions in the Legal Form of a Lease*.
- IFRIC 23 *Uncertainty over Income Tax Treatments*. The Interpretation clarifies that for the purposes of calculating current and deferred tax, companies should use a tax treatment of uncertainties, which will probably be accepted by the tax authorities.
- Amendments to IFRS 9 named *Prepayment Features with Negative Compensation*. The Amendments relate to financial assets with an option of early prepayment, the conditions of which allow early prepayment in a variable amount, which in turn may exceed as well as may be lower than the remaining outstanding cash flows, and allow to measure such instruments either at amortized cost or at fair value through other comprehensive income.
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*. The amendment clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applied.
- Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 - Annual Improvements to IFRS Standards 2015–2017 Cycle.
- Amendments to IAS 19 named *Employee Benefits Plan Amendment, Curtailment or Settlement*.

The amendments and interpretations did not impact the Group's consolidated financial statements, except for IFRS 16 *Leases*, the impact of which is described below.

General impact of application of IFRS 16 *Leases*

IFRS 16 introduced a unified model for the definition of lease agreements and its accounting by both the lessor and the lessee.

The Group applied IFRS 16 using a modified retrospective approach, whereby comparative information is not restated, and the cumulative effect of the initial application of IFRS 16 is presented as an adjustment to the opening balance of retained earnings.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

The Group applied practical expedient available in the transition to IFRS 16 and, accordingly, did not reanalyse the contract as a whole or its individual components as a lease at the date of initial application, for contracts that were previously identified as lease contracts using IAS 17 *Leases* and IFRIC 4. In addition, the Group applied practical expedient in relation to those contracts whose terms, taking into account economically viable prolongations and the possibility of purchase option of the leased item, were less than twelve months, as well as for leases with low value assets.

The lessor's accounting treatment in accordance with IFRS 16 has remained almost unchanged compared to IAS 17. Lessors will continue to classify leases using the same classification principles as in IAS 17, while distinguishing two types of leases: operating and finance. However, IFRS 16 has changed and expanded the disclosures required, in particular with regard to how a lessor manages the risks arising from its residual interest in leased assets.

Impact of the new definition of a lease

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease based on whether the customer has the right to control the use of the identifiable asset for a period of time in exchange for consideration. The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). The new definition of the lease in IFRS 16 did not change significantly the scope of contracts that meet the definition of a lease for the Group.

IFRS 16 has made significant changes to the lessee's accounting, eliminating the distinction between operating and finance leases, and requires recognition of a right-of-use asset and a lease obligation for all leases, except for short-term leases and leases of low value assets. Expenses related to short-term leases and leases of low value assets for 2019, included in cost of sales and general and administrative expenses, amounted to 3,513 million tenge and 1,269 million tenge, respectively.

Impact on assets, liabilities, equity and lease commitments as at 1 January 2019:

	Effect of adoption of IFRS 16
Assets	
Property, plant and equipment (Note 6)	21,890
Assets of the disposal group held for sale (Transtelecom JSC)	208
Net impact on assets	**22,098**
Liabilities	
Lease liability (Note 16)	21,890
Liabilities associated with assets classified as held for sale (Transtelecom JSC)	208
Net impact on liabilities	**22,098**

As a result of recognition of right-of-use asset and lease liability, the deferred tax asset and liability are equal. Thus, adoption of IFRS 16 had no impact on retained earnings as at 1 January 2019.

Leases that were previously classified as finance lease, the Group did not change carrying value of recognized assets and liabilities as of initial date of recognition (i.e. right-of-use assets and lease liabilities are measured in the amounts equal to leased assets and lease liabilities recognized under IAS 17 Leases). Lease liabilities previously classified as finance lease under IAS 17 and previously presented under *Finance lease liabilities* line are now presented as the *Lease liabilities* line.

The following table presents the reconciliation of lease liabilities:

Operating lease commitments at 1 January 2019	**25,745**
Effect of discounting at incremental borrowing rate as at 1 January 2019 (weighted average rate 11.41% per annum)	(3,525)
Discounted operating lease commitments at 1 January 2019	**22,220**
Less short-term leases and leases of low-value assets	(330)
Recognised lease liabilities previously classified as operating lease	21,890
Plus lease liabilities previously classified as finance lease (Note 16)	18,072
Lease liabilities at 1 January 2019	**39,962**

Impact on profit/(loss) and loss per share

The new standard has resulted in a change in the amount and presentation of expenses associated with a lease previously classified as an operating lease for a lessee. Under IAS 17, operating lease expenses were presented as part of operating expenses. Under IFRS 16, expenses are divided into finance costs and depreciation.

Impact on profit/(loss), other comprehensive income/(loss) and loss per share:

	2019
Decrease in cost of sales:	
Increase in depreciation and amortisation	(2,343)
Decrease in operating lease expenses	2,661
Increase in gross profit	**318**
Decrease in general and administrative expenses:	
Increase in depreciation and amortisation	(54)
Decrease in operating lease expenses	109
Increase in finance costs	(2,412)
Increase of the loss before income tax	**(2,039)**
Decrease in income tax expenses	408
Increase of the loss for the year from continuing operations	**(1,631)**
Increase of the loss for the year from discontinued operations (Transtelecom JSC)	(102)
Increase of the loss for the year	**(1,733)**
Increase of other comprehensive loss for the year	**99**
Increase of total comprehensive loss for the year	**(1,634)**
Increase of the loss per share from continuing operations, in tenge	**(3)**

Impact on cash flow statement

In accordance with IAS 17 operating lease payments were presented as part of cash flows from operating activities, while under IFRS 16 lease payments are classified as cash payments of interest portion of lease liability and its principal portion. In accordance with the requirements of IFRS 16, the Group presented the repayment of principal in cash flows from financing activities. In accordance with the Group's Accounting policy, interest paid is classified as part of the cash flows from operating activities. Short-term lease payments, low value asset lease payments and variable lease payments not included in the measurement of a lease liability are presented as part of operating activities.

The adoption of IFRS 16 has no material impact on net cash flows.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

New or revised standards issued but not yet effective

A number of new standards, interpretations and amendments to standards are effective for annual periods beginning on or after 1 January 2020. Specifically, the Group did not apply early the following standards, interpretations and amendments to the standards:

- IFRS 17 *Insurance Contracts* (effective for annual reporting periods beginning on or after 1 January 2021);
- Amendments to IFRS 10 and IAS 28 regarding *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective for annual reporting periods beginning on the date when determined by IASB;
- Amendments to IFRS 3 regarding *Definition of a business* (effective for annual reporting periods beginning on or after 1 January 2020);
- Amendments to IFRS 9, IAS 39 and IFRS 7 regarding *Interest Rate Benchmark Reform and its Effects on Financial Reporting* (effective for annual reporting periods beginning on or after 1 January 2020);
- Amendments to IAS 1 and IAS 8 regarding *Definition of Material* (effective for annual reporting periods beginning on or after 1 January 2020);
- Amendments to IAS 1 regarding *Classification of Liabilities as Current or Non-current* (effective for annual reporting periods beginning on or after 1 January 2022).

Group management expects that the application of the standards and amendments when become effective will not have a significant effect on the Group consolidated financial statements.

Significant accounting policies

Property, plant and equipment

Property, plant and equipment is stated at historical cost less subsequent accumulated depreciation and impairment losses. Depreciation is charged once the asset becomes available for its intended use.

Subsequent costs

The costs of the day-to-day servicing 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 in profit or loss when incurred.

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. The carrying value of construction-in-progress is regularly reviewed for impairment.

Leases

The Group as lessee

For the lease contracts (or separate components of the contracts), under which the Group is granted the right to control the use of an identified asset (as defined by IFRS 16 *Leases*) for a certain period of time in exchange for consideration, the Group recognizes a right-of-use asset and a corresponding lease liability at the inception of the contract. Non-lease components of the contracts are accounted for in accordance with other relevant standards.

In accordance with IFRS 16 *Leases*, the Group does not apply the standard for the lease contracts with lease term of less than 12 months at lease inception and without purchase option, for the leases with variable lease rates and for the leases of low value assets. The Group recognizes short-term leases and leases of low value assets as expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. Lease payments are discounted by using the Group incremental borrowing rate, except when the rate is implicit in the lease and can be readily determined.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

At the commencement date, the Group measures the right-of-use asset at cost that includes the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs incurred by the lessee. The right-of-use asset is subsequently measured according to the accounting policy that is applied for own assets, including for depreciation and amortization and impairment measurement.

The recognized right-of-use asset is depreciated over the shorter period of expected useful life of the underlying asset or lease term.

The Group presents lease liabilities in the consolidated statement of financial position as a separate line (Note 16), while right-of-use assets are presented within the same line item as that within which the corresponding underlying assets would be presented if they were owned, i.e. within property, plant and equipment (Note 6) and intangible assets.

The Group as lessor

The Group enters into lease agreements as a lessor with respect to some of its property, plant and equipment items (Notes 6 and 23).

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

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. Moreover, if the loan remains outstanding after the relevant qualifying asset is ready for the intended use, then in calculating the capitalization rate, such a loan is included in general borrowing pool.

Investment income generated on a temporary investment of specific borrowings pending their use on qualifying assets is deducted from borrowing costs eligible for capitalisation.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

Borrowing costs also include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. An exchange difference amount capitalised as an adjustment to interest costs should not exceed the interest cost amount the Group would capitalise if the loan had been received in the local currency. Any excess over 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.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value.

All recognised financial assets are measured subsequently either at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Wherein:

- debt instruments 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 amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI); and
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

In the current year, the Group has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are further evaluated for impairment (Note 4).

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

Gains or losses on modification of financial liabilities at amortized cost are recognized in profit or loss. A gain or loss is determined as the difference between the original cash flows and the present value of the estimated future cash flows discounted using an initial effective interest rate of the financial instrument.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

When the non-current asset ceased to be classified as held for sale, the Group includes any required adjustment to the carrying amount of the asset in profit or loss from continuing operations in the period in which the classification criteria are no longer met. If the disposal group or non-current asset that ceases to be classified as held for sale is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate, the Group amends retrospectively the financial statements for the periods since classification as held for sale.

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 through equity in retained earnings.

Other distributions

Distributions are recognised in equity when the Group has irrevocably committed to transfer cash or non-monetary assets to its Shareholder/Ultimate Shareholder free of charge and the amount of the commitment can be reliably measured. Distributions are recognised in equity net of any related deferred tax effects, where appropriate.

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.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

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 accumulated in equity is recognised immediately in profit or loss.

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.

Revenue

The Group recognises revenue to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue is recognised less VAT and rebates.

Revenue from freight transportation services

Domestic, international import, international export and international transit routes

Revenue from freight transportation services is recognized over time. The extent of completion of the freight transportation process is calculated as the ratio of transportation volumes provided as at the reporting date to the total transportation volumes.

The Group provides services on monthly 100% prepayment terms, as agreed in contracts with carriers. Prepayments received from customers for transportation services not yet rendered are typically short-term and recognised as advances received within contract liabilities at the date of receipt.

Advances received from customers for domestic, international import, international export and international transit freight transportation services are recognised as deferred income within contract liabilities once transportation has started. Deferred income is credited to revenue of the reporting period as the services are provided.

Pursuant to the CRNM Order On the Approval Of a Temporary Decreasing Coefficient For Railway Freight Transportation Tariffs, certain contracts envisage discounts dependent on the volumes of services consumed. Revenue from these services is recognised based on contractual prices less estimated discounts. The Group uses the expected value method to estimate the discount amount.

As at 31 December 2019, there is no liability to customers on discounts (31 December 2018: 1,070 million tenge).

Handling rolling stock

The Group discloses revenue from handling services within revenue from freight transportation services and recognises by the extent of completion of the services at the reporting date, as the performance obligation is satisfied over time and the customer simultaneously receives and consumes the benefits of the Group's performance. The extent of completion of the services is calculated as the ratio of transportation volume, provided as at the reporting date to the total transportation volumes.

Rolling stock handling services are provided, as a rule, based on prepayments, which are recognised as advances received within contract liabilities.

Revenue recognition from passenger transportation services

Revenue from passenger transportation services is recognised by the extent of completion of transportation at the reporting date. Proceeds from ticket sales are recognised as deferred income, which is transferred to revenue from the time of departure of a passenger. Prepayments received from customers for transportation services not yet rendered are recorded within advances at the time of their receipt. Upon receipt of applications for passenger transportation and issuing tickets, advances approximating the expected estimated revenue from the services are transferred to deferred income. Deferred income is similarly transferred to revenue as passengers depart.

