



ANNUAL REPORT

2016

Connecting **Kazakhstan**. Uniting **the World**.



Earth



Water



Air



2016

СОДЕРЖАНИЕ

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ADDRESS OF THE CHAIRPERSON OF THE BOARD OF DIRECTORS



Chairperson of the Board of
Directors of KTZ NC JSC

Mamin Askar Uzakpaevich

Dear Shareholders, Partners, Investors and Readers of the Annual Report,

In 2016, negative global trends, slowdown of the Kazakhstani economy to 1% kept their effect on the performance of KTZ NC JSC, but the Company kept implementing its Development Strategy and managed to achieve positive results.

Active engagement in the implementation process with respect to the Chinese initiative One Belt, One Road, in the projects of the Governmental program Nurly Zhol, and the policy to attract transit freight traffic by creating strategic alliances, building up new logistic competences and implementing new transport products enabled the Company to double the volume of transit container traffic along the route between China and Europe versus the previous year.

Income from transit traffic in the Company's total income structure reached 35%.

The development of the transport and logistic infrastructure of the country is the key area of the Nurly Zhol Governmental program; and KTZ NC JSC is in charge of implementation of a set of the national strategic projects. In 2016, the Company completed construction of and commissioned the Dry Port within Khorgos – Eastern Gate SEZ, the first start-up facilities of Almaty – Shu railway line, train ferry at the Kuryk Port at the Caspian Sea, kept on implementing the construction projects with respect to a new terminal of Astana Airport and a railway station in Astana.

The dynamics in the implementation of the abovementioned projects demonstrates the high competence and skills of the Company's management in the planning and implementation of major investment projects.

The Company worked actively on improving efficiency, optimizing the corporate portfolio and transforming activities.

In 2016, organizational changes were made as follows: KTZ-Freight Transportation JSC was established by reorganizing the operating structures involved in the transportation process, and the container operator Kaztransservice JSC was consolidated to KTZ Express JSC, which is a multimodal operator responsible for the development of transit traffic. This made it possible to create conditions to improve the performance by optimizing the organizational structures and management apparatuses, enhancing focus on customer and the ability to quickly adapt to the changing market conditions.

Throughout the reporting period, the Company's management worked on improving the performance, optimizing costs and ensuring the financial stability of the Company. As a result, the values of all key strategic indicators of the Company were improved and a positive net profit result was achieved.

The Company actively implemented the policy of corporate social responsibility to employees and the society in general, including the arranged operation of specialized medical trains Salamatty Kazakhstan and Densaulyk to provide the residents of remote stations and passing tracks with qualified medical assistance.

Thus, in 2016, in spite of the intensive period of changes in all areas of activities and the pending negative effects of market conditions, KTZ NC JSC ensured achievement of the planned results and fulfillment of its social obligations. This ensures a balance of interests of all the Company's stakeholders and fulfills all obligations to the shareholder, customers, the state, employees and partners.

**Best regards,
The First Deputy Prime Minister
of the Republic of Kazakhstan,
Chairperson of the Board of Directors
of KTZ NC JSC
A. Mamin**

ADDRESS OF THE CHAIRPERSON OF THE MANAGEMENT BOARD



Chairperson of the Management
Board of KTZ NC JSC

Alpysbaev Kanat Kaliyevich

**Dear Readers of the Annual Report,
Colleagues, Partners,**

Despite the unfavorable situation on the global commodity markets, the slowdown in the development of neighboring countries and the changing geopolitical situation in the region, the Company achieved its operational targets.

As for freight rail transportation, the level of freight turnover in 2016 remained at the level of 2015 and amounted to 188.2 billion ton-km. At the same time, export transportation of crops, ferrous metals, construction materials and fertilizers grew. The transportation of nonferrous ores and chemical cargo increased in transit transportation.

In the segment of transcontinental container transportation from Europe to China, which is strategic for the Company, the volume reached 105K containers, which is twice the level of 2015. In 2016, the Company continued expanding the geography of routes and introducing new transport services. By the end of December a new route of Yiwu (China) – London was added to the 15 regular transit routes operated by the Company between China and Europe; the train's journey along the route is 19 days.

The return loading from Europe to China is ensured at the level of 50%. For the first time, a full-length refrigerated train was organized along the promising route – Herne (Germany) – Lanzhou (PRC). The producers of elite wines from France acted as a customer of the transportation.

As part of the development of the new multi-modal transport product *Rail-Air*, as an alternative to the existing logistics chain *Sea-Air* from South-East Asia via Dubai to Europe, in 2016, shipments to Amsterdam, Istanbul and Moscow were arranged through the territory of Kazakhstan.

Last year container trains were arranged to go along the priority transit routes in the Trans-Caspian direction and along the North-South route.

By attracting new container freight flows and improving the commercial structure of the transported cargo nomenclature, income from transit traffic increased in volume and amounted to 35% of the Company's total income from freight traffic, taking a share of 12% in the freight turnover.

As for passenger transportation in 2016, growth in transportation volumes was ensured by 6% vs. 2015. At the same time, passenger turnover in Tulpar-Talgo high-speed trains increased by 1,032M pass-kilometers or more than 1.8 times. This was influenced by the introduction of new routes, improved service level, the use of a dynamic pricing system, and the implementation of various ticket discount schemes.

Passenger trains along the new railway lines Zhezkazgan – Saksaulskaya and Shalkar – Beineu as well as new suburban electric trains were launched; passenger car fleet was upgraded, including a new version of the Tulpar-Talgo cars.

The Company continued the implementation of the Business Transformation Program; we performed organizational changes in the corporate structure of the KTZ NC JSC group of companies, establishing KTZ-Freight Transportation JSC, which started operating on July 1, 2016. The Company carried out the required preparatory work for three months, ensuring the development of business processes, interaction regulations and the transfer of 50,000 employees to the new Company. All this was worked out without interruption of the transportation process or violations of the safety of train traffic.

In addition, in 2016, we structured and prioritized the portfolio of the Transformation Program projects, assessed the effect and in 2017 the project implementation will begin.

As a part of optimization of the corporate portfolio and implementation of the Comprehensive Privatization Plan of the Government of the Republic of Kazakhstan in 2016, 11 assets totaling 24 billion KZT were disposed; that is also the best performance among Samruk-Kazyna JSC Group of Companies.

The work on improving the performance and financial stability of the group of companies was carried out; the effect amounted to 96 billion KZT.

In general, in 2016, a positive financial result was achieved for all financial indicators; income grew by 35%, operating profit grew by 65%; mainly due to the growth of income from operating activities and the implementation of activities to improve the performance. EBITDA Margin was higher by 16% vs. 2015 and amounted to 25.1%. The net profit amounted to 41 billion KZT.

Successful implementation of the strategy and cohesive work of many thousands of employees of the Company provided the fulfillment of all our obligations to the shareholder and all interested parties in 2016.

I would like to express my gratitude to clients and partners for successful joint activities. I hope that our further cooperation will be effective and fruitful as well.

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

1. ABOUT OF KTZ NC JSC



Earth

Kazakhstan Temir Zholy Republican State Enterprise was established by Resolution of the Government of the Republic of Kazakhstan dated January 31, 1997 No. 129 *On the Reorganization of Railway Enterprises of the Republic of Kazakhstan* by merging the republican state enterprises, such as the Almaty Railway Administration, the Tselinnaya Railway Administration and the West Kazakhstan Railway Administration. The purpose of the merger was to optimize the management structure of transportation process and the elimination of unnecessary links, financial and economic recovery of the railway industry.

By Resolution of the Government of the Republic of Kazakhstan dated March 15, 2002 No. 310 *On Establishment of Kazakhstan Temir Zholy National Company Closed Joint-Stock Company*, Kazakhstan Temir Zholy National Company Closed Joint-Stock Company was established by merging Kazakhstan Temir Zholy Republican State Enterprise and its subsidiary state enterprises.