Passenger transportation services are generally completed within several hours/days. An analysis of past experience has shown that passenger transportation in progress at the reporting date is insignificant.

Other revenue

Other revenue includes penalties received, revenues from the sale of goods, materials, scrap metal, loading and unloading services and vehicle servicing.

Other revenue from the provision of services is recognised over time as the services are provided. When a performance obligation is satisfied at a certain period of time (sale of goods, materials and scrap metals), revenue is recognised when 'control' of the goods underlying the particular performance obligation is transferred to the customer.

The Group when accounting for significant contracts under which the period between the transfer of the promised goods or services to the customer and the respective payment exceeds one year, adjusts the transaction price for the time value of money.

Sale and lease back transactions

The Group accounts for a transfer of an asset in a sale and leaseback transaction as a sale only if the transfer meets the requirements of IFRS 15 *Revenue from contracts with customers*.

If, under IFRS 15, a sale is to be recognised by the seller-lessee, then the right-of-use asset leased back is measured at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. The seller-lessee recognises only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.

If the transfer of an asset by the seller-lessee does not satisfy the requirements of IFRS 15 to be accounted for as a sale of the asset, the seller-lessee continues to recognize the transferred asset and recognizes a financial liability equal to proceeds for the transfer by applying IFRS 9 *Financial Instruments*.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the consolidated financial statements in compliance with IFRSs 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.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

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 29).

Under the trust management agreement with the Shareholder, the Company recognised Aktau 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.

During 2019, the Group transferred a subsidiary Tulpar Wagon Construction Company LLP (former Tulpar-Talgo LLP) to trust management to Transmashholding Kazakhstan – KZ 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.

The benefit from government loans with an interest rate below the market, where the Group, upon receipt of loans, qualifying under certain criteria established by the State for all market participants, is recognized by the Group as a government grant. In other cases, the Group considers these loans as transactions with the ultimate Shareholder and accounts for the fair value adjustments of the loans received at a rate below market through equity.

Assets classified as held for sale

In December 2015, the Kazakhstan Government approved the '*Comprehensive Privatisation Plan for 2016-2020*' (the "Plan"), 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 13).

Cash-generating unit identification

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, 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.

Accounting of finance lease agreements with DBK-Leasing JSC

The Group, represented by Passengers Transportation JSC and Tulpar Wagon Construction Company LLP, entered into a number of three-side purchase-sale and finance lease arrangements with DBK-Leasing JSC, which is under common control of ultimate Shareholder, to renew passenger wagons park. According to these arrangements, DBK-Leasing JSC finances on a 100% prepayment basis the construction of passenger wagons by Tulpar Wagon Construction Company LLP for acquiring them to ownership with further leasing out to Passenger Transportation JSC under finance lease.

Management concluded that the transaction between Tulpar Wagon Construction Company LLP and DBK-Leasing JSC does not meet the requirements of IFRS 15 *Revenue from contracts with customers* to account for the asset sale at the Group level, as the control over passenger wagons is not transferred to DBK-Leasing JSC, but left with the Group.

DBK-Leasing JSC finances the construction of the wagons, but is limited in its ability to direct the subsequent use of and obtain all of the remaining benefits from the asset. Accordingly, the Group recognises the obligation to DBK-Leasing JSC as financial liability (borrowing) according to IFRS 9 *Financial Instruments* and recognises passenger wagons and work-in-progress as property, plant and equipment items and construction in progress in accordance with IFRS 16.103 *Leases* (Note 3).

Since financing was provided at preferential interest rates and such terms were provided solely to finance the renewal of passenger car fleet of Passenger Transportation JSC based on a separate Decree of the Government of the Republic of Kazakhstan, the Group considers these transactions as transactions with ultimate Shareholder and recognises fair value adjustments of the loans received at below market rate through the equity within retained earnings as other contributions (Notes 14 and 15).

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 property, plant and equipment and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that they have suffered an impairment loss.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

The assessment of whether there is an indication of assets 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 reversal of the impairment and thus an impairment reversal being recognised in future periods.

Due to existing impairment indicators, the Group performed an impairment test for property, plant and equipment and intangible assets as at 31 December 2019.

A number of subjective factors, both operational and financial, using the best evidence available, had been used to estimate cash flows.

The operational assumptions used in the test reflect expected volumes of transportation services, including transit volumes, based on projected demand and historical growth dynamic of transit freight transportations volumes.

Financial assumptions include significant estimates associated with tariff forecasts and growth rates, discounts, and projected tenge to Swiss Franc exchange rates. The discount rate (WACC) used in calculating the value in use of property, plant and equipment and intangible assets of the Group amounted to 10.5%.

As at 31 December 2019, no impairment has been identified based on the estimated value in use of the Group's property, plant and equipment and intangible assets. However, the value in use estimate is sensitive particularly to the following assumptions:

- transit freight transportation volumes;
- revenue rate, including the tariffs growth, types of freight, distance of freight transportation; and
- the discount rate (WACC).

The Group performed a sensitivity analysis and concluded that when using the following justifiably possible changes in the key assumptions on an individual basis, while keeping other parameters constant, no impairment will occur:

- *Transit freight transportation volumes* – A decrease of the volumes by 10% compared to budget;
- *Domestic, export and import freight transportation tariffs* – A decrease of the annual budgeted freight transportation tariffs growth to the historic average tariffs growth level for the past years of 6.3%;
- *Discount rate (WACC)* – An increase of the discount rate from 10.5% to 11.5%.

However, with more significant changes in each of the above key assumptions or simultaneous adverse impact of several factors, the carrying value of the Group's non-current assets may become higher than their recoverable amount, which may result in the need to recognise impairment in the future.

(in millions of Tenge, unless stated otherwise)

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 recognised.

The estimated useful lives applied by the Group are as follows (in years):

Buildings and structures	10-140
Railway track infrastructure	5-100
Machinery and equipment	3-35
Vehicles	4-40
Other	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 80% of the additional taxes accrued, and interest is assessed at 11.56% of additional accruals or overdue taxes. 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 2019. Any difference between the estimated amount and the actual amount paid, if any, could have a significant impact on future operating results.

Significant increase in credit risk

The Group recognizes allowance for expected credit losses for financial instruments in the amount equal to 12-month expected credit losses for stage 1 assets, or lifetime expected credit losses for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

The Group also recognizes expected credit losses allowance under financial guarantee agreements for 12 months or lifetime, depending on the change in credit risk since initial recognition. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

5. SEGMENT INFORMATION

The Group's operating segments are based on 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.

	2019				
	Freight transportation	**Passenger transportation**	**Total reporting segments**	**Other**	**Total**
Key operating indices					
Revenue					
Transportation revenue from third parties	957,195	84,781	1,041,976	-	1,041,976
Transportation income from operations among segments	23,428	2,734	26,162	-	26,162
Government grants	-	31,406	31,406	-	31,406
Other revenue from third parties	50,788	3,827	54,615	11,141	65,756
Other income from operations among segments	6,834	249	7,083	5,569	12,652
Eliminations	(30,125)	(3,229)	(33,354)	(5,460)	(38,814)
Revenue	1,008,120	119,768	1,127,888	11,250	1,139,138
Cost of sales	(757,205)	(107,875)	(865,080)	(7,286)	(872,366)
General and administrative expenses	(77,338)	(16,914)	(94,252)	(2,367)	(96,619)
Assets impairment	(5,955)	(1,834)	(7,789)	(3,273)	(11,062)
Other profit or losses, net	(19,924)	242	(19,682)	2,220	(17,462)
Finance income	4,107	825	4,932	324	5,256
Finance costs	(171,986)	(1,006)	(172,992)	(3,098)	(176,090)
Foreign exchange loss	(11,308)	(50)	(11,358)	(234)	(11,592)
Share of the profit of associates and joint ventures	8,013	-	8,013	-	8,013
Gain from the disposal of shares in associates and subsidiaries not qualifying as discontinued operations	-	-	-	59	59
Loss before income tax	**(23,476)**	**(6,844)**	**(30,320)**	**(2,405)**	**(32,725)**
Income tax expense	(23,743)	(402)	(24,145)	(73)	(24,218)
Loss for the year from continuing operations	**(47,219)**	**(7,246)**	**(54,465)**	**(2,478)**	**(56,943)**
Other key segment information					
Capital expenditures	159,213	790	160,003	13,614	173,617
Depreciation of property, plant and equipment	112,230	8,428	120,658	2,051	122,709

Contents

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

	2018				
	Freight transportation	**Passenger transportation**	**Total reporting segments**	**Other**	**Total**
Key operating indices					
Revenue					
Transportation revenue from third parties	849,036	84,219	933,255	-	933,255
Transportation income from operations among segments	29,171	2,422	31,593	-	31,593
Government grants	-	20,751	20,751	-	20,751
Other revenue from third parties	70,699	4,341	75,040	15,128	90,168
Other income from operations among segments	7,918	272	8,190	5,672	13,862
Eliminations	(35,936)	(3,848)	(39,784)	(5,671)	(45,455)
Revenue	920,888	108,157	1,029,045	15,129	1,044,174
Cost of sales	(696,098)	(110,488)	(806,586)	(11,862)	(818,448)
General and administrative expenses	(85,680)	(6,951)	(92,631)	(4,923)	(97,554)
Assets impairment	(850)	(278)	(1,128)	(4,881)	(6,009)
Other profit or losses, net	1,912	478	2,390	205	2,595
Finance income	7,170	421	7,591	624	8,215
Finance costs	(99,485)	(453)	(99,938)	(3,596)	(103,534)
Foreign exchange loss	(111,178)	(122)	(111,300)	(1,215)	(112,515)
Share of the profit/(loss) of associates and joint ventures	4,466	-	4,466	(985)	3,481
Gain from the disposal of shares in associates and subsidiaries not qualifying as discontinued operations	32	-	32	8,301	8,333
Loss before income tax	**(58,823)**	**(9,236)**	**(68,059)**	**(3,203)**	**(71,262)**
Income tax (expense)/benefit	(2,630)	943	(1,687)	(627)	(2,314)
Loss for the year from continuing operations	**(61,453)**	**(8,293)**	**(69,746)**	**(3,830)**	**(73,576)**
Other key segment information					
Capital expenditures	195,784	751	196,535	9,846	206,381
Depreciation of property, plant and equipment	109,708	8,373	118,081	2,312	120,393

Geographical information of 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	**2019**	**2018**
Kazakhstan	1,084,627	1,006,155
Russia	40,738	28,886
Other	13,773	9,133
	1,139,138	**1,044,174**

Mainly, all of the Group's non-current assets are located in Kazakhstan.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

6. PROPERTY, PLANT AND EQUIPMENT

	Rail track infrastructure	**Buildings and structures**	**Machinery and equipment**	**Vehicles**	**Land**	**Other**	**Construction in-progress**	**Total**
Carrying amount as at 1 January 2018	**992,446**	**350,231**	**271,550**	**845,162**	**3,668**	**13,677**	**187,672**	**2,664,406**
Additions	56	341	372	38,811	-	77	163,194	202,851
Finance lease additions	-	-	-	8,478	-	-	-	8,478
Disposals	(976)	(653)	(1,711)	(4,498)	(3)	(313)	-	(8,154)
Depreciation charge	(34,568)	(5,042)	(27,286)	(51,521)	-	(1,976)	-	(120,393)
Depreciation on disposal	666	238	1,487	4,478	-	306	-	7,175
Impairment reversal/(impairment)	14	(9)	(21)	(472)	-	(7)	43	(452)
Transfer to investment property	-	(250)	(253)	(1,040)	(68)	(6)	-	(1,617)
Transfer to assets classified as held for sale and for distribution to the Shareholder	-	(8,198)	(401)	(9)	(1,781)	(182)	(10)	(10,581)
Other movements and transfers[1]	139,724	(15,187)	18,408	42,016	4	753	(186,036)	(318)
Carrying amount as at 31 December 2018	**1,097,362**	**321,471**	**262,145**	**881,405**	**1,820**	**12,329**	**164,863**	**2,741,395**
Cost	1,319,489	371,125	434,593	1,302,088	1,820	24,827	174,288	3,628,230
Accumulated depreciation and impairment	(222,127)	(49,654)	(172,448)	(420,683)	-	(12,498)	(9,425)	(886,835)
Carrying amount as at 1 January 2019	**1,097,362**	**321,471**	**262,145**	**881,405**	**1,820**	**12,329**	**164,863**	**2,741,395**
Adjustment in connection with the application of IFRS 16 (Notes 3 and 16)	-	1,144	-	14,459	-	6,287	-	21,890
Carrying amount as at 1 January 2019 in accordance with IFRS 16 requirements	**1,097,362**	**322,615**	**262,145**	**895,864**	**1,820**	**18,616**	**164,863**	**2,763,285**
Additions	172	11,965	6,471	32,638	-	228	121,060	172,534
Disposals	(485)	(4,702)	(2,551)	(32,598)	(50)	(552)	-	(40,938)
Depreciation charge	(35,733)	(7,464)	(26,566)	(50,497)	-	(2,449)	-	(122,709)
Depreciation on disposal	331	1,102	1,890	11,804	-	529	-	15,656
Impairment reversal/(impairment)	(189)	(99)	(337)	147	-	14	(2,161)	(2,625)
Other movements and transfers[1]	72,021	(7,611)	11,846	29,306	-	(1,708)	(109,095)	(5,241)
Carrying amount as at 31 December 2019	**1,133,479**	**315,806**	**252,898**	**886,664**	**1,770**	**14,678**	**174,667**	**2,779,962**
Cost	1,388,122	372,009	450,245	1,339,027	1,770	28,611	186,006	3,765,790
Accumulated depreciation and impairment	(254,643)	(56,203)	(197,347)	(452,363)	-	(13,933)	(11,339)	(985,828)
Carrying amount as at 31 December 2019	**1,133,479**	**315,806**	**252,898**	**886,664**	**1,770**	**14,678**	**174,667**	**2,779,962**
Including:								
Rights-of-use assets under lease agreements:								
Cost	-	1,180	-	24,338	-	6,287	-	31,805
Accumulated depreciation and impairment	-	(132)	-	(2,364)	-	(520)	-	(3,016)
Carrying value	-	1,048	-	21,974	-	5,767	-	28,789
Property, plant and equipment that are subject to operating lease (the Group as the lessor)	-	76	45	48,639	-	-	-	48,760

[1] Other movements and transfers mainly include transfers from/to inventories.