On April 2, 2004 in accordance with the Law of the Republic of Kazakhstan dated May 13, 2003 *On Joint-Stock Companies*, KTZ NC CJSC was re-registered as KTZ NC JSC.

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

The sole shareholder of KTZ NC JSC is Samruk-Kazyna National Welfare Fund JSC. An ordinary share provides the Sole Shareholder with the right to make decisions submitted for consideration of the Sole Shareholder, right to dividends if KTZ NC JSC has net profit as per the relevant resolution of the Sole Shareholder and to a part of property owned by KTZ NC JSC in case of liquidation of the latter as provided for by the legislation of the Republic of Kazakhstan.

As of January 1, 2017:

- ▶ a number of authorized shares is 502,040,458 ordinary shares;
- ▶ a number of outstanding shares is 496,063,720 ordinary shares;
- ▶ nominal value of shares fixed on the date of establishment of KTZ NC JSC is 1,000 KZT.

KTZ NC JSC carries out the following activities: acting as an operator of a mainline railway network, transportation of passengers and goods by rail. To date, rail transport is an important component part of the industrial infrastructure of the Republic of Kazakhstan.

As of January 1, 2017:

502,040,458

▶▶ a number of authorized shares is ordinary shares

496,063,720

▶▶ a number of outstanding shares is ordinary shares

▶▶ the date of establishment of KTZ NC JSC is **nominal value of shares fixed on**
1,000
KZT

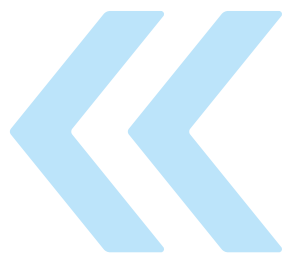
2. OPERATING RESULTS FOR 2016



Turnover index was

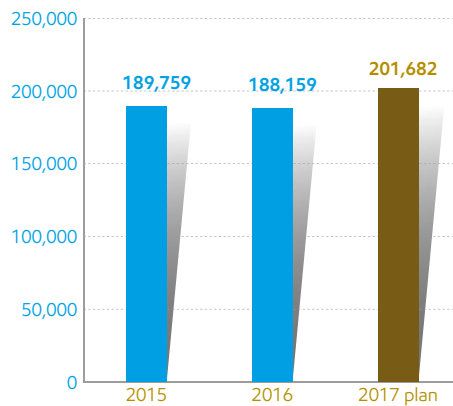
188,159

M tons-km net.

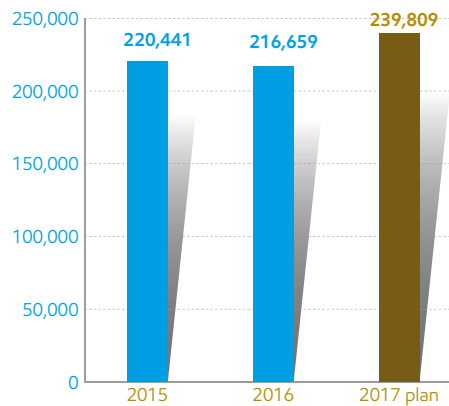


Key Financial and Operating Performances of KTZ NC JSC Group of Companies for 2016

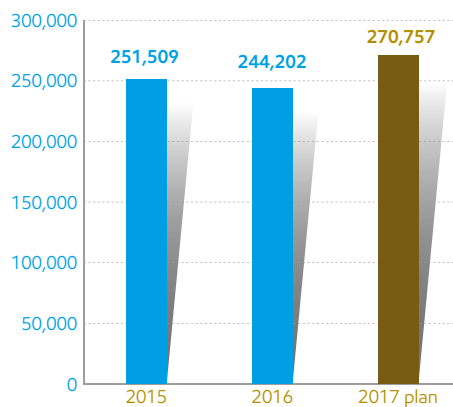
Freight rate/turnover index, million tons-km



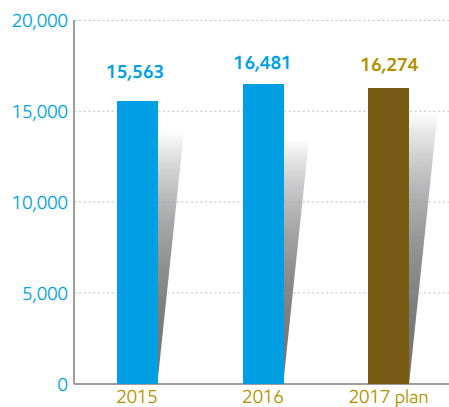
Loading, '000 tons



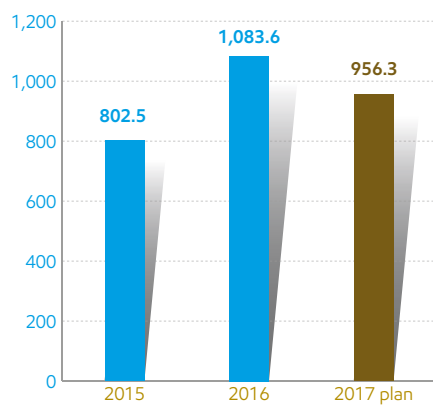
Freights transported, '000 tons



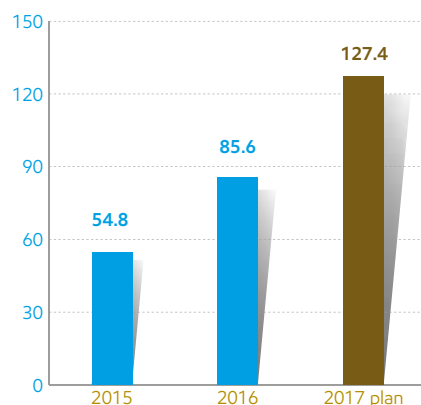
Passenger turnover, million p-km



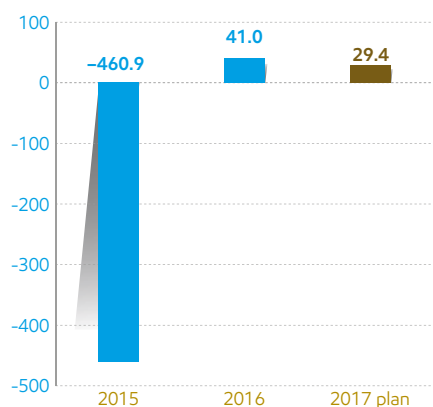
Total income, billion KZT



Operating profit, billion KZT



Net profit, billion KZT



Turnover index was

188,159

M tons-km net.

Compared to 2015, the decrease was 0.8%, which is associated with a decrease in the transportation of cargo by the main nomenclature of cargo, with the exception of iron ore, chemical and mineral cargo, ferrous metals, construction cargo and crops.

In the context of the types of messages regarding 2015, the following changes occurred:



a decrease of 0.7% in the intra-republican connection due to a decrease in traffic volume by 1.9%, with an increase in the average cargo transportation distance by 1.2%;

an increase of 2.4% in export due to an increase in the average distance of cargo transportation by 5.6%, with a decrease in traffic volume by 3.0%;

a decrease of 4.8% in import due to a decrease in traffic volume by 8.0%, with an increase in the average distance of cargo transportation by 3.6%; and

– a decrease in transit by 6.9% due to a decrease in traffic volume by 6.6% and average distance of cargo transportation by 0.3%.

» Loading of cargo amounted to

216,659

K tons

« Compared to 2015, a decrease by 1.7%, which is associated with a decrease in the loading of coal, oil cargo, non-ferrous ore and chemicals.

Compared to 2015, a decrease by 2.9%, which is mainly due to a decrease in the volume of transportation of coal, oil and petroleum products, ferrous and non-ferrous ores, chemical and mineral fertilizers, and chemicals.