Contents

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

As at 31 December 2019, construction-in-progress mainly consisted of project costs to build the Zhezkazgan-Beineu, Arkalyk-Shubarkol and Almaty-Shu railways, a ferry complex at the Kuryk port and development of a railway junction at the Astana station, including the construction of station building facilities.

As at 31 December 2019 and 2018, Group property, plant and equipment with a carrying amount of 13,011 million tenge and 130,129 million tenge, respectively, was used as collateral for specific borrowings.

For the year ended 31 December 2019 the Group recognised depreciation expense on right-of-use assets under lease agreements in the amount of 2,765 million tenge.

For the years ended 31 December 2019 and 2018, capitalised borrowing costs amounted to 9,143 million tenge and 2,130 million tenge, respectively. The Group's average capitalisation rate varies between 5.6% and 9.29% (2018: between 3.2% and 8.55%).

As at 31 December 2019 and 2018, the cost of the Group's fully depreciated property, plant and equipment in use was 289,240 million tenge and 269,280 million tenge, respectively.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Name	Core activity	Main country of operation/ incorporation	31 December 2019 Carrying amount	31 December 2019 Ownership interest	31 December 2018 Carrying amount	31 December 2018 Ownership interest
Associates						
Chinese-Kazakhstan International Logistics Company in Lianyungang	International multimodal transportation	China	10,325	49%	11,558	49%
United Transport and Logistics Company - Eurasian Rail Alliance JSC (UTLC ERA JSC)	Domestic and international rail transportation and freight forwarding	Russia	5,839	33.33%	5,308	33.33%
Other			-	30-47%	-	30-47%
Total investment in associates			**16,164**		**16,866**	
Joint ventures						
Logistic System Management B.V.	Freight forwarding, rolling stock management and terminal management	Kazakhstan / Netherlands	17,389	50%	15,493	50%
Total investment in joint ventures			**17,389**		**15,493**	

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

Movements in investments in associates and joint ventures were as follows:

	2019	2018
Associates		
As at 1 January	16,866	11,538
Recalculation of foreign currencies	486	1,097
Charter capital contributions	-	2,611
Share of profit	4,044	1,727
Dividends declared	(5,232)	(263)
Transfer from other non-current assets	-	156
As at 31 December	**16,164**	**16,866**
Joint ventures		
As at 1 January	15,493	15,866
Share of profit	3,969	1,754
Dividends declared	(2,073)	(2,127)
As at 31 December	**17,389**	**15,493**

During 2019, dividends were received in cash for 2018 from the associate UTLC ERA JSC of 4,773 million tenge (2018: 237 million tenge for first half 2018) and from the joint venture Logistic System Management B.V. for 2017 of 1,952 million tenge (2018: 2,011 million tenge for 2016).

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

Summary financial information in relation to significant associates as at and for the years ended 31 December:

	2019					2018				
	Chinese-Kazakhstan International Logistics Company in Lianyungang	Aktobe Rail and Section Mill Plant LLP	Continental Logistics LLP	Aktau Marine North Terminal LLP	United Transportation and Logistics Company – Eurasian Railway Alliance JSC	Chinese-Kazakhstan International Logistics Company in Lianyungang	Aktobe Rail and Section Mill Plant LLP	Continental Logistics LLP	Aktau Marine North Terminal LLP	Electrovoz kurastyru zauyty LLP
Current assets	1,959	24,208	10,704	2,195	26,185	2,571	31,198	12,169	874	21,195
Non-current assets	21,318	65,972	31,281	39,832	9,138	22,497	69,796	31,805	43,742	3,409
Total assets	**23,277**	**90,180**	**41,985**	**42,027**	**35,323**	**25,068**	**100,994**	**43,974**	**44,616**	**24,604**
Current liabilities	2,008	26,280	25,800	4,725	9,368	1,264	24,460	22,136	3,390	5,804
Non-current liabilities	197	88,393	23,146	49,553	8,440	218	97,061	24,963	49,578	2,874
Total liabilities	**2,205**	**114,673**	**48,946**	**54,278**	**17,808**	**1,482**	**121,521**	**47,099**	**52,968**	**8,678**
Total net assets/ (liabilities)	**21,072**	**(24,493)**	**(6,961)**	**(12,251)**	**17,515**	**23,586**	**(20,527)**	**(3,125)**	**(8,352)**	**15,926**
Ownership interest	49%	30%	30%	40%	33.33%	49%	30%	30%	40%	33.33%
Net assets/(liabilities) attributable to the Group	10,325	(7,348)	(2,088)	(4,900)	5,839	11,558	(6,158)	(938)	(3,341)	5,308
Accumulate unrecognised loss	-	(10,896)	(2,088)	(4,900)	-	-	(9,706)	(938)	(3,341)	-
Adjustment to a carrying value of investment in the change of the investee's net assets (fair value adjustment of the concessional loan from another shareholder)	-	3,548	-	-	-	-	3,548	-	-	-
Investment carrying amount	**10,325**	**-**	**-**	**-**	**5,839**	**11,558**	**-**	**-**	**-**	**5,308**
Revenue	3,303	41,098	2,769	2,565	156,087	8,046	42,072	2,132	3,476	108,372
(Loss)/profit and total comprehensive (loss)/income for the year	(2,065)	(3,966)	(3,836)	(3,898)	15,168	31	(9,203)	(7,112)	(10,816)	15,929
Group's recognised share of (loss)/profit	**(1,012)**	**-**	**-**	**-**	**5,056**	**15**	**-**	**(2,611)**	**(986)**	**5,309**

Contents

Summary financial information in relation to the joint venture Logistic System Management B.V. as at and for the years ended 31 December:

	2019	2018
Current assets, including:	17,394	14,152
Cash and cash equivalents	*9,530*	*7,120*
Non-current assets	21,561	18,357
Total assets	**38,955**	**32,509**
Current liabilities, including	4,102	4,006
Current financial liabilities (except for trade and other accounts payable and provisions)	*442*	*113*
Non-current liabilities, including	3,422	864
Non-current financial liabilities (except for trade and other accounts payable and provisions)	*2,700*	*113*
Total liabilities	**7,524**	**4,870**
Net assets	**31,431**	**27,639**
Ownership interest	50%	50%
Net assets of joint ventures attributable to the Group	15,715	13,819
Goodwill	1,674	1,674
Carrying amount of investments	**17,389**	**15,493**
Revenue	69,780	58,549
Depreciation and amortisation	(1,386)	(986)
Finance income	36	64
Finance costs	(514)	(33)
Income tax expenses	(1,977)	(1,604)
Profit for the year and total comprehensive income	7,938	3,507
Group's recognised share of comprehensive income	**3,969**	**1,754**

In November 2019, the Group entered into an agreement to purchase 50% of the remaining shares in joint venture Logistic System Management B.V. from second partner. The transfer of ownership occurs after the shares are paid off. As at 31 December 2019, the payment was not made due to existence of certain contractual conditions including obtaining the consent of the Committee for the Protection and Development of Competition of the Ministry of the National Economy of the Republic of Kazakhstan, which as at 31 December 2019 had not been met. Accordingly, the Group does not have control over Logistic System Management B.V. Upon completion of the transaction, the Group's interest in the entity will become 100%.

8. OTHER NON-CURRENT ASSETS

	31 December 2019	31 December 2018
Advances paid for property, plant and equipment	87,736	59,795
VAT recoverable	51,786	43,627
Investment property	7,919	11,557
Loans to employees	3,979	4,928
Deferred expenses	2,035	3,856
Long-term trade accounts receivable (Note 11)	58	32
Other	2,542	3,516
	156,055	**127,311**
Less: allowance for non-recoverable VAT	(18,969)	(17,772)
Less: allowance for advances for property, plant and equipment	(7,075)	(5,985)
Less: allowance for other non-current assets	(227)	(754)
	129,784	**102,800**

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

As at 31 December, advances paid for property, plant and equipment included the following:

	31 December 2019	31 December 2018
Supply of locomotives	62,298	34,468
Construction of a ferry complex at Kuryk Port and the operation of universal freight and passenger ferries	8,163	10,976
Supply of spare parts for passenger wagons	6,697	4,328
Supply of freight wagons	5,235	5,655
Other	5,343	4,368
	87,736	**59,795**

9. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Short-term bank deposits, in tenge	77,015	30,434
Cash in bank current accounts, in USD	50,592	9,867
Cash in bank current accounts, in tenge	13,240	22,750
Cash in bank current accounts, in EUR	6,024	1,505
Cash in bank current accounts, in RUB	2,690	805
Cash in bank accounts, in other currencies	2,050	968
Short-term bank deposits in other currencies	-	287
Petty cash	1	9
Less: allowance for expected credit losses on cash and cash equivalents	(31)	(19)
	151,581	**66,606**
Cash included in assets held for sale (Note 13)	286	1,617
	151,867	**68,223**

As at 31 December 2019, the weighted average interest rate on cash in current accounts was 0.39% in tenge and 0.09% in other currencies (31 December 2018: 1.3% in tenge and 0.94% in other currencies).

Short-term bank deposits in tenge and foreign currency are opened for up to three months, depending on the Group's cash needs. As at 31 December 2019, the weighted average interest rate on short-term bank deposits was 7.81% in tenge (31 December 2018: 7.49% in tenge and 5.69% in other currencies).

The Group places cash and cash equivalents in banks and other financial institutions rated between A- and BB+. Based on this, the Group believes that the cash and cash equivalents credit risk as at 31 December 2019 is low.

The allowance for expected credit losses on cash is based on 12-month expected credit losses, which matches their maturity date.

10. INVENTORIES

	31 December 2019	31 December 2018
Spare parts	13,717	14,587
Materials and supplies	9,044	8,766
Railway materials	7,768	6,294
Fuel and lubricants	4,133	3,526
Construction materials	741	540
Work-in-progress	479	537
Other	1,801	1,537
	37,683	**35,787**
Less: allowance for inventories	(401)	(625)
	37,282	**35,162**

Contents

11. TRADE ACCOUNTS RECEIVABLE

	31 December 2019	31 December 2018
Trade accounts receivable	16,647	23,191
Less: allowance for expected credit losses on accounts receivable	(3,345)	(1,520)
	13,302	**21,671**
Current portion of trade accounts receivable	13,244	21,639
Long-term portion of trade accounts receivable (Note 8)	58	32
	13,302	**21,671**

As at 31 December 2019, trade accounts receivable arising from the contracts with customers amounted to 16,267 million tenge (31 December 2018: 18,437 million tenge), and expected credit losses on those trade accounts receivable were 3,250 million tenge (31 December 2018: 1,005 million tenge).

The average term of payment for services rendered is 30 days. During this period, interest on outstanding trade receivables is not charged.