» Transported cargo

244,202

K tons

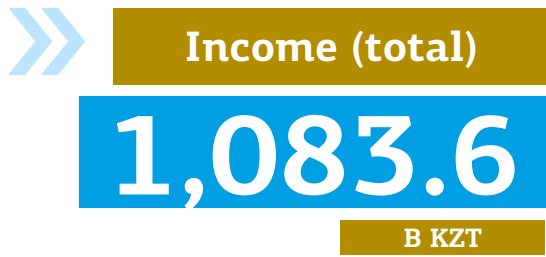
» Passenger turnover for 2016 amounted to

16,481

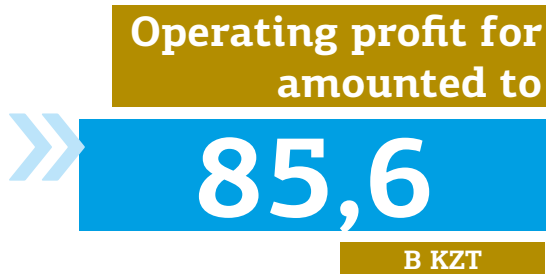
M, pass-km

« Which is 5.9% higher than in 2015 due to the implementation of various train discount schemes formed from the Tulpar-Talgo cars, as well as the introduction of commercial trains in summer period serviced by private passenger carriers.

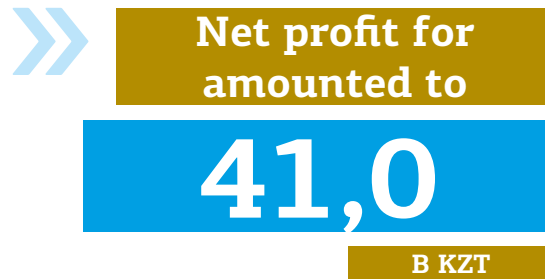
Key Financial and Operating Performances of KTZ NC JSC Group of Companies for 2016



Which is higher than the fact of 2015 by 35.0% due to the growth of income from operating activities by 9.5% and income from the positive exchange rate difference.



Which is higher than the fact of 2015 by 30.8B KZT, mainly due to the growth of operating income by 9.5%.



which is higher than the fact of 2015 by 501.9B KZT, mainly due to the increase in income from operating activities by 71.6B KZT and the growth of the positive foreign exchange difference (balance) 471.9B KZT.

In 2016, in order to reduce currency risk and refinance 10-year Eurobonds in the amount of US\$350M issued in May 2006, the following activities were carried out:

borrowing in national currency was attracted by issuing domestic bonds for the amount of 50B KZT for a period of 10 years at a rate of remuneration of inflation + 2.52% per annum;

a loan from EBRD for the amount of US\$100M was attracted for a period of 8 years at LIBOR + 4.35% per annum;

a loan from Halyk Bank of Kazakhstan JSC for the amount of US\$50M was attracted for a period of 5 years at 5.65% per annum; and

50M dollars of own funds were accumulated.



The provision of the above long-term loans shows a high level of credibility with the Company from creditors and development institutions, despite the prevailing situation in the domestic and global economy.

In 2016, the Company worked to optimize the debt portfolio, including the reduction of currency risks.

Thus, with the purpose of refinancing foreign currency loans, a Restructuring Agreement was signed between KTZ NC JSC, Kaztemirtrans JSC and the European Bank for Reconstruction and Development on December 22, 2016, at a rate of LIBOR + 4.35% per annum due in 2026, proposing

debt conversion in KZT. The loan of KTZ-Freight Transportation JSC received from HSBC France for the purchase of electric locomotives was also partially refinanced at the expense of funds borrowed from Halyk Bank of Kazakhstan JSC for the amount of 33,112,000K KZT, at a rate of 14% per annum payable up to 2023.

In addition, in 2016, the work was carried out to repay loans provided by the Government of the Republic of Kazakhstan to upgrade the fleet of passenger cars by transferring non-core facilities for a total amount of 49B KZT, which helped to reduce the Company's debt burden.



**IN 2016, INVESTMENTS
INVESTMENT IN THE AMOUNT OF
304,633M KZT WAS ALLOCATED
TO THE DEVELOPMENT OF THE
INDUSTRY.**

Major Investment Projects

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

In 2016, investments investment in the amount of 304,633M KZT was allocated to the development of the industry.

The following major projects were implemented for the reporting period:

- 1.) The start-up facilities at railway lines were commissioned:
 - **Zhezkazgan – Beineu**, the disbursed volume of investment was **37,295M KZT**;
 - **Arkalyk – Shubarkol**, the disbursed volume of investment was **2,572M KZT**.
- 2.) The following projects were implemented as a part of the Nurdy Zhol program:
 - constructing the railway line **Borzhakty – Yersay**, construction of the facility was completed, the facility was put into permanent operation;
 - constructing the second tracks on the **Almaty – Shu** section, the disbursed volume of investment made was **19,035M KZT**;
 - constructing a ferry facility in the **Kuryk** Port and the operation of universal cargo-passenger ferries, the disbursed volume of investment amounted to **15,191M KZT**;
 - establishing and comprehensive development of **Khorgos – Eastern Gate SEZ**, the amount of disbursed investment amounted to **12,797M KZT**.
- 3.) Development of the railway junction of Astana Station, including the construction of the station complex; the disbursed investment amounted to **71,144M KZT**.
- 4.) Renewal of the fleet of locomotives: the execution was **39,530M KZT (30 units)**, including 25 purchased locomotives and overhaul covered 5 locomotives.
- 5.) Renewal of the fleet of passenger cars: execution amounted to **30,084M KZT (155 units)**, including purchased 140 passenger cars, overhaul covered 15 passenger cars.
- 6.) Overhaul of the upper track with a length of **354 km** was completed for the amount of **29,105M KZT**.
- 7.) Infrastructure modernization and rehabilitation: the execution amounted to **45,119M KZT**.
- 8.) Improvement of administrative and social working conditions for employees: execution amounted to **2,792M KZT**.



Important Events for KTZ NC JSC in 2016

January

On January 28, an official ceremony of shipment of a demonstration container train transiting through Kazakhstan to Iran took place in Yiwu (Zhejiang Province, PRC).

February

On February 15, medical train Salamatty Kazakhstan set off to remote stations of the central region of the Republic.

On February 26, the President of KTZ NC JSC A. Mamin and the President of Alstom A. Lafarge visited the electric locomotive plant Elektrovoz Kurastyru Zauty LLP.



March

On March 11, a meeting of the President of KTZ NC JSC A. Mamin and the Head of Russian Railways OJSC O. Belozyorov took place in Astana. The issues of further cooperation development in transport and logistics were discussed during the meeting.

On March 14, the First Deputy Prime Minister of Kazakhstan B. Sagintayev visited Khorgos International Center of Boundary Cooperation (ICBC), Khorgos – Eastern Gate SEZ, Altynkol Station as a part of his working visit to Almaty Region.

On March 15, an official ceremony of launch of a passenger train along the route Zhezkazgan – Saksaulsk – Kyzylorda took part at Zhezkazgan Station.

On March 17, a forum arranged by KTZ NC JSC to attract foreign investors to development Khorgos – Eastern Gate SEZ took place in Nanjing (Jiangsu Province, PRC).

On March 29, a trilateral meeting of the President of KTZ NC JSC A. Mamin, the Head of Russian Railways OJSC O. Belozyorov and the Head of Belarus Railway HQ V. Morozov took part to discuss joint activities within United Transport and Logistics Company JSC.

April

On April 7, the President of KTZ NC JSC A. Mamin and Almaty Region Akim A. Batalov took part in the ceremony of the first pre-assembled length of track manufactured from domestic rails – the first products of Aktyubinsk Rail and Section Works LLP when building the second tracks within the section of Almaty-1 – Shu.



On April 14, a social project of Surdo Online was launched at Almaty-1 Station. The new service is designed for citizens with disabilities. In particular, for people with hearing disabilities.

On April 25, a meeting of the President of KTZ NC JSC A. Mamin and the Director General of The Railways of Moldova SE Y. Topala took place. The issues of bilateral cooperation in logistics, transport, railway machinery were discussed during the meeting.