Changes in the allowance for expected credit losses on trade accounts receivable for the years ended 31 December are as follows:

	2019	2018
Allowance for expected credit losses at the beginning of the year	**1,520**	**623**
Accrued for the year	6,290	3,657
Written off during the year against a previously created allowance	(4,465)	(2,702)
Disposal of a subsidiary	-	(58)
Allowance for expected credit losses at the end of the year	**3,345**	**1,520**

12. OTHER CURRENT ASSETS

	31 December 2019	31 December 2018
Other taxes prepaid	35,253	27,028
Advances paid	11,478	18,373
Amounts due from employees	1,515	1,447
Claims, interest and fines	1,383	8,610
Prepaid expenses	1,094	1,222
Restricted cash	127	303
Dividends receivable	41	410
Receivables from the sale of subsidiaries	-	3,515
Other	7,002	12,357
	57,893	**73,265**
Less: allowance for the impairment of advances paid and allowance for expected credit losses on other current assets	(10,290)	(16,088)
	47,603	**57,177**

Changes in the allowance for impairment on advances issued and allowance for expected credit losses on other current assets for the years ended 31 December are represented as follows:

	2019	2018
Allowance for the impairment of advances issued and allowance for expected credit losses on other current assets at the beginning of the year	16,088	12,500
Accrued for the year	5,327	3,579
Written off during the year against previously created allowance	(10,289)	(524)
Transfers	(836)	533
Allowance for the impairment of advances issued and allowance for expected credit losses on other current assets at the end of the year	**10,290**	**16,088**

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

13. NON-CURRENT ASSETS, ASSETS AND LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND FOR DISTRIBUTION TO THE SHAREHOLDER, DISCONTINUED OPERATIONS

During 2016, as part of the Government's Comprehensive Privatisation Plan for 2016-2020, Group management approved a list of Group subsidiaries, associates and joint ventures to be sold to private investors.

As at 31 December 2019 and 2018, the assets and liabilities of the subsidiaries meeting the criteria of non-current assets held for sale criteria were classified as 'disposal groups classified as held for sale' in the consolidated statement of financial position.

Transtelecom JSC

In April 2018, an agreement was concluded to sell a 26% interest -1 share of Transtelecom JSC. Consequently, Transtelecom JSC assets and liabilities as at 31 December 2019 and 2018 were classified as assets held for sale. Management expects that the transaction will be completed within 12 months of the reporting date (Note 32).

	As at 31 December 2019			As at 31 December 2018		
	Transtelecom JSC	Other	Total	Transtelecom JSC	Other	Total
Assets						
Property, plant and equipment	84,429	-	84,429	79,349	2	79,351
Intangible assets	4,596	-	4,596	5,093	-	5,093
Contract assets	318	-	318	-	-	-
Other non-current assets	820	-	820	2,706	-	2,706
Trade accounts receivable	10,300	-	10,300	6,457	-	6,457
Inventories	2,273	-	2,273	942	-	942
Cash and cash equivalents	286	-	286	1,615	2	1,617
Other current assets	3,226	-	3,226	2,867	21	2,888
Total assets of the disposal group held for sale	**106,248**	**-**	**106,248**	**99,029**	**25**	**99,054**
Asset for distribution to the Shareholder (Note 30)	-	104	104	-	282	282
Total assets held for sale and distribution to the Shareholder	**106,248**	**104**	**106,352**	**99,029**	**307**	**99,336**
Liabilities						
Borrowings	45,519	-	45,519	52,268	-	52,268
Lease liabilities	1,964	-	1,964	-	-	-
Finance lease liabilities	-	-	-	1,821	-	1,821
Employee benefit obligations	504	-	504	499	-	499
Deferred tax liabilities	4,375	-	4,375	4,140	-	4,140
Other non-current liabilities	-	-	-	16	-	16
Trade accounts payable	23,168	-	23,168	17,839	113	17,952
Other taxes payable	315	-	315	202	-	202
Contracts liabilities	3,403	-	3,403	113	-	113
Other current liabilities	6,408	-	6,408	5,198	3	5,201
Total liabilities attributable to assets held for sale	**85,656**	**-**	**85,656**	**82,096**	**116**	**82,212**
Net assets of the disposal group	**20,592**	**-**	**-**	**16,933**	**-**	**-**

(in millions of Tenge, unless stated otherwise)

Contents

Discontinued operations

The Group presented the operating results of the subsidiary Transtelecom JSC as discontinued in the consolidated statement of profit or loss and other comprehensive income.

The results of discontinued operations for the years ended 31 December are as follows:

	2019	2018
Revenue	42,803	36,500
Cost of sales	(31,613)	(25,217)
General and administrative expenses	(6,973)	(6,598)
Reversal of asset impairment/(asset impairment)	253	(293)
Write down of disposal group value to fair value less costs to sell	(10,184)	(11,049)
Other profit and losses	(6)	315
Finance income	933	486
Finance costs	(7,437)	(5,833)
Foreign exchange (loss)/gain	(54)	98
Loss before tax	**(12,278)**	**(11,591)**
Income tax expenses	(1,104)	(1,288)
Loss from discontinued operations for the year	**(13,382)**	**(12,879)**
Basic loss per share (tenge)	(26)	(26)

Changes in cash from the discontinued operations of subsidiaries are as follows:

	2019	2018
Net cash received from operating activities	15,327	15,960
Net cash used in investing activities	(8,139)	(21,407)
Net cash (used in)/received from financing activities	(8,517)	3,847
Net cash outflow	**(1,329)**	**(1,600)**

14. EQUITY

As at 31 December 2019 and 2018, share capital is presented as follows:

	No. of shares authorised for issue	No. of shares issued and paid for	Share capital, millions of tenge	Additional paid-in capital, mln. tenge
As at 1 January 2018	502,040,458	496,157,572	1,062,635	-
Shares issued	-	290,037	-	290
As at 31 December 2018	**502,040,458**	**496,447,609**	**1,062,635**	**290**
Shares issued	-	207,197	19,664	(290)
As at 31 December 2019	**502,040,458**	**496,654,806**	**1,082,299**	-

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 Company shares.

Contributions

Shares issuance

In 2019, shares were issued as follows:

a) the transfer of legally registered 290,037 common shares from additional paid-in capital to share capital, for which 51 low-sided cars were contributed by the Shareholder in 2018 with a total market value of 290 million tenge;
b) 14,951 shares, as payment for which 28 low-sided cars were received for a total value of 149 million tenge;
c) 164,246 shares, as payment for which a cash of 16,425 million tenge was received;
d) 28,000 shares, as payment for which a cash of 2,800 million tenge was received.

Other contributions

During 2019, the Group recognised a fair value adjustment of loans that were received from the Shareholder and DBK-Leasing JSC, which is under common control of ultimate Shareholder, at the rates below market of 59,145 million tenge (2018: nil tenge) less deferred tax effect of 11,829 million tenge (2018: nil tenge) (Note 18).

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 the Company, subsidiaries, joint ventures and associates whose functional currency is not tenge and whose financial statements are included in the Group's consolidated financial statements.

Hedging reserve

On 7 August 2015, the Group hedged cash flows to reduce the risk of changes in tenge 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.

As at 31 December 2019, the hedge accounting, where the hedging instrument was Eurobonds payable on 20 June 2019, was discontinued due to receipt revenue from freight transportation in international (transit) routes, which was the cash flow hedging item, and accordingly, the cumulative loss attributable to this hedging instrument has been reclassified from other comprehensive loss to freight transportation revenue in the amount of 19,005 million tenge (Note 22).

For the year ended 31 December 2019, the effective part of 26 million tenge was recorded in the cash flow hedging reserve through other comprehensive income as net fair value loss on cash flow hedging instruments (2018: 14,026 million tenge). The ineffective part of 95 million tenge was recorded in finance costs (2018: 167 million tenge).

Dividends

In 2019, the Company paid dividends to the Shareholder, declared for 2013 and 2014, of 16,425 million tenge. As at 31 December 2019, the Company does not have any dividends in arrears to the Shareholder (31 December 2018: 16,425 million tenge) (Notes 21 and 30).

In 2018, the Company declared and paid dividends to the Shareholder for 2017 of 1,710 million tenge.

Other distributions

In December 2018, the Kazakhstan Government and Shareholder charged the Group with financing the construction of a Children's Centre in Turkestan. As a consequence, the Group accepted the irrevocable commitment to build it and as a result recognised the distribution to the Shareholder of estimated construction costs of 5,300 million tenge.

In 2018, the Group recognised an additional imputed VAT obligation of 1 million tenge, which arose as a result of the transfer of several kindergarten facilities to local authorities.

15. BORROWINGS

Borrowings, including accrual interest, being accounted for at amortised cost consisted of the following:

	31 December 2019		31 December 2018	
	Amount	Weighted average effective interest rate (%)	Amount	Weighted average effective interest rate (%)
Fixed interest rate borrowings				
Loans received	241,897		223,280	
- in tenge	*181,891*	*6.37*	*159,669*	*8.52*
- in US$	*1,257*	*2.88*	*2,104*	*2.55*
- in Euros	*57,383*	*5.26*	*58,808*	*5.89*
- in other currencies	*1,366*	*4.01*	*2,699*	*4.25*
Debt securities issued	1,171,715		1,082,402	
- in tenge	*466,944*	*10.81*	*103,015*	*9.69*
- in US$	*439,512*	*6.95*	*718,771*	*6.64*
- in Swiss Francs	*172,753*	*3.42*	*177,855*	*3.26*
- in other currencies	*92,506*	*8.75*	*82,761*	*8.75*
Variable interest rate borrowings				
Loans received	19,867		23,424	
- in tenge	*14,820*	*11.71*	*18,039*	*11.41*
- in US$	*5,047*	*5.54*	*5,385*	*5.79*
Debt securities issued	52,627		53,171	
- in tenge	*52,627*	*7.72*	*53,171*	*9.32*
	1,486,106		**1,382,277**	
Current portion of borrowings	90,570		175,164	
Long-term portion of borrowings	1,395,536		1,207,113	
	1,486,106		**1,382,277**	

Borrowings, excluding debt securities, should be repaid as follows:

	31 December 2019	31 December 2018
During the year	73,483	126,434
1-2 years	8,435	9,737
2-3 years	8,475	7,851
3-4 years	5,995	4,357
4-5 years	35,865	1,642
Over 5 years	129,511	96,683
	261,764	**246,704**

Loans received

Halyk Bank JSC

In 2019, the Group, represented by its subsidiary KTZ-Express JSC, made an early repayment of 7,900 million tenge within the framework of a credit line agreement with Halyk Bank JSC concluded on 26 February 2015.

In 2019, the Group, represented by the Company, borrowed 44,000 million tenge at 11.5% interest per annum for up to one year within the framework of a credit line agreement with Halyk Bank JSC concluded on 26 February 2015.

During 2019, the Group made a full/partial repayment of loans received in 2018 and 2019 of 44,680 million tenge.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

HSBC France

Under the Master 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, in 2019 borrowed EUR 34,065,611 (14,522 million tenge) (including the COFACE premium). Interest is paid semi-annually at EUR CIRR + 0.4% margin. The principal is repaid semi-annually until fully repaid in 2030.

DBK-Leasing JSC

During 2019, the Group, represented by its subsidiaries Passenger Transportation JSC and Tulpar Wagon Construction Company LLP, entered into a three-side purchase-sale and finance lease arrangement with DBK-Leasing JSC, which is under common control of ultimate Shareholder, for renewal of passenger wagon park of 37,980 million tenge. Interest is paid annually at interest rates of 1.55% - 1.75% per annum. The principal amount is subject to payment in annual instalments with maturity of 20 years. The grace period on payment of principal amount is 5-6 years.

As disclosed in Note 3, the Group accounts for such kind of financial liabilities under such agreements as borrowings.

The borrowings were obtained with below market rates and the fair value of the borrowings was calculated based on market interest rates from 8.82% to 9.11%. During 2019, the Group recognized a fair value adjustment of 19,563 million tenge for the loans obtained at below market rate, less deferred tax effect of 3,913 million tenge, through the equity in retained earnings, as other contributions.

Debt securities issued

As at 31 December, debt securities issued included:

	Repayment date	Exchanges	31 December 2019	31 December 2018
Bonds issued, by price				
6.95% Eurobonds (105.521%) in US$	10 July 2042	LSE/KASE	439,512	441,797
11.5% Bonds (100%) in tenge	3 October 2034	KASE	308,433	-
8.75% Bonds (100%) in Russian Roubles	7 June 2022	MOEX	92,506	82,761
9.25% Bonds (100%) in tenge	15 November 2024	KASE	76,831	76,831
3.638% Eurobonds (100%) in Swiss Francs	20 June 2022	SIX Swiss Exchange	74,481	73,574
3.25% Eurobonds (100%) in Swiss Francs	5 December 2023	SIX Swiss Exchange	65,823	64,710
Inflation rate +2.52% (7.72%) Bonds (100%) in tenge	25 April 2026	KASE	52,627	53,171
11.5% Bonds (100%) in tenge	12 September 2034	KASE	41,380	-
3.25% Eurobonds (104.238%) in Swiss francs	5 December 2023	SIX Swiss Exchange	32,449	-
11% Bonds (100%) in tenge	23 July 2027	KASE	26,184	26,185
2% Bonds (100%) in tenge	20 August 2034	KASE	14,116	-
4.85%-s Eurobonds (100.393%) in US dollars	17 November 2027	ISE/KASE	-	276,974
2.59% Eurobonds (100%) in Swiss francs	20 June 2019	SIX Swiss Exchange	-	39,570
Total debt securities issued			**1,224,342**	**1,135,573**
Current portion of debt securities issued			17,087	48,730
Long-term portion of debt securities issued			1,207,255	1,086,843
			1,224,342	**1,135,573**

(in millions of Tenge, unless stated otherwise)

Contents

Debt securities issuance

On 31 May 2019, the Group, represented by the Company, in order to repay 100,000,000 Swiss Francs Eurobonds issued in 2014 with maturity date on 20 June 2019, issued Eurobonds on SIX Swiss Exchange for 80,000,000 Swiss Francs with a coupon rate of 3.25% per annum and maturity date of 5 December 2023. The coupon is paid once a year.

On 20 August 2019, the Group, represented by the Company, within the second bonds program, issued local bonds on Kazakhstan Stock Exchange to the Shareholder of 40,000 million tenge with favourable coupon rate of 2% per annum and maturity date of 20 August 2034. The coupon is paid twice a year. The bonds were issued with coupon rate below market rate and fair value was calculated based on market rate of 11.5% (Note 30).

The Group recognized a fair value adjustment for the bonds of 26,431 million tenge less the deferred tax effect of 5,286 million tenge through the equity in retained earnings, as other contributions.

On 12 September 2019, the Group, represented by the Company, within the second bonds program issued local bonds on Kazakhstan Stock Exchange of 40,000 million tenge with coupon rate of 11.5% per annum and maturity date of 12 September 2034. The coupon is paid twice a year.

On 3 October 2019, the Group, represented by the Company, within the second bonds program issued local bonds on Kazakhstan Stock Exchange of 300,000 million tenge with coupon rate of 11.5% per annum and maturity date of 3 October 2034. The coupon is paid twice a year.

Extinguishment of debt securities

On 20 June 2019, the Group, represented by the Company, extinguished 100,000,000 Swiss Francs Eurobonds issued in 2014.

In November 2019, the Group, represented by the Company, early extinguished 780,000,000 US dollars Eurobonds issued in 2017. The total settlement amounted to 897,309,831 US dollars (347,360 million tenge), including accrued interest of 428,071 US dollars (165 million tenge), premium for early extinguishment of 116,239,840 US dollars (44,988 million tenge) and fee for early extinguishment of 641,920 US dollars (248 million tenge). The Group recognized premium and fee on early extinguishment as part of finance costs (Note 26). In addition, as a result of derecognition of liability, the Group expensed unamortized part of discount of 22,774 million tenge to finance costs.

The fair value of the borrowings is presented in Note 31.

Credit agreements and breaches of credit agreements

Debt securities 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 debt securities' indenture, investors are entitled to require repayment of the debt securities.

According to finance lease agreements with DBK-Leasing JSC being accounted for by the Group as borrowings, the Group shall comply with certain non-financial covenants.

EBRD and HSBC France loan agreements with a carrying value of 19,867 million tenge and 57,383 million tenge, respectively, include certain financial covenants, such as Adjusted Debt to Adjusted EBITDA, Adjusted Debt to Equity[2] and Interest Coverage Ratios (based on Adjusted EBITDA).

As at 31 December 2019, the Group obtained a letter from HSBC France whereby HSBC France provides a consent to waive all financial covenants for the year of 2019. In addition the Group agreed upon new financial and non-financial terms with HSBC France starting from 2020.

In order to avoid noncompliance with obligations to EBRD and DBK, prior to year-end, the Group received a waiver from creditors agreeing not to apply financial covenants as at 31 December 2019.

[2] As per HSBC France loan agreement terms.

Reconciliation of changes in liabilities and cash flows from financing activity

	2019			2018		
	Borrowings and debt securities issued	Lease liabilities (Note 16)	Total	Borrowings and debt securities issued	Finance lease liabilities (Note 16)	Total
As at 1 January	**1,382,277**	**18,072**	**1,400,349**	**1,269,225**	**14,885**	**1,284,110**
Adjustment in connection with the application of IFRS 16 (Note 3)	-	21,890	21,890	-	-	-
As at 1 January in accordance with IFRS 16 requirements	**1,382,277**	**39,962**	**1,422,239**	**1,269,225**	**14,885**	**1,284,110**
Changes due to cash flows from financing activities						
Repayment of borrowings	(419,115)	-	(419,115)	(283,608)	-	(283,608)
Proceeds from borrowings	455,931	-	455,931	271,996	-	271,996
Repayment of lease liabilities	-	(3,641)	(3,641)	-	(784)	(784)
Total changes due to cash flows from financing activities	**36,816**	**(3,641)**	**33,175**	**(11,612)**	**(784)**	**(12,396)**
Other changes						
Effect of changes in foreign exchange rates	8,857	95	8,952	112,798	-	112,798
Cash flow hedging	121	-	121	14,193	-	14,193
Acquisition of fixed assets through loans	50,648	-	50,648	1,054	-	1,054
New lease agreements	-	503	503	-	5,287	5,287
Fair value adjustment of the loans received at below market rate from the Shareholder/ultimate Shareholder (Note 14)	(59,145)	-	(59,145)	-	-	-
Interest and discount amortisation, including capitalised borrowing costs	128,277	3,096	131,373	92,436	1,092	93,528
Interest paid	(89,215)	(557)	(89,772)	(93,936)	(572)	(94,508)
Effect of modifications or exchange of debt assets and liabilities that do not lead to derecognition	427	-	427	(1,036)	-	(1,036)
Other changes	27,043	(12,895)	14,148	(845)	(1,836)	(2,681)
Total other changes attributable to liabilities	**67,013**	**(9,758)**	**57,255**	**124,664**	**3,971**	**128,635**
As at 31 December	**1,486,106**	**26,563**	**1,512,669**	**1,382,277**	**18,072**	**1,400,349**

Contents

16. LEASE LIABILITIES

As at 31 December, Group lease liabilities included:

	2019		2018	
	Lease payments	Present value of lease payments	Minimum lease payments	Present value of minimum lease payments
During one year	6,527	6,238	1,513	1,677
Between two and five years inclusive	21,716	14,556	7,256	5,021
Over five years	20,591	5,769	22,794	11,374
Net liabilities	**48,834**	**26,563**	**31,563**	**18,072**
Less future finance costs	(22,271)	-	(13,491)	-
Present value of lease payments	**26,563**	**26,563**	**18,072**	**18,072**
Less amounts due within 12 months		(6,238)		(1,677)
Amount to be repaid after 12 months		**20,325**		**16,395**

As a result of the application of IFRS 16 *Leases*, the Group additionally recognised right-of-use assets and corresponding liabilities as at 1 January 2019, composed of real estate of 1,144 million tenge, railway transport of 14,459 million tenge and other equipment of 6,287 million tenge (Notes 3 and 6). The lease term of real estate is in the range from 2 to 56 years, the lease term of railway transport and other equipment is in the range from 2 to 20 years.

As at 31 December 2019, interest is calculated based on effective interest rates varying from 2.5% to 19.48% (31 December 2018: from 2.19% to 19.47%).

All lease liabilities are denominated in tenge, except lease liabilities of other equipment denominated in US dollars.

17. 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 described below.

During 2019, the Group introduced certain Rules related to early retirement (the "Rules") in order to meet the plan of reducing the number of employees employed by the Group in the next 5 years. The Rules are effective for employees who reach a minimum age of five years before the retirement age that has been established by the legislation.

Employee benefit obligations and other non-current employee benefits are payable in accordance with the Rules and Collective Agreement between the Group and its employees for 2018-2020.

Pursuant to these documents, the Group provides the following benefits under an unfunded scheme:

- a one-time retirement grant;
- one-time payment at early termination of labour agreement that depends on work experience in the industry, in accordance with the Rules;
- benefit until the retirement age in the range of 70 thousand tenge and 200 thousand tenge per month payable either one-time payment for the whole period until the retirement age or on a monthly basis in accordance with the Rules;
- 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.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

Movement in the present value of obligations for the years ended December 31 are as follows:

	2019	2018
Total liabilities at the beginning of the year	34,745	31,241
Current service cost	1,346	1,172
Past service cost	8,952	1,480
Interest cost	2,879	2,944
Actuary remeasurement recognised in other comprehensive losses	612	1,137
Payments made during the year	(3,262)	(3,211)
Actuary loss recognised in profit or loss for the year	(893)	19
Disposal of subsidiaries	-	(37)
Total liabilities as at the end of the year	**44,379**	**34,745**
Including liabilities due within one year	5,101	2,797
Liabilities due after one year	39,278	31,948
	44,379	**34,745**

Defined benefit obligations and other long-term employee benefits recognised in profit or loss during 2019 and 2018 are as follows:

	2019	2018
Cost of sales (Note 24)	11,826	4,893
General and administrative expenses (Note 25)	458	722
Total recognised in profit or loss for the year	**12,284**	**5,615**

The Group's obligations were estimated based on published statistical data regarding mortality and actual Group data concerning employee and pensioner headcount, age, gender and years of service, and turnover, as well as expectations that all employees granted with early retirement option under the Rules, will exercise when reach minimum age, i.e. 5 years before the official retirement age. Other significant actuarial assumptions as at the reporting date for the consolidated statement of financial position are as follows:

	2019	2018
Discount rate	9.1%	8.3%
Expected annual growth in material aid in the future	3.3% (average)	3.4% (average)
Expected annual minimum salary growth in the future	4.3% (average)	4.9% (average)
Expected annual future growth in rail ticket cost	5.2% (average)	6.3% (average)

According to an actuarial sensitivity analysis, the maximum increase in the employee benefit obligations is 7.9% caused by an inflation rate increase of 1%.

18. CORPORATE INCOME TAX

Income tax expenses for the year ended 31 December included:

	2019	2018
Current income tax expenses	859	667
Adjustment in relation to income tax for prior years	(32)	828
Income tax paid withheld	667	686
Deferred income tax expense	15,944	(6,271)
Change in unrecognised deferred tax assets, including for tax losses carried forward	6,780	6,404
	24,218	**2,314**

The table below provides a reconciliation of income tax expenses based on accounting profit before tax at the statutory rate against income tax expenses reported for the years ended 31 December:

	2019	2018
Loss before tax from continuing operations	(32,725)	(71,262)
Official tax rate	20%	20%
Theoretical tax benefit at the official rate	(6,545)	(14,252)
Tax effect of non-deductible expenses for tax calculation purposes, and other effect:		
Adjustment of income tax from prior years	(32)	828
Non-deductible expenses	24,015	9,334
Change in unrecognised deferred tax assets, including for tax losses carried forward	6,780	6,404
Income tax expense recognised in profit or loss (attributable to continuing activities)	**24,218**	**2,314**

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 the consolidated financial statements are as follows:

	31 December 2019	31 December 2018
Deferred tax assets:		
Tax losses carried forward	126,372	143,256
Difference in accounts receivable	5,129	4,232
Financial guarantee contracts liabilities	4,306	2,918
Accrued employee liabilities	3,734	2,718
Discount on loan accounts receivable	2,103	2,178
Other	5,518	1,470
	147,162	**156,772**
Less: deferred tax assets offset against deferred tax liabilities	(146,661)	(150,348)
Deferred tax assets	**501**	**6,424**
Deferred tax liabilities:		
Property, plant and equipment and other non-current assets	(346,933)	(332,719)
Fair value adjustment to borrowings received from the Shareholder/ ultimate Shareholder at the rates below market	(54,667)	(43,881)
Other	(29)	(86)
	(401,629)	**(376,686)**
Less: deferred tax liabilities offset against deferred tax assets	146,661	150,348
Deferred tax liabilities	**(254,968)**	**(226,338)**
Total net deferred tax liabilities	**(254,467)**	**(219,914)**

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

	2019	2018
Net deferred tax liabilities as at the beginning of the year	(219,914)	(221,645)
Recognised in profit or loss	(22,724)	(133)
Recognised in equity (Note 14)	(11,829)	-
Disposal of subsidiaries	-	1,030
Recognised in investments in associates	-	834
Net deferred tax liabilities as at the end of the year	**(254,467)**	**(219,914)**

The Group has not recognised deferred tax assets relating to the portion of 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 2019, the total tax effect of unrecognised tax losses carried forward amounted to 18,622 million tenge (31 December 2018: 11,842 million tenge). These tax losses carried forward expire in 10 years from the date they were incurred, while major part of the losses expire in 2028-2029.