On April 27, Beijing hosted a presentation of a new railway route China – Kazakhstan – Turkmenistan – Iran, which has a high transport potential.



On May 18, President of KTZ NC JSC A. Mamin was re-elected as a Chairperson of the Committee for the Development of the Trans-Caspian International Transport Route.

On May 19, the National Chamber of Entrepreneurs of Kazakhstan *Atameken* and KTZ NC JSC signed the Cooperation Agreement for the Development of Entrepreneurship.

On May 26, the session *Infrastructural Relations between Europe and Asia* took place as a part of *New Economic Reality: Diversification, Innovation and Knowledge Economy AEF*.

On June 2, President of KTZ NC JSC A. Mamin took part in the 11th International Railway Business Forum *Strategic Partnership 1520* in Sochi.

On June 10, a specialized medical train *Densaulyk* set off from Almaty-2 Station.

On June 15, a delegation of KTZ NC JSC headed by Vice President K. Alpysbayev took part in the seventh international specialized exhibition *Transport Logistic China 2016* in Shanghai.

On June 24, Prime Minister K. Massimov visited the Dostyk railway station during his working trip to Almaty Region.

On June 30, the Head of State N. Nazarbayev had a look at the work of the car building plant Tulpar-Talgo in the industrial park of Astana.



On July 1, the first investment facility *Samruk Central Square* opened within the Kazakh part of Khorgos ICBC.

On July 5, an official meeting of the passenger train No. 377/378 Almaty – Mangyshlak was held at the stations Shalkar and Tassay. A new route along the new Shalkar – Beineu line covered more than 20 settlements of Aktobe and Mangystau Regions, where there had been no rail service before.

On July 12, the new vessel *Zhibek Zholy* was added to the dry cargo fleet of Kazakhstan.

On July 29, KTZ NC JSC hosted an Information Day on the presentation of the projects of the Company's Business Transformation Program for 2016–2019.

August

On August 4, KTZ NC JSC held an official event dedicated to the professional holiday, i.e. The Day of Transport Workers. The event was attended by the First Deputy Prime Minister of Kazakhstan B. Sagintayev and the Minister for Investment and Development of the Republic of Kazakhstan Z. Kassymbek.

On August 6–7, a delegation of KTZ NC JSC headed by the Company's CEO A. Mamin, paid a working visit to Shanghai (China). The issues of increasing the volume of transportation in the direction of China – Europe – China and the formation of effective logistics along the corridors passing through the territory of Kazakhstan, as well as participation in the development of Khorgos – Eastern Gate SEZ were considered.

On August 9, Prime Minister K. Massimov paid a working visit to Mangystau Region, where he took a look at the progress of a number of projects aimed at developing the transport infrastructure of the region as a part of the *Nurly Zhol* program.

On August 11, the first container train sent from China to Turkey successfully passed through the Altynkol – Khorgos railway border crossing.

On August 22, the first container train Chongqing-Duisburg consisting of 41 forty-foot containers with products of Hewlett Packard (HP) transited through the Altynkol station and the dry port of Khorgos – Eastern Gate SEZ.

On August 23, the heads of the railway administrations of Kazakhstan, Azerbaijan and Georgia met with shippers, major operators and cargo companies of Kazakhstan.

On August 26, a number of documents were signed in Astana at the 25th Meeting of the mixed commissions of the border railways of Kazakhstan and China.

September

On September 15, Alpysbayev Kanat Kaliyevich was appointed as the Chairperson of the Management Board, President of KTZ NC JSC.

October

On October 4, the Heads of States N. Nazarbayev and V. Putin were presented with a program for the development of the transport and logistic potential of the Eurasian space during the 13th Forum of Interregional Cooperation of Kazakhstan and Russia in Astana.

On October 5, a postal container passed through the Dostyk railway station in Kazakhstan for the first time as part of a container train along the Chongqing-Duisburg route.

On October 18, the Agreement on Development of International Intermodal Transportations along the route Asia-Europe-Asia was signed between KTZ NC JSC's subsidiary KTZ Express JSC and the largest Hungarian freight forwarding Company Rail Cargo Hungaria Zrt in Astana.

On October 26–27, the delegation of KTZ NC JSC headed by CEO K. Alpysbayev took part in the 65th meeting of the Council for Railway Transport of the Commonwealth member states in Tallinn.





November



December

On November 1, a passenger train *Tauelsiz Kazakhstan* left the Astana railway station as a part of the celebration of the 25th anniversary of Independence of the Republic of Kazakhstan.

On November 10, First Deputy Prime Minister of the Republic of Kazakhstan A. Mamin visited the facilities of Khorgos – Eastern Gate SEZ and Khorgos ICBC as part of his working visit to Almaty Region.

On November 16, the delegation of KTZ NC JSC headed by K. Alpysbayev took part in the international forum *Creating an Economic Corridor of the New Euro-Asian Continental Bridge* in Lianyungang (PRC).

On November 17, Aktyubinsk Rail and Beam Plant obtained the certificate of compliance with the requirements of the Technical Regulations of the Customs Union *On the Security of the Railway Transport Infrastructure*.

On November 25, the delegation of KTZ NC JSC took part in the work of the railway business forum *Strategic Partnership 1520: Caspian Region* in Baku.

On November 28, the head of KTZ NC JSC K. Alpysbayev held bilateral meetings on the development of cooperation in the area of transport and logistics as a part of participation in the international UN Global Conference on Sustainable Transport in Ashgabat.

On November 28, as a part of the working visit of the First Deputy Prime Minister of the Republic of Kazakhstan A. Mamin to the People's Republic of China, the CEO of KTZ NC JSC K. Alpysbayev discussed the issues of the joint implementation of the projects of Khorgos – Eastern Gate SEZ with the management of Xianyang and representatives of major Chinese companies.

On December 1, the 1000th container train passed through the Altynkol station and the dry port of Khorgos – Eastern Gate SEZ along the route China – Europe.

On December 6, within the framework of the Industrialization Day, the Head of State in the course of the nationwide teleconference started the launch of facilities implemented by KTZ NC JSC under the *Nurly Zhol* program. The facilities of the first start-up complex of the Kuryk Port and the first start-up facilities of the second tracks on the railway section of Almaty-1 – Shu were put into operation.

On December 8, the issues of growth of cargo transportation between Kazakhstan, Azerbaijan and Georgia were discussed at a working meeting of the heads of railway administrations K. Alpysbayev, D. Gurbanov and M. Bakhtadze in Baku.

On December 9, about 30 innovative projects were presented at the KTZ NC JSC youth forum.

On December 14, the CEO of KTZ NC JSC K. Alpysbayev held talks with the Secretary of the Party Committee of the People's Government of Xianyang (PRC) Yue Liang.

On December 15, two new enhanced-comfort electric trains Astana – Karaganda and Astana – Kokshetau were officially launched.



Welcome address

About KTZ NC JSC

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3. ASSET PROFILE



Earth

The structure of the KTZ NC JSC asset portfolio is the structure of a vertically integrated Company organized on a functional basis, with subsidiaries, related and jointly controlled entities that carry out core and non-core activities and have a geographical presence throughout Kazakhstan.