19. TRADE ACCOUNTS PAYABLE

	31 December 2019	31 December 2018
Accounts payable for services provided	53,750	49,838
Accounts payable for the supply of property, plant and equipment	31,232	59,154
Accounts payable for inventories received	29,537	30,451
Other accounts payable	2,393	2,460
	116,912	**141,903**
Current portion of trade accounts payable	116,912	140,222
Long-term portion of trade accounts payable (Note 21)	-	1,681
	116,912	**141,903**

As at 31 December, trade accounts payable were expressed in the following currencies:

	31 December 2019	31 December 2018
Tenge	98,643	128,623
US Dollars	8,582	6,325
Swiss Francs	1,990	813
In other currencies	7,697	6,142
	116,912	**141,903**

The average turnover period for accounts payable is 53 days (2018: 56 days).

20. CONTRACTS LIABILITIES

	31 December 2019	31 December 2018
Advances received on contracts with customers	51,154	61,302
Deferred income	10,508	7,708
	61,662	**69,010**

The revenue recognized in the reporting period, which was included in the balance of advances received and deferred income at the beginning of the year amounted to 46,712 million tenge (2018: 48,162 million tenge).

Contents

21. OTHER LIABILITIES

	31 December 2019	31 December 2018
Liabilities under financial guarantee contracts	21,531	14,588
Provisions	16,243	510
Salaries and other remunerations payable	12,852	17,506
Provision for unused vacation	12,641	11,705
Obligatory pension contributions, social contributions, insurance and obligatory medical insurance contributions	6,319	6,034
Deferred income (government grants)	4,855	7,229
Advances received	1,843	2,797
Dividends payable (Note 14 and 30)	-	16,425
Trade account payable (Note 19)	-	1,681
Other liabilities	10,434	10,927
	86,718	**89,402**
Current portion of other liabilities	58,431	68,418
Long-term portion of other liabilities	28,287	20,984
	86,718	**89,402**

As disclosed in Note 28, the Group provided financial guarantees to banks for the loans received by International Airport Astana JSC, Electrovoz Kurastyru Zauyty LLP and associate Aktobe Rail and Section Mill Plant LLP and recognised a liability under financial guarantee contracts. As at 31 December 2019, liabilities under financial guarantee contracts were 10,133 million tenge on International Airport Astana JSC, 396 million tenge on Electrovoz Kurastyru Zauyty LLP and 11,002 million tenge on Aktobe Rail and Section Mill Plant LLP (31 December 2018: 6,451 million tenge, 679 million tenge and 7,458 million tenge, respectively).

Provisions mainly include provisions under the agreements entered with the associates Continental Logistics LLP and Continental Logistics Shymkent LLP on freight handling services and future freight storage of 2,100 million tenge and 9,658 million tenge, respectively (Note 28), as well as provisions under other agreements, according to which as at 31 December 2019 there is a high probability that an outflow of resources embodying economic benefits will be required to settle the obligations. The provisions have been recorded in other profit and losses.

As at 31 December 2019 and 2018, other liabilities were, mainly, expressed in tenge.

22. REVENUE

During 2019 and 2018, revenue from freight transportation included:

	2019	2018
Revenue from contracts with customers:		
Domestic routes	317,192	283,878
International (transit) routes	276,880	243,760
International (export) routes	189,958	178,063
International (import) routes	107,833	95,915
Additional charges related to the transportation process	37,726	33,618
Other revenue from freight transportation	27,606	13,802
	957,195	**849,036**

During 2019, the revenue from freight transportation in international (transit) routes, which was the cash flow hedging item, was received and, accordingly, the cumulative loss of 19,005 million tenge attributable to the hedging instrument had been reclassified from other comprehensive loss to revenue from freight transportation (Note 14).

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

During 2019 and 2018, revenue from passenger transportation included:

	2019	2018
Revenue from contracts with customers:		
On domestic routes	59,234	60,461
On international routes	17,791	16,841
Other revenue	7,756	6,917
	84,781	**84,219**

23. OTHER REVENUE

	2019	2018
Revenue from the sale of goods and provision of other services	32,933	34,978
Revenue from wagon lease	22,362	45,475
Revenue from fines	6,699	5,758
Revenue from the lease of other fixed assets	3,762	3,957
	65,756	**90,168**

Revenue from the sale of goods and provision of other services is mainly represented by revenue from freight loading and unloading, vessel servicing, sale of inventories and scrap metal. Revenue of 14,576 million tenge is recognised at a point in time (2018: 12,742 million tenge), and of 25,056 million tenge over time (2018: 27,994 million tenge).

The Group leases out wagons and other property, plant and equipment under operating lease agreements for up to one year. Accounts receivable under operating leases are payable within one year. Operating leases do not include an extension or early termination option. The Group is not exposed to currency risk as a result of operating leases, as all leases are denominated in tenge. The lessee does not have option to purchase cars and other property, plant and equipment at the end of the lease term.

Revenue from fines is mainly represented by revenue from late dispatch of freight from destination stations and for a breach of contracts.

24. COST OF SALES

	2019	2018
Staff costs, including taxes, contributions and provisions for unused vacations	283,077	266,930
Fuel and lubricants	124,411	120,476
Repairs and maintenance	121,116	99,219
Depreciation and amortisation	119,335	114,431
Work and services of a production nature	51,978	52,485
Materials and supplies	51,866	42,728
Electricity	46,850	45,679
Taxes	23,672	20,287
Employee benefit expenses and other long-term employee benefits (Note 17)	11,826	4,893
Utilities and building maintenance	3,756	3,901
Telecommunication services	3,567	5,315
Other costs	30,912	42,104
	872,366	**818,448**

Contents

25. GENERAL AND ADMINISTRATIVE EXPENSES

	2019	2018
Staff costs, including taxes, contributions and provisions for unused vacation	44,380	41,231
Property tax and other taxes	13,031	16,583
Allowances for expected credit losses of accounts receivable and impairment of short-term advances paid	11,624	7,231
Depreciation and amortisation	5,380	6,547
Consulting, audit and legal services	2,405	3,659
Other third party services	1,782	3,215
Business trip expenses	1,690	1,577
Operating lease expenses	1,269	1,438
Expenses to hold celebrations and cultural and mass events	952	970
Materials	890	1,095
Banking services	814	928
Utilities and building maintenance	776	872
Advertising	586	1,373
Telecommunication services	484	549
Employee benefit expenses and other long-term employee benefits (Note 17)	458	722
Insurance	455	347
Expenses to maintain social sphere facilities	364	413
Repairs and maintenance	356	273
Vocational and professional training expenses	252	364
Other expenses	8,671	8,167
	96,619	**97,554**

26. FINANCE COSTS

	2019	2018
Interest expense and discount amortisation	119,810	90,306
Premium and fee for early bond extinguishment (Note 14)	45,236	-
Other finance costs	11,044	13,228
	176,090	**103,534**

27. 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 2019 and 2018, the Company had no outstanding antidilutive instruments.

	2019	2018
Weighted average of common shares	496,465,588	496,160,750
Loss for the year attributable to the Shareholder (million tenge)	(70,233)	(87,219)
Loss per common share (tenge)	**(141)**	**(176)**
Loss for the year from continuing operations, attributable to the Shareholder (million tenge)	(56,851)	(74,340)
Loss per common share from continuing operations (tenge)	**(115)**	**(150)**
Net assets, exclusive of intangible assets and minority interest	1,122,083	1,102,607
Quantity of common shares in circulation (registered)	496,654,806	496,157,572
Carrying amount of one share (tenge)[3]	**2,259**	**2,222**

[3] Carrying amount of shares is calculated in accordance with KASE requirements.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

28. FINANCIAL AND CONTINGENT LIABILITIES

Capital commitments

As at 31 December 2019, the Group had commitments to purchase long rails and to purchase freight and passenger electric locomotives, freight and passenger steam locomotives for a total of 1,435,386 million tenge (31 December 2018: 1,459,577 million tenge).

Leases

In August 2017, the Group, represented by its subsidiaries Kaztemirtrans JSC and KTZ Express JSC, entered into lease agreements with DBK Leasing JSC to lease 1,000 low-sided cars and 1,995 platform cars with a total value of 15,077 million tenge and 33,264 million tenge, respectively. The lease term is 15 years and interest is 15%, of which 10% per annum is subsidised by the government. The grace period for the principal is 7 and 5 years, respectively. The Group acts as lessee. As at 31 December 2019, the commitment was 10,418 million tenge for undelivered low-sided cars and 26,862 million tenge for platform cars.

Other contractual liabilities

The Group, represented by its subsidiary KTZ Express JSC, has entered into agreements for freight handling services and freight storage in the future with the associate Continental Logistics LLP, Sberbank of Russia SB JSC and Odyssey Investments Group LLP dated 20 November 2015 (addendum dated 15 August 2016); with the associate Aktau Marine North Terminal LLP, Sberbank of Russia SB JSC and Inter Port Development PTE LTD dated 28 December 2015; and with the associate 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 and make substantial payments in relation for such volumes.

The service period for the Agreement with Continental Logistics LLP dated 20 November 2015 (addendum from 15 August 2016) commenced from 15 September 2016, while the service period for the Agreement with Continental Logistics Shymkent LLP dated 15 August 2016 commenced from 1 May 2019. The service period for the Agreement with Aktau Marine North Terminal LLP dated 28 December 2015 has not yet commenced.

During 2019, Sberbank of Russia SB JSC (party to the Agreement with Continental Logistics LLP) addressed the Group with a claim to transfer all of KTZ Express JSC rights and obligations under the Agreement with Continental Logistics LLP to the Company, due to Continental Logistics LLP's failure to pay interest and a part of the principal under its loan agreement. As at 31 December 2019, the amount of debt of Continental Logistics LLP to Sberbank of Russia SB JSC was 27,992 million tenge, with a maturity until 2025, according to repayment schedule.

As a result of negotiations, as at 31 December 2019 Continental Logistics LLP and Sberbank of Russia SB JSC had agreed a Road Map to restructure the Continental Logistics LLP loan, including debt write-off of 11,233 million tenge and the Group's subsequent withdrawal from the Agreement. Furthermore, on 31 December 2019 the authorised body of Kazakhstan Development Bank JSC approved the refinancing of the Continental Logistics LLP debt to Sberbank of Russia SB JSC. On 5 January 2020, Kazakhstan Development Bank JSC and Continental Logistics LLP entered into a Credit line agreement of 7,000 million tenge for 15 years and interest rate of 15% per annum.

After the reporting date, in addition to loan restructuring road map, on 27 February 2020 Development Bank of Kazakhstan JSC, Odyssey Investments Group LLP, KTZ Express JSC and Continental Logistics LLP entered into an agreement, where the Group assumed an irrevocable commitment to cover, at the first written demand from Kazakhstan Development Bank JSC, any cash shortfalls of Continental Logistics LLP under the Credit line agreement.

As at 13 March 2020, the Continental Logistics LLP's debt to Sberbank of Russia SB JSC is fully settled.

Thus, taking into account the events after the reporting date, Group management revised its estimate of liabilities leading to an outflow of resources embodying economic benefits under the Agreement with Continental Logistics LLP, and as at 31 December 2019 accrued a provision of 2,100 million tenge or 30% of the Credit line provided by Development Bank of Kazakhstan JSC to Continental Logistics LLP (Note 21).

Group management believes that the probability of the outflow of resources embodying economic benefits has increased to settle the obligation under the Agreement with Continental Logistics Shymkent LLP. The Group estimated the amount of obligations and as at 31 December 2019 accrued a provision at the amount of the fine to withdraw from the Agreement of 9,658 million tenge and the losses incurred since commencement of commercial operations, for which a reimbursement to Continental Logistics Shymkent LLP will be required as a result of the Group's failure or undue execution of Agreement terms, including in the event of withdrawal from the Agreement at the Group's initiative (Note 21).

Group management believes that the service period under the Agreement with Aktau Marine North Terminal LLP has not yet commenced, because the Group has not been notified about the commencement date of commercial operations and service period, and the parties have not started execution of the obligations under the Agreement. Group management believes that as at 31 December 2019, the outflow of resources embodying economic benefits under this Agreement is not highly probable.

Contingent liabilities

Litigation

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 tax system

Due to the uncertainties inherent in the Kazakhstan tax system, the ultimate amount of taxes, fines and late payment interest may exceed the amount expensed as at 31 December 2019 and 2018. It is not possible to determine the value of any unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome.

Between December 2019 and February 2020, the Nur-Sultan State Revenue Department conducted a targeted tax audit of Wagonservice JSC, a subsidiary of the Passenger Transportation JSC, for the period of November 2014 – November 2019. As a result of inspection, the inspector revealed a petroleum products turnover of 12,202 million tenge within equipping services contracts, which assume fuelling of wagon power stations of the trains, executed by Wagonservice JSC in violation of the Kazakhstan Law *On the State Regulation of the Production and Turnover of Certain Types of Petroleum Products*. The above violation stipulates a fine of 795 thousand tenge and the confiscation of petroleum products and/or revenue received as a consequence of the violation.

As at 31 December 2019, the Group did not accrue provisions for the above amounts because management believes that JSC Wagonservice carries out its charter activities since incorporation up to date within the framework of current Kazakhstan legislation, and is disputing the ruling of the tax authorities in court and the state authorities.

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.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

Guarantees

As at 31 December 2019, guarantees were represented as follows:

Creditor	Purpose of the guarantee	Guarantee issue date	Guarantee period	Guarantee amount, million tenge
Eurasian Development Bank	Execute the obligations of Electrovoz Kurastyru Zauyty LLP to finance the construction of a locomotive production plant	17 September 2012	until 2023	2,370
Kazakhstan Development Bank JSC	Execute 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	21,802
Kazakhstan Development Bank JSC	Execute the obligations of Astana International Airport JSC to finance its upgrade	28 March 2018	until 2033	22,500

Note 21 discloses the carrying value of these guarantees.

To avoid non-compliance with respect to obligations to its creditors, prior to year-end, the Group received a waiver related to the non-application of financial covenants as at 31 December 2019 under the financial guarantee contract with Development Bank of Kazakhstan JSC.

29. SUBSIDIARIES

Information on the composition of the Group is as follows:

Subsidiary	Activities	Country	Ownership interest, % 31 December 2019	Ownership interest, % 31 December 2018
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 transportation	Kazakhstan	100	100
5. Temirzholsu JSC	Utilities	Kazakhstan	100	100
6. Remlocomotive JSC	Rolling stock production	Kazakhstan	100	100
7. Transtelecom JSC	Telecommunication services	Kazakhstan	51	51
8. Militarised Railway Security JSC	Security	Kazakhstan	100	100
9. Kamkor Repair Corporation LLP	Machinery production	Kazakhstan	100	100
10. Aktau Sea Commercial Port National Company JSC [4]	Vessel loading and unloading work, vessel servicing	Kazakhstan	100	100
11. Port Kuryk LLP	Freight transhipment and vessel servicing	Kazakhstan	100	100
12. KTZ Finance LLC	Bond issues to finance KTZ Group projects and operations	Russia	100	100

[4] In November 2013, the Shareholder transferred a 100% ownership interest in National Company Aktau Sea Commercial Port JSC to the Group's trust management. National Company Aktau Sea Commercial Port JSC is recognised as a Group subsidiary although the Group does not legally hold shares in it.

30. 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 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 partner	Companies making up the Shareholder Group	Other related parties[5]
Amounts due from related parties for goods, services and non-current assets	2019	56	1,687	576	6,323	4
	2018	11	37,614	500	3,537	3,076
including allowances for expected credit losses and impairment of advances paid	2019	-	(4,121)	(25)	(378)	-
	2018	-	(1,000)	(26)	(71)	-
Amounts due to related parties for goods, services and non-current assets	2019	-	9,149	2,105	4,130	3,451
	2018	-	15,346	2,177	2,261	21,591
Restricted cash	2019	-	-	-	-	118
	2018	-	-	-	-	86
Lease receivable	2019	-	-	-	820	-
	2018	-	-	-	-	-
Borrowings received	2019	123,621	-	-	-	61,965
	2018	107,906	-	-	-	30,112
Lease/finance lease liabilities	2019	529	-	-	204	5,168
	2018	1,903	-	-	-	16,169
Dividends payable	2019	-	-	-	-	-
	2018	16,425	-	-	-	-
Dividends receivable	2019	-	41	-	-	-
	2018	-	-	-	-	-

[5] Other related parties include other commercial entities under common control of the ultimate Shareholder.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

Transactions with related parties for the years ended 31 December are presented as follows:

		Shareholder	Associates	Joint ventures in which the Group is a partner	Companies making up the Shareholder Group	Other related parties
Sale of goods, services and non-current assets	2019	66	53,236	36,809	32,554	2,340
	2018	54	9,922	29,588	37,747	1,952
(Accrued)/recovered allowances for expected credit losses and impairment of advances paid	2019	-	(3,121)	(1)	(292)	-
	2018	-	(988)	(2)	(55)	-
Purchase of goods, services and non-current assets	2019	-	32,482	142	5,155	1,661
	2018	-	48,203	111	13,593	2,297
Repayment of loans issued	2019	-	-	-	-	-
	2018	-	-	-	-	24,000
Receipt of loans	2019	40,000	-	-	-	-
	2018	40,000	-	-	-	-
Repayment of loans received	2019	1,175	-	-	-	6,661
	2018	41,175	-	-	-	8,398
New lease agreements (Group as lessee)	2019	468	-	-	205	-
	2018	1,383	-	-	-	3,903
Lease/finance lease payments	2019	175	-	-	24	557
	2018	784	-	-	-	572
New finance lease agreements (Group as lessor)	2019	-	-	-	828	-
	2018	-	-	-	-	-
Proceeds from lease agreements	2019	-	-	-	79	-
	2018	-	-	-	-	-
Finance income	2019	-	-	-	71	-
	2018	14	-	-	-	785
Finance costs	2019	5,552	-	-	23	8,750
	2018	5,802	-	-	-	3,297
Dividends received	2019	-	5,273	1,977	-	-
	2018	-	263	2,028	-	-
Dividends declared	2019	-	-	-	-	-
	2018	1,710	-	-	-	-
Sale of financial asset	2019	-	-	-	-	-
	2018	81,986	-	-	-	-
Share capital contribution	2019	19,374	-	-	-	-
	2018	290	-	-	-	-

In 2019, the Group issued bonds to the Shareholder of 40,000 million tenge (Note 15).

As at 31 December 2019, the Group has borrowings from DBK-Leasing JSC and DBK JSC for a total of 61,965 million tenge.

As at 31 December 2019 and 2018, certain Group borrowings of 1,257 million tenge and 2,104 million tenge, respectively, were guaranteed by the Kazakhstan Government.

As at 31 December 2019 and 2018, the Group issued guarantee on certain borrowings of the associate and other related parties to ensure the execution of obligations to the banks (Notes 21 and 28).

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 group companies, associates and joint ventures.

As at and for the years ended 31 December, the Group recognised a constructive obligation to build the following facilities for the benefit of the Shareholder:

	Current liabilities			
	Children's Centre in Turkestan	Mangistau social facilities	Astana kindergarten	Total
As at 1 January 2018	-	247	43	**290**
Accrued for the year	5,300	-	1	5,301
Written off during the year	-	-	(9)	(9)
As at 31 December 2018	**5,300**	**247**	**35**	**5,582**
Written off during the year	(4,240)	(143)	(35)	(4,418)
As at 31 December 2019	**1,060**	**104**	**-**	**1,164**

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		
	Mangistau social facilities	Astana kindergarten	Total
As at 1 January 2018	**247**	**43**	**290**
Disposal	-	(8)	(8)
As at 31 December 2018	**247**	**35**	**282**
Disposal	(143)	(35)	(178)
As at 31 December 2019	**104**	**-**	**104**

Compensation to key management personnel of the Group

Key management personnel comprise members of the Group's Management Board and Board of Directors, totalling 14 persons for the year ended 31 December 2019 (2018: 17 persons). Total compensation to key management personnel included in personnel costs in the consolidated statement of profit or loss and other comprehensive income comprised 512 million tenge for the year ended 31 December 2019 (2018: 210 million tenge). Compensation to key management personnel mainly consists of contractual salary costs and bonuses based on operational results.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

31. 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), lease liabilities, cash and cash equivalents 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 2018.

There are no mandatory minimum capital requirements for the Group.

The Group's equity structure includes net debt (loans, debt securities and lease liabilities less cash and cash equivalents) and Group's 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 loans and debt securities issued 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 2019		31 December 2018	
	Interest rate increase / (decrease) in basic points	Effect on pre-tax profit/equity	Interest rate increase / (decrease) in basic points	Effect on pre-tax profit/equity
US Dollars	20/(20)	(10)/10	50/(15)	(26)/8
Tenge	20/(20)	(130)/130	50/(15)	(340)/102

Contents

Currency risk

The Group undertakes transactions denominated in foreign currencies; consequently, exposing itself to exchange rate fluctuations.

A significant portion of the Group's short-term and long-term foreign currency debt is denominated in US Dollars. A change in the tenge value against the US Dollars, or any other foreign currency in which debt is denominated will result in a foreign exchange gain or loss. During 2019, the Group incurred a foreign exchange loss of 11,592 million tenge, of which a major portion is attributable to borrowing as disclosed in Note 15 (2018: 112,515 million tenge).

The following table reflects the sensitivity of the Group's profit before tax and equity to potential changes in the US Dollar, Euro, Russian Rouble and other exchange rates, provided all other parameters remain constant.

	31 December 2019			31 December 2018		
	Exchange rate increase / (decrease)	**Effect on pre-tax profit**	**Effect on equity**	**Exchange rate increase / (decrease)**	**Effect on pre-tax profit**	**Effect on equity**
US Dollars	12%/ (9%)	(47,793)/ 35,845	-	14%/ (10%)	(100,256)/ 71,612	-
Euros	12%/ (9%)	(6,949)/ 5,212	-	14%/ (10%)	(8,727)/ 6,233	-
Russian Roubles	12%/ (12%)	(10,881)/ 10,881	-	14%/ (9%)	(11,393)/ 7,324	-
Swiss Francs	12%/ (9%)	(224)/168	(20,730)/ 15,548	14%/ (10%)	(77)/55	(24,900)/ 17,786
Other currencies	12%/ (9%)	90/(67)	-	14%/ (10%)	(165)/118	-

On 7 August 2015, the Group began cash flow hedging to decrease the risk of a change in the tenge 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 2019 an effect of 26 million tenge was recognised in other comprehensive income (2018: 14,026 million tenge).

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.

As at 31 December 2019, cash and cash equivalents are mainly placed in Halyk Bank JSC with a credit rating of BB 'stable' (87% of cash and cash equivalents).

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.

In addition, the Group is exposed to credit risk on financial guarantees provided to banks. The maximum risk of the Group in this regard is equal to the maximum amount that the Group will be obliged to pay in the event of claims for guarantees disclosed in Note 28. During 2019, the Group additionally recognized expected credit losses on financial guarantees given to banks for a related party Astana International Airport JSC, which is under common control of ultimate Shareholder, of 3,682 million tenge and the associate Aktobe Rail and Section Mill Plant LLP of 3,857 million tenge.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

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 constantly monitoring projected and actual cash flows and comparing the maturity of financial assets and liabilities.

As at 31 December 2019, the Group has also credit lines available in Halyk Bank JSC and Citibank of Kazakhstan JSC for a total amount of 26,668 million tenge (31 December 2018: 37,878 million tenge).

The Group controls and monitors compliance with the covenants set by the Shareholder and credit/guarantee agreements on a regular basis.

To refinance the borrowings as well as to minimize currency risk exposure, the Group issued bonds on local market of 380,000 million tenge and overseas of 80,000,000 Swiss Francs.