The information on organizations, shares (interests) of which are directly or indirectly owned by KTZ NC JSC as of January 1, 2017

100% **1. Kaztransservice JSC**

25%

1.1. Eurotranzit – KTS LLP

16.3%

1.2. YuXinOu (Chongjing) Logistics Co. Ltd JV

100% **2. Passenger transportation JSC**

100%

- 2.1. Prigorodnye perevozki JSC
- 2.2. Vagonservic JSC
- 2.3. Passazhirskaya lizingovaya vagonnaya kompaniya JSC
- 2.4. **Bagazhnye perevozki JSC

100% **3. *Vokzal-servis JSC**

51%

4. Transtelecom JSC

100% **5. Militarized railway guard JSC**

100% **6. Kaztemirtrans JSC**

100%

- 6.1. Transport Services Center JSC
- 6.2. Kazakhstan Temir Zholy Finance B.V. Limited Liability Company

90%

6.3. Regional forward logistic LLC

69.94%

6.4. Kazakhstan car manufacturing Company LLP

50%

- 6.5. Astyk Trans JSC
- 6.6. ***Roskazzheldortrans LLC

100% **7. KTZ-Freight Transportation JSC**

100%

- 7.1. Bas-Balkhash 2004 LLP
- 7.2. Rauan-Burabay LLP
- 7.3. MAK-EKIBASTUZ LLP

100% **8. Temirzholsu JSC**

100%

- 8.1. Temirzholsu-Aktobe LLP
- 8.2. Temirzholsu-Mangistau LLP
- 8.3. Temirzholsu-Kzyl-Orda LLP
- 8.4. Temirzholsu-Kokshetau LLP
- 8.5. Temirzholsu-Karagandy LLP
- 8.6. Temirzholsu-Pavlodar LLP
- 8.7. Temirzholsu-Almaty LLP
- 8.8. Temirzholsu-Arys LLP
- 8.9. Temirzholsu-Shu LLP
- 8.10. Temirzholsu-Kostanay LLP
- 8.11. Temirzholsu-Ayagoz LLP
- 8.12. Temirzholzhylyu-Atyrau LLP

100% 9. Remlokomotiv JSC

99.99926%

9.2. Tulpar-Talgo LLP

51%

9.1. TEMIR ZHOL ELECTRIFICATION LLP

25%

9.3. Elektrovoz Kurastyru Zauyty LLP

30%

9.4. Aktyubinsk Rail and Beam Plant LLP

100% 10. KTZ Express JSC

100%

10.1. Khorgos – Eastern Gate SEZ MC JSC
10.2. Airport Management Group LLP

49%

10.2.1. Airport Management Services LLP

100%

10.3. KTZ EXPRESS SHIPPING LLP
10.4. Xinjiang KTZ International Logistics Co.Ltd Foreign-Founded Company
10.5. KTZ Express Hong Kong LLC
10.6. KTZE-Khorgos Gateway LLP

100%

10.2.2. ****Kokshetay Airlines JSC
10.2.3. ****International Airport Astana JSC
10.2.4. ****International Airport Kostanay JSC
10.2.5. ****International Airport Petropavlovsk JSC
10.2.6. **** Shymkent Airport JSC
10.2.7. ****Aktobe International Airport Joint-Stock Company
10.2.8. ****Atyrau International Airport Joint-Stock Company
10.2.9. ****Pavlodar Airport Joint-Stock Company

49%

10.7. Kazakhstan-Chinese International Logistic Company Lianyngang LLC

30%

10.8. Aktau Sea North Terminal LLP

30%

10.9. Continental Logistics LLP

90%

10.9.1. Continental Logistics Shymkent LLP

49%

10.9.2. Central Asian Trade House LLP

100%

10.10. ****Khorgos International Center of Boundary Cooperation JSC

100%

10.10.1. Khorgos-Service LLP
10.10.2. Khorgos-Energo LLP
10.10.3. Korgas-Kuzet LLP
10.10.4. Korgas-Kommerts LLP

70%

10.11. Kyzylorga aeroterminal LLP

100% 11. Kazakh Academy of Transport and Communications JSC

100%

11.1. Akmola College LLP of M. Tynyshpayev Kazakh Academy of Transport and Communications JSC
11.2. Aktau Transport College of M. Tynyshpayev Kazakh Academy of Transport and Communications LLP
11.3. Aktyubinsk College of Transport and Communications of M. Tynyshpayev Kazakh Academy of Transport and Communications LLP
11.4. Shymkent Transport College of M. Tynyshpayev Kazakh Academy of Transport and Communications LLP
11.5. Almaty Transport College of M. Tynyshpayev Kazakh Academy of Transport and Communications LLP
11.6. ATB+ LLP

25%

11.7. RailwaysEcoEnergy LLP

100%

11.8. Engeneering Center of KazATK JSC LLP

50% **12. Lokomotiv Kurastyru Zauyty JSC**

100% 12.1. **** Astana Diesel Service LLP

50% **13. Logistic System Management B.V.**

100% 13.1. Kedentransservice JSC

- 100%** 13.1.1. TRANSPORT HOLDING OF KAZAKHSTAN LLP
- 10%** 13.1.2. TRANSEURASIA CJSC

100% 13.2. HELME'S OPERATION UK LIMITED*

46.016% **14. Doszhan Temir Zholy JSC**

0,08% **15. United Transport and Logistics Company JSC**

100% **16. Port-Kuryk LLP**

100% **17. Kamkor Repair Corporation LLP**

95.08% 17.1. Vostokmashzavod JSC

50% 17.2. KazElectroPrivod JV LLP

8.53% 17.3. Kazakhstan Car Manufacturing Company LLP

100% **18. **** Aktau International Sea Commercial Port National Company JSC**

10% 18.1. Aktau Sea North Terminal LLP

100% **19. ****KazAutoZhol National Company JSC**

* at a stage of liquidation

** at a reorganization stage by a merger with PT JSC

*** no operating activities

**** under trust management

***** under trust management of Kamkor Repair Corporation LLP

4. GOALS AND PLANS FOR FUTURE PERIODS



Water

The Company's Mission

“As one of the strategic infrastructural Company, we provide high-quality transport foundation for sustainable growth of the economy of Kazakhstan, create value for the Shareholder and deliver benefit to consumers and society in general by providing requested and competitive transport and logistics services”

Strategic Initiatives

The Development Strategy by 2025 was approved by the Board of Directors of KTZ NC JSC on November 26, 2015 as amended on February 11, 2016.

For the purpose of effective achievement of its Mission and Vision, KTZ NC JSC intends to systematically act based on the following strategic objectives:

- ▶ maximizing the total equity cost of capital;
- ▶ traffic safety;
- ▶ customer satisfaction;
- ▶ effective corporate governance;

- ▶ social stability; and
- ▶ environmental safety.

As the main goal of KTZ NC JSC, we consider maximizing the total equity cost of capital as an indicator that meets the requirements of the Shareholder and assesses the effectiveness / ineffectiveness of the management of KTZ NC JSC.

All actions of KTZ NC JSC in the strategic and short-term periods will be aimed at maximizing the total equity cost of capital by increasing profitability (net profit).



KTZ NC JSC focuses on eight blocks of strategic initiatives:

01

Development of the selling function on the domestic market.

Goal: retain and increase freight turnover on the market tied to the country through the focus on competition in the segments that are most susceptible to switching to trucking.

Increased utilization of its own cars.

Goal: increase revenues from the existing non-utilized car fleet, as well as improve transportation conditions for shippers by providing the best proposals on the market for car operation.

02

03

Development of container transit.

Goal: increase transit freight turnover by attracting container cargo between China, Europe, the Middle East and Russia as a segment with the highest growth potential.

Improving the efficiency of passenger transportation.

Goal: reduce the amount of destructible costs by the direction, as well as reduce the amount of subsidies to cover the losses of Passenger Transportation JSC on regulated routes. At the same time, this result may be achieved along with the retained supply of railway services, growth of traffic and improved quality of the services provided.

04

05

Increased operational performance.

Goal: provide conditions for the growth of KTZ NC JSC's business on foreign and domestic markets. In particular, in order to unlock the potential of transit transport, KTZ NC JSC needs to achieve a leading position in optimizing the costs of infrastructure and locomotive facilities.

Development of the project office (to increase efficiency and reduce the period of implementation of strategic initiatives).

Goal: increase efficiency and reduce the period of implementation of strategic initiatives. The project office enables solving a number of typical challenges that arise in the course of implementation of strategic initiatives.

06

07

Change in the system of state regulation.

Goal: increase revenues from cargo transportation for KTZ Group of Companies; as for passenger transportation, attract private carriers, change the subsidy system in order to motivate carriers to improve efficiency and increase rates for carriages by cars, such as reserved seats and compartments with an increase in the total volume of transportation.