The following tables reflect the contractual terms of the Group's financial liabilities. The table was prepared using 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**
2019						
Interest-free						
Accounts payable	109,422	6,345	1,145	-	-	116,912
Other current liabilities	-	-	10,435	-	-	10,435
Interest-bearing						
Borrowings	17,469	43,955	120,161	812,707	2,212,927	3,207,219
Lease	-	135	913	5,430	9,137	15,615
Financial guarantees	540	1,898	4,006	23,328	58,427	88,199
	127,431	**52,333**	**136,660**	**841,465**	**2,280,491**	**3,438,380**
2018						
Interest-free						
Accounts payable	138,621	1,430	170	1,681	-	141,902
Other current liabilities	-	-	5,579	-	-	5,579
Interest-bearing						
Borrowings	21,080	8,194	225,700	538,845	1,860,848	2,654,667
Finance lease	1,931	1,501	2,821	37,031	45,229	88,513
Financial guarantees	32	1,034	1,971	19,160	66,075	88,272
	161,664	**12,159**	**236,241**	**596,717**	**1,972,152**	**2,978,933**

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	Total
2019						
Interest-bearing:						
Short-term deposits	76,991	-	-	-	-	76,991
Cash and cash equivalents	3,882	-	-	-	-	3,882
Interest-free:						
Cash and cash equivalents	70,708	-	-	-	-	70,708
Restricted cash	-	-	127	-	-	127
Trade accounts receivable	13,002	224	14	62	3,345	16,647
	164,583	**224**	**141**	**62**	**3,345**	**168,355**
2018						
Interest-bearing:						
Short-term deposits	30,708	-	-	-	-	30,708
Interest on short-term deposits	189	-	-	-	-	189
Other financial assets	-	-	285	-	-	285
Interest on other financial assets	-	-	16	-	-	16
Cash and cash equivalents	12,907	-	-	-	-	12,907
Interest-free:						
Cash and cash equivalents	22,991	-	-	-	-	22,991
Restricted cash	-	-	303	-	-	303
Trade accounts receivable	19,920	1,667	52	32	1,520	23,191
	86,715	**1,667**	**656**	**32**	**1,520**	**90,590**

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.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

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 financial 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 (bonds) has been determined based on market prices at the reporting date.

Fair value of financial assets and financial liabilities not regularly measured at fair value (but fair value is mandatorily disclosed)

As at 31 December 2019 and 2018, 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 (bonds) as at 31 December is presented as follows:

	31 December 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Other financial assets	945	945	1,496	1,496
Borrowings	261,765	242,106	246,704	245,146
Debt securities	1,224,342	1,294,193	1,135,573	1,199,855
Financial guarantees	21,531	21,531	14,588	14,588

Fair value 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 as at 31 December 2019 broken down into the fair value hierarchy levels.

	Level 1	Level 2	Level 3	Total
Financial assets				
Other financial assets at amortised cost	-	945	-	945
Total	**-**	**945**	**-**	**945**
Financial liabilities				
Financial liabilities recognised at amortised cost:				
- debt securities, including	1,294,193	-	-	1,294,193
debt securities from related parties	*29,124*	-	-	*29,124*
- bank loans	-	125,849	2,623	128,472
- loans from related parties	-	113,634	-	113,634
Financial guarantees	-	21,531	-	21,531
Total	**1,294,193**	**261,014**	**2,623**	**1,557,830**

(in millions of Tenge, unless stated otherwise)

The table below provides an analysis of financial instruments as at 31 December 2018, broken down into the fair value hierarchy levels.

	Level 1	Level 2	Level 3	Total
Financial assets				
Other financial assets	-	1,496	-	1,496
Total	**-**	**1,496**	**-**	**1,496**
Financial liabilities				
Financial liabilities recognised at amortised cost:				
- debt securities	1,199,855	-	-	1,199,855
- bank loans	-	145,390	4,803	150,193
- loans from related parties	-	94,953	-	94,953
Financial guarantees	-	14,588	-	14,588
Total	**1,199,855**	**254,931**	**4,803**	**1,459,589**

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.

During 2019 and 2018, there were no transfers between the hierarchy levels.

32. EVENTS AFTER THE REPORTING DATE

Disposal of subsidiaries

In January 2020, the Group completed the sale to a third party of 26% - 1 share of the subsidiary Transtelecom JSC. As a result, the Group lost control over the subsidiary and recognised residual interest of 25% as investment in associate.

In March 2020, the Group, represented by the subsidiary KTZ Express JSC, in accordance with the order of the ultimate Shareholder, transferred 100% of the shares of a subsidiary JSC MC SEZ Khorgos – Eastern Gates to the Almaty region municipalities free of charge.

Borrowings received

In February 2020, the Group, represented by the Company, within the framework of a credit line agreement dated 26 February 2015, borrowed 6,000 million tenge at 11.5% interest per annum for up to one year.

Derecognition of financial guarantee contract obligations

In January 2020, Electrovoz Kurastyru Zauyty LLP repaid its debt to the Eurasian Bank of Development in advance, as a result the Group derecognised the liability of 396 million tenge under the financial guarantee contract (Notes 21 and 28).

INDEX OF GRI STANDARD DISCLOSURES IN THE REPORT

GENERAL DISCLOSURES

GRI 102-55

Standard and Indicators	Disclosure	Page in the report
GRI 101 (2016): THE BASICS		
GRI 102 (2016): GENERAL DISCLOSURES		
	THE PROFILE OF THE ORGANIZATION	
102-1	Name of the organization	4, 16, 113
102-2	Activities, brands, products and services	4, 16
102-3	Location of the headquarters	113
102-4	Location of the place of operation	113
102-5	Right of ownership and legal form	16, 31, 113
102-6	Markets served	16, 20, 113
102-7	Scale of the reporting organization	4, 19, 26, 79
102-8	Information about employees and other staff	86
102-9	Supply chain	74
102-10	Significant changes in the organization and its supply chain	19
102-11	Precautionary principle or precautionary approach	68
102-12	External Initiatives	23
102-13	Membership in associations	23
	STRATEGY	
102-14	Statement by the most senior manager	10, 12
102-15	Key impacts, risks, and opportunities	68, 71
	ETHICS AND INTEGRITY	
102-16	Values, principles, standards, and norms of conduct	65
102-17	Mechanisms for Providing Consultations on Ethics	66

	CORPORATE GOVERNANCE	
102-18	Management structure	32, 47
102-20	Executive management's responsibility for economic, environmental, and social issues	47
102-22	Composition of the supreme management body and its committees	33, 47
102-23	Chairman of the supreme management body	33
102-24	Appointment and selection of members of the supreme governing body	33, 44
102-25	Conflict of interest	62
102-26	The role of the top management body in defining the goal, values, and strategy	14
102-27	Collective expertise of the highest management body	46
102-28	Assessment of the work of the highest management body	46
102-29	Identification and management of economic, environmental, and social impacts	68, 71
102-30	Effectiveness of risk management processes	68
102-31	Overview of economic, environmental, and social topics	47, 68
102-32	The role of the highest governance body in sustainable development reporting	112
	REMUNERATION POLICY	
102-35	Remuneration Policy	62
102-36	Process of determining the remuneration	62
	INTERACTION WITH STAKEHOLDERS	
102-40	List of stakeholder groups	110
102-41	Collective Agreement	88
102-42	Identification and selection of stakeholders	109
102-43	Approach to stakeholder engagement	109, 110
	REPORTING PROCEDURE	
102-45	Entities included in the consolidated financial statements	109
102-46	Defining the report content and topic boundaries	109
102-47	List of significant topics	109, 110
102-49	Changes in reporting	19, 110
	GENERAL INFORMATION ABOUT THE REPORT	
102-50	Reporting period	108
102-51	Date of the last report	108
102-52	Reporting cycle	108
102-53	Contact information for submitting questions about the report	113
102-54	Statements for reporting in accordance with GRI Standards.	108, 112
102-55	GRI Content Index	177, 179
102-56	External quality control	112

DISCLOSURES ON SIGNIFICANT TOPICS

GRI 102-55

Standard and Indicators	Disclosure	Page in the report
ECONOMIC ISSUES		
GRI 103 (2016): APPROACHES TO THE MANAGEMENT		
103-1	Explanation of the essential topic and its boundaries	110
103-2	Management approach and its components	69
103-3	Assessment of the management approach	31
GRI 201 (2016): ECONOMIC PERFORMANCE		
201-1	Created and distributed direct economic value	70
GRI 202 (2016): MARKET PRESENCE		
202-1	The ratio of the standard entry-level salary of employees of different sexes to the established minimum salary in significant regions of operation	89
GRI 203 (2016): INDIRECT ECONOMIC IMPACTS		
203-1	Development and impact of investment in infrastructure and Pro Bono services	30, 71
203-2	Significant indirect economic impacts	73
GRI 204 (2016): PROCUREMENT PRACTICES		
204-1	Share of spendings on local suppliers	74
GRI 205 (2016): ANTI-CORRUPTION PRACTICES		
205-1	Production divisions assessed for corruption-related risks	76
205-2	Informing and training on anti-corruption policies and methods	76
205-3	Confirmed cases of corruption and actions taken	76
GRI 207 (2019): TAXES		
207-1	Approach to taxation	71
ECOLOGICAL TOPICS		
GRI 302 (2016): ENERGY		
302-1	Energy consumption within the organization	106
302-2	Energy consumption outside the organization	106
302-3	Energy Capacity	106
302-4	The reduction of energy consumption	106

GRI 303 (2018): WATER AND WASTE		
303-1	Total amount of water taken by source	105
GRI 305 (2016): EMISSIONS		
305-1	Direct greenhouse gas emissions	101
GRI 306 (2016): DISCHARGES AND WASTE		
306-2	Waste by type and method of treatment	101
GRI 307 (2016): COMPLIANCE		
307-1	Compliance with environmental laws and regulations	101
SOCIAL TOPICS		
GRI 401 (2016): EMPLOYMENT		
401-1	New hires and personnel turnover	82
401-3	Maternity/paternity leave	87
GRI 402 (2016): RELATIONSHIP BETWEEN EMPLOYEES AND MANAGEMENT		
402-1	Minimum notification period for operational changes	88
GRI 403 (2018): HEALTH AND SAFETY IN THE WORKPLACE		
403-1	Percentage of staff represented on official joint health and safety committees	96
403-2	Types and level of industrial injuries, the rate of lost days and absence from the workplace, as well as the total number of fatalities	94, 98
403-3	Employees with high injuries and high risk of illness	96, 98
403-4	Health and safety issues reflected in official agreements with trade unions	96
GRI 404 (2016): TRAINING AND EDUCATION		
404-1	Average annual number of training hours per employee	90
404-2	Programme of skills development and education, and program support in the completion of a career	90
404-3	Percentage of employees who are subject to periodic performance and career development evaluations	87
GRI 405 (2016): DIVERSITY AND EQUAL OPPORTUNITIES		
405-1	Diversity of corporate governance bodies and employees	79
405-2	Basic salary ratio for men and women	89
GRI 412 (2016): HUMAN RIGHTS ASSESSMENT		
412-2	Training of employees in human rights policies and procedures	67

GLOSSARY

ACS for CCW	automated control system for contractual and commercial work.
GDP	gross domestic product is a macroeconomic indicator that reflects the market value of all final goods and services (that is, intended for direct use or application) produced during the year in all sectors of the economy on the territory of the state for consumption, export, and accumulation, regardless of the nationality of the factors of production used.
Cargo Traffic	economic indicators of work of transport (the indicator of the volume of cargo transportation) which is equal to the mass of the cargo transported for a certain time multiplied by the distance of transportation. Cargo traffic is measured in ton-kilometers.
Lost Time Injury Frequency Rate	Defines the number of cases of loss of working time, attributed to the total working time worked in the division or enterprise for the year, and normalized to 1 million people/hour
BRN	Backbone Railway Network
Operating Profit	the Company's profit from its main activities is equal to the difference between net revenue (revenue less cost) and expenses for its main activities (the latter include direct and operating expenses) or, what is the same, between gross profit and operating expenses.
Passenger Traffic	the indicator reflects the volume of passenger traffic in passenger-kilometers and is calculated as the product of the number of passengers on the distance of transportation.
Total length of main lines	the sum of the lengths of all main tracks (first, second, third, etc.).
MEDIA	mass media
TRACECA	program of international cooperation between the European Union and partner countries on the organization of the Transport Corridor Europe-Caucasus-Asia.
FER	Fuel and Energy Resources
Energy Capacity	Indicator of reduction of specific consumption of fuel and energy resources per unit of production (work).
Operational length	The length of railway lines between stations, excluding tracks such as the second mainline, station line, etc.
EBITDA	An analytical indicator that is equal to the amount of profit before deducting interest, tax, depreciation, and amortization. Also known as«pre-tax profit».
EBITDA margin	A measure of a company's profitability, calculated as the ratio of EBITDA to revenue.

Contents

Contacts:

National Company Kazakhstan Temir Zholy JSC

010000, Republic of Kazakhstan,
Nur-Sultan city, Kunayev str., bld. 6

www.railways.kz

kense@railways.kz

Help Desk: +7 (7172) 93-01-13

Press Service: +7 (7172) 60-42-81

KAZAKHSTAN RAILWAYS