Chinese support for transit through Kazakhstan.

Goal: increase the target volumes of container transit without reducing the cost of transportations.

08

To implement the goals set in the KTZ NC JSC's Development Strategy by 2025, the following activities were carried out in 2016:



Development of the selling function on the domestic market

In order to develop selling functions on the domestic market, the National Freight Carrier, which is KTZ-Freight Transportation JSC was established based on Locomotive JSC and the Directorate of the Transportation Process within the Business Transformation Program of KTZ NC JSC initiated by the Sole Shareholder Samruk-Kazyna JSC, which started its activities in transportation of goods from July 1, 2016.



Development of container transit

By attracting additional container freight flows and improving the commercial structure of the transported nomenclature, revenues from transit traffic increased to 212.8B KZT (156.8B KZT in 2015) in 2016 or by 35% vs. 2015.

As a result, revenues from transit traffic grew to 35% in the total revenue structure of the Company taking 12% of the total freight turnover.

At the same time, the return loading from Europe to China was ensured at 50% (70,174 TEU consisting of 808 container trains for PRC – EU and 34,391 TEU consisting of 404 container trains for EU – PRC).

In addition, container trains along priority transit routes of Kazakhstan were arranged last year in the Trans-Caspian direction (4 trains) and along the North-South route (1 train).



Infrastructural Projects of Nurly Zhol – Bolashakka Zhol

In August 2016, **THE RAILWAY LINE BORZHAKTY – YERSAY 16.6 KM** long connecting the Kuryk ferry complex under construction with the main railway network was put into operation.

In December 2016, **THE FIRST START-UP COMPLEX** of the Almaty – Shu railway line 53.2 km long was put into operation, including, but not limited by the following sections: Kemer Station – Kok-Tobe Station – 6.8 km; Kok-Tobe Station – Espe Station – 10.2 km; Espe Station – Shokpar Station – 7.5 km; Saz Station – Zhiren-Aygyr Station – 6.3 km; Zhiren-Aygyr Station – Kazybek-Bek Station – 5.7 km; Kazybek-Bek Station – Zhingildy Station – 7.4 km; Zhingildy Station – Chemolgan Station – 9.32 km.

Last December, the first start-up complex of the Kuryk Port was commissioned.

In 2016, **CONSTRUCTION OF THE DRY PORT AND INFRASTRUCTURE** within Khorgos – Eastern Gate SEZ was completed. The total area of SEZ is 579 hectares and includes a dry port (129.8 hectares), a logistic zone (224.9 hectares) and an industrial zone (224.4 hectares).



Development of passenger transportation

Since 2012, KTZ NC JSC has been implementing the Program for the organization of high-speed passenger transportation. To date, **14 ROUTES CONNECTING** all major cities of Kazakhstan by a network of high-speed passenger routes have been introduced. It is planned to introduce new trains from Tulpar-Talgo cars with a wide body on 8 routes by 2020.

In December 2016, two socially significant routes Astana – Almaty and Almaty – Shymkent were upgraded by a new modification of Tulpar-Talgo cars (with a wide body).

Implementation of Transformation Program

In 2015 and 2016, KTZ NC JSC's Development Strategy was updated, the process models were formed, strategic key performance indicators were approved, a KPI tree and a new IT architecture were developed.

As part of the Business Transformation Program of KTZ NC JSC, the Company revised its operational model and the role of the Central Office, the new structure of which was approved by the Board of Directors on April 21, 2016. Thus, one of the new functions of the Corporate Center included "Active Management", which implied an increase in the

importance of strategic functions with a reduction in operational intervention in the business units' activities. In particular, the management levels were optimized by eliminating the positions of managing directors, the strategic role of human resources (HR) was increased, and more attention was paid to health, safety and environment (HSE) and information technology (IT).

All projects of the Program are structured in the Project Portfolio approved on December 13, 2016 by the Council for Modernization and Transformation of the Business of KTZ NC JSC Group of Companies.



The important result of 2016 is the transition to the targeted organizational structure

Thus, the priority projects included the following projects:

- Implementation of a New Model of Maintenance and Repair Management (MRO);
- Integrated Planning System;
- Implementation of a New Model of Marketing and Sales;
- Category Management of Purchases;
- Implementation of a New Model for Process Safety Management; and
- Introduction of the Basic Plant Management Processes.

Projects, whose implementation affects indirectly the Company's economic performance were defined as background and assigned to the relevant structural units.

For all projects, the Sponsor from the top management was appointed, who is responsible for achieving the set goals and obtaining business benefits. Project teams were formed and project managers, who managed teams, were assigned.

An important result of 2016 is the transition to the target organizational structure.

The team of KTZ NC JSC's Transformation Program with advisors engaged carried out a lot of work, which resulted in the Company's restructuring in April 2016.

In July 2016 KTZ-Freight Transportation JSC was established as a freight railway carrier of the Republic of Kazakhstan. This allowed us to optimize a number of subsidiaries and structures throughout the network.

The operator of the container fleet Kaztransservice JSC was consolidated to the multimodal transport and logistics Company KTZ Express.

In order to ensure the operation of the new structure and to avoid duplication of tasks of the Company's units, the Regulations on the Structural Units of the Central Office and Branches were reviewed and approved.

As a part of the Job Matching project, the description of top management positions was completed. A transition plan, which included activities for grading, job matching and appointment

In July 2016 KTZ-Freight Transportation JSC was established as a freight railway carrier of the Republic of Kazakhstan. This allowed us to optimize a number of subsidiaries and structures throughout the network.

to positions according to the target structure, was developed. It is planned to carry out Job Matching for the positions of CEO-1, then the Job Matching for the Corporate Center and KTZ-Freight Transportation JSC will be conducted.

In November 2016, the pilot project Establishment of a Multifunctional Service Center in Astana was launched. The organizational perimeter of the project included branches located in Astana; accounting, tax and personnel records were functionally covered. The MSC was designed to avoid common, duplicating auxiliary business processes by withdrawing from a separate branch and concentrating in a single center, which would enable to release branch managers from managing functions that were not directly related to the production process.

Further, during 2017, the project will be replicated to the Company's branches through the establishment of 11 regional centers at the locations of the NZhS (High-level networks), with possible enlargement in the future.

5. RISK MANAGEMENT



Air

KTZ NC JSC is aware of the importance of risk management as a key component of the corporate governance system of the Company and the Company's subsidiaries aimed at prompt identification and taking measures to mitigate risks that could have negative effect on the Company's value or reputation.

The corporate risk management system is implemented in KZT NC JSC as a part of implementation of the recommendations of Samruk-Kazyna JSC, according to which the corporate risk management system should be implemented in accordance with the COSO model *Corporate Risk Management – Integrated Model* (2004).

The efficiency level of the risk management system following the results of the evaluation conducted by the Internal Audit Service of KZT NC JSC (in accordance with the Methods for Evaluation of the Efficiency of the Corporate Risk Management System in the Subsidiaries and Affiliates of Samruk-Kazyna JSC) in 2016 was 59.1%.

The efficiency level of the internal control system following on the results of the evaluation carried out by the Internal Audit Service of KZT NC JSC (in accordance with the Methods for Evaluation of the Efficiency of the Internal Control System in the Subsidiaries and Affiliates of Samruk-Kazyna JSC) in 2016 was 89.8%.

In 2016, the work of the Risk Committee, the Board Management and the Board of Directors of the Company was aimed at further improving the corporate risk management system and aligning it with the best global practices.

As part of improving the efficiency of the corporate risk management system, a number of key activities were carried out in 2016:

1. Changes were made to the composition of the Company's Risk Committee.

2. The rules of KZT NC JSC on hedging risks were approved.
3. The limits for on and off-balance sheet liabilities to counterparty banks of KZT NC JSC (on a consolidated basis) were established.
4. The Plan of Actions on improvement of the corporate risk management system of the Company for 2016 was approved.
5. The report of the Director of the Risk Management Department was approved with description and analysis of key risks of KZT NC JSC and information on the implementation of plans and programs to minimize the risks of KZT NC JSC based on the results of 2015.
6. The Plan of Actions for improvement of the internal control system was approved.
7. The amendments to the Risk Management Policy were approved.
8. The amendments to the Risk Management Policy of KZT NC JSC with respect to the Reference Model for risk management of Samruk-Kazyna JSC were approved.

The Company discloses a note *Financial Instruments, Objectives and Financial Risk Management Policies* in the form of the audited annual consolidated financial statements and separate financial statements of KZT NC JSC.

The Company may be exposed to the following key risks that may adversely affect the Company's operations and strategic objectives:



Decreased level of cargo transportation (market risk) due to the resumption of the crisis phenomena in the global economy and raw material price drop

The deterioration of economic conditions may lead to a decrease in the volume of services provided for the carriage of goods by rail, reduced labor performance, increased cost of goods sold and services rendered, and adversely affect

the achievement of the target performances. The Company takes measures to increase the efficiency of its operations, increase transit traffic, and implement crisis measures (additional cost reduction).

Operational risks (risks of traffic safety, occupational safety and environment)

The Group owns and operates the railway infrastructure of Kazakhstan and is the largest owner and operator of passenger and freight rolling stock, locomotives in Kazakhstan. In this regard, the Group may be exposed to road safety risks, including collisions, rolling stock derail in freight and/or passenger trains on main, station and access tracks and/or in shunting operations with rolling stock at stations, or natural disasters. To manage this risk,

KTZ NC JSC takes measures to enhance preventive operations to arrange and ensure the safety of train traffic associated with the train traffic. As a part of occupational injury risk management, KTZ NC JSC implements measures to ensure occupational health and safety, prevent occupational injuries and improve working conditions, provide compulsory insurance of workers against accidents in the performance of their job duties.

Currency risk

The Company is primarily exposed to the risk associated with a change in the exchange rate of the US dollar due to the fact that the Company attracts borrowings mainly in US dollars and the weakening (devaluation) of KZT against the US dollar means increased currency exchange losses. As part of managing this risk, the Company monitors the changes in USD/KZT exchange rates on a daily basis, as well as other parameters that affect the exchange rate: USD/RUR and USD/EUR exchange rates, oil and raw material prices. In order to control the currency risk associated with the management of temporarily surplus funds to reduce the impact of currency risk on the Company's financial performance, financial market environment is monitored, IRR currency distribution is managed and the measures to refinance loans in foreign currency are taken.

On June 20, 2014, KTZ NC JSC issued two tranches of Eurobonds on the Swiss Stock Exchange (SIX Swiss Exchange) for a total amount of 285,000K Swiss francs (100M Swiss francs with an interest

rate of 2.59% due on June 20, 2019 and 185M Swiss francs with an interest rate of 3.638% due on June 20, 2022).

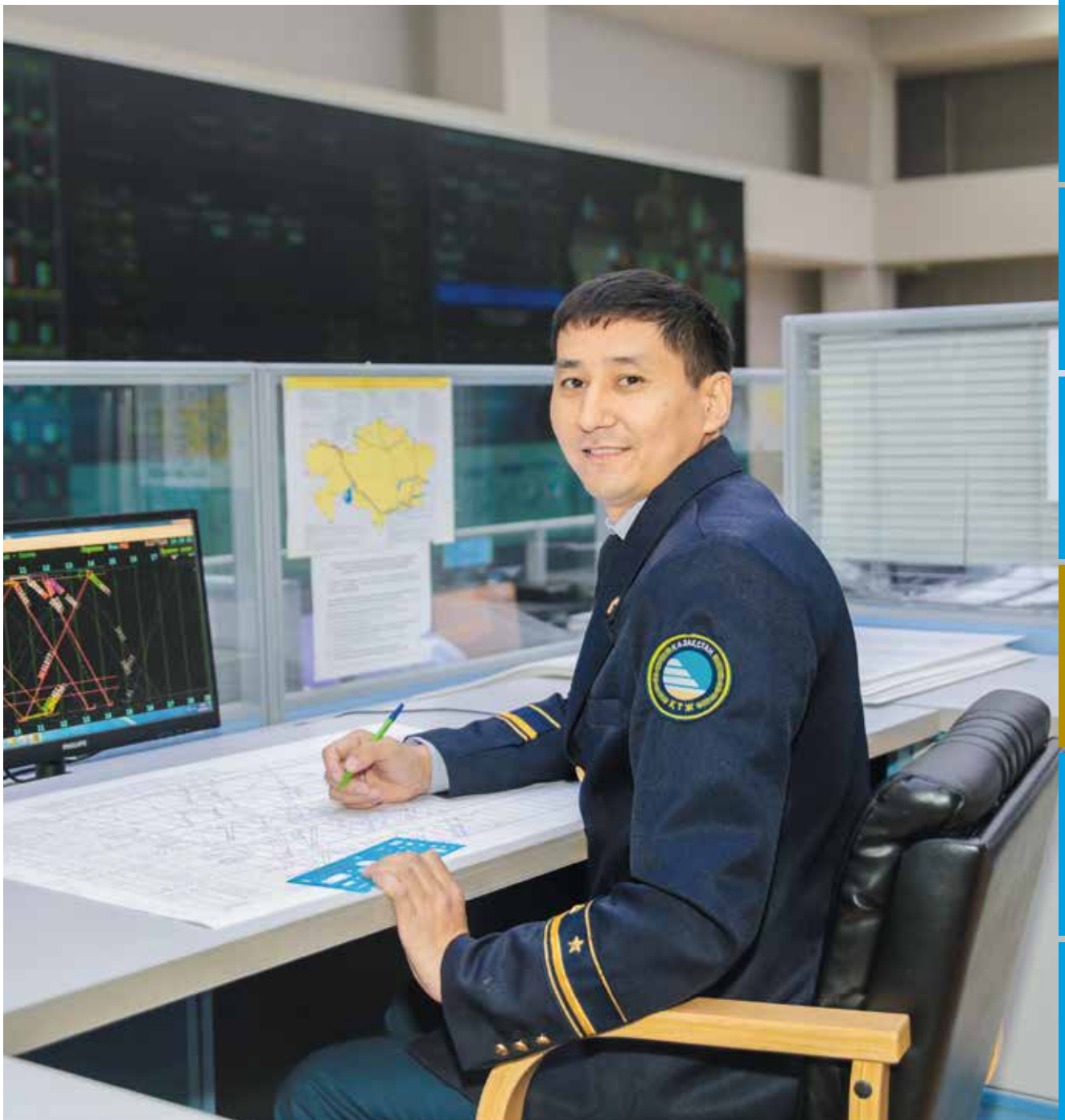
The issue of Eurobonds denominated in Swiss francs allowed to provide a "natural" currency risk hedging of KTZ NC JSC at the expense of KTZ NC JSC's income from transit freight carriage in Swiss francs.

Due to the increase in foreign exchange risk factors associated with the decline in world oil prices, volatility of the Russian ruble exchange rate, volatility of the world currencies, by the decision of the Company's Risk Committee dated August 6, 2015 (Minutes No. TSUR-05-02/4) dated August 7, 2015, the Company switched to a special hedge accounting for cash flows in order to reduce the risk of a KZT equivalent change in sales revenue expressed in Swiss francs in preparation of the separate and consolidated financial statements of KTZ NC JSC.

Information and technology risks

The Group uses telecommunication networks and computer systems to coordinate the timetable and other aspects of its railway operations, as well as for bookkeeping, selling tickets for passenger trains, cargo tracking, and many other functions. Hardware and software used by the Group may be potentially damaged due to an operator error, natural disasters, power outages, sabotage, computer viruses or other circumstances. To reduce the risk of information technology malfunction and information security breach in order to comply with the requirements of local acts and corporate policies

concerning information security and protection of official, commercial and other secrets protected by the laws of the Republic of Kazakhstan, the audits are held annually in the Group's structural units. The Company was certified to comply with the international standard ISO/IEC 27001: 2005 on information security.



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6. CORPORATE GOVERNANCE



Air

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

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

The objectives of the Code are to improve and systemize corporate governance, ensure greater transparency in the management of organizations. The Code consists of 7 sections and 2 parts. Part 1 contains the basic principles, Part 2 contains Annotations, i.e. clarifications and rules to the basic principles:

Sole Shareholder

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

The Company's corporate governance is based on the principle of protecting and respecting the rights and legitimate interests of the Sole Shareholder. The Sole Shareholder has the rights provided by the Legislation and the Charter.

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

- ▶ introduction of amendments to the Company's Charter or approval thereof in a new version;
- ▶ approval of the corporate governance code and amendments thereto;

Board of Directors

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

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

A 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.

- 1.) The Government as a shareholder of the Fund;
- 2.) Interaction between the Fund and Organizations;
- 3.) Sustainable development;
- 4.) Shareholders' rights and fair treatment;
- 5.) Efficiency of the Board of Directors and the Executive Body;
- 6.) Risk management, internal control and audit; and
- 7.) Transparency.

Corporate management of KTZ NC JSC is evaluated for compliance with the best practices in accordance with the Corporate Governance Diagnostics Methodology in the companies of Samruk-Kazyna JSC on an annual basis.

The valuation indicator is the corporate governance rating.

- ▶ voluntary restructuring or liquidation of the Company;
- ▶ approval of the Company's annual financial statements;
- ▶ approval of the procedure for distributing the Company's net income for the reporting financial year, making a decision on the payment of dividends as per ordinary shares and approval of the dividend amount per one ordinary share of the Company; and
- ▶ other issues, the decision-making on which is attributed by the Legislation and/or the Charter to the exclusive competence of the Company's Sole Shareholder.

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

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

- trust of the Sole Shareholder and other members of the Board of Directors of the Company to the candidate;
- positive achievements and an impeccable reputation of the candidate in the business and industrial environment;
- professional knowledge and qualification of the candidate allowing the candidate to make informed decisions that meet the interests of the Sole Shareholder and the Company to

the maximum extent. At the same time, an academic degree in the field corresponding to the Company's main activity is an additional advantage for the candidate;

- at least 3 (three) year experience in a leadership role is preferable in the field corresponding to the Company's core activities; and
- sufficient time available to perform effectively the functions assigned to the candidate.

The Director is recognized as an independent, if the Director:

- is not an affiliated person of the Company and was not an affiliate person for 3 (three) years before his/her election to the Board of Directors (except for his/her position as an independent director of the Company);
- is not and affiliate to the Company's affiliates;
- is not bound by subordination to the Company's officials or organizations, which are the Company's affiliates and was not bound by subordination to these affiliates for 3 (three) years preceding his/her election to the Board of Directors;
- is not a representative of the shareholder at meetings of the Company's bodies and was not the shareholder's representative for three years preceding his/her election to the Board of Directors;
- is not the Company's auditor and was not the Company's auditor for 3 (three) years preceding his/her election to the Board of Directors; and
- is not a public officer.

Independent directors of KTZ NC JSC meet the specified requirements.

Members of the Management Board except for the Chairperson of the Company's Management Board, cannot be elected to the Board of Directors. The Chairperson of the Company's Management Board cannot be elected as the Chairperson of the Board of Directors.

As of January 1, 2016, according to the decision of the Sole Shareholder, the Board of Directors of KTZ NC JSC consisted of the following members:

N.T. Baidaletov – Chief Asset Management Director of Samruk-Kazyna JSC, Representative of the Sole Shareholder – Chairperson of the Board of Directors of KTZ NC JSC;

A.U. Mamin – Chairperson of the Management Board of KTZ NC JSC;

Y.Z. Balapanov – Representative of the Sole Shareholder;

A. Ilkevicius – Chief Transformation Director of Samruk-Kazyna JSC, Representative of the Sole Shareholder;

T.U. Syzdykov – Independent Director;

Kalman Somodi – Independent Director;

Christian Kuhn – Independent Director;

Jeremy Drew – Independent Director.

On April 11, 2016, by the decision of the Management Board of Samruk-Kazyna JSC (Minutes No. 11/16) Adamas Ilkevicius was elected as the Chairperson of the Board of Directors of KTZ NC JSC.

On July 5, 2016, due to the expiry of the terms of office of the members of the Board of Directors, new members of the Board of Directors of the Company were elected by the decision of Samruk-Kazyna JSC (Minutes No. 26/16), consisting of eight persons:

Bakytzhan Abdirovich Sagintayev – First Deputy Prime Minister of the Republic of Kazakhstan – Chairperson of the Board of Directors of KTZ NC JSC;

Askar Uzakpayevich Mamin – Chairperson of the Management Board of KTZ NC JSC;

Adamas Ilkevicius – Managing Director on Transformation and Special Projects of Samruk-Kazyna JSC (Representative of the Sole Shareholder's Interests);

Berik Tursynbekovich Beisengaliyev – Managing Director on Asset Optimization – Member of the Management Board of Samruk-Kazyna JSC (Representative of the Sole Shareholder's Interests);

Christian Kuhn – Independent Director;

Tito Uakhapovich Syzdykov – Independent Director;

Serik Amanzholovich Svyatov – Independent Director;

Wilhelm Bender – Independent Director.

In connection with personnel changes in the Government of the Republic of Kazakhstan, the changes also affected the composition of the Company's Board of Directors. Thus, by the decision of the Management Board of Samruk-Kazyna JSC as of October 10, 2016 (Minutes No. 37/16), Bakytzhan Abdirovich Sagintayev was removed from the office before the expiration date due to his appointment to the post of Prime Minister of the Republic of Kazakhstan, Askar Uzakpayevich Mamin was elected as the Chairperson of the Board of Directors of KTZ NC JSC – First Deputy Prime Minister of the Republic of Kazakhstan.

At the same time, Kanat Kaliyevich Alpysbayev was elected as the Member of the Board of

Directors – Chairperson of the Management Board (President) of KTZ NC JSC.

As of December 31, 2016, the Company's Board of Directors consisted of 8 members, 4 of which were independent directors:

Askar Uzakpayevich Mamin – First Deputy Prime Minister of the Republic of Kazakhstan – Chairperson of the Board of Directors;

Kanat Kaliyevich Alpysbayev – Chairperson of the Management Board of KTZ NC JSC;

Adamas Ilkevicius – Managing Director on Transformation and Special Projects of Samruk-Kazyna JSC (Representative of the Sole Shareholder's Interests);

Berik Tursynbekovich Beisengaliyev – Managing Director on Asset Optimization – Member of the Management Board of Samruk-

Kazyna JSC (Representative of the Sole Shareholder's Interests);

Christian Kuhn – Independent Director;

Tito Uakhapovich Syzdykov – Independent Director;

Serik Amanzholovich Svyatov – Independent Director;

Wilhelm Bender – Independent Director.





ASKAR UZAKPAYEVICH MAMIN

Chairperson of the Board of Directors of KTZ NC JSC. He was born in 1965. He graduated from the Tselinograd Engineering and Construction Institute, the G.V. Plekhanov Russian Academy of Economics with a major in Civil Engineer, Economist.

He started his career as an installer of Tselintyazhstroy trust. He worked as Deputy General Director of the Union of Innovative Enterprises of Kazakhstan.

From 1996 to 2008: First Deputy Akim of Astana, Vice Minister of Transport and Communications, First Vice Minister of Industry and Trade, Minister of Transport and Communications of the Republic of Kazakhstan, Akim of Astana.

From April 2008 to September 2016: Chairperson of the Management Board – President of KTZ NC JSC, Member of the Board of Directors of KTZ NC JSC.

Since September 2016: First Deputy Prime Minister of the Republic of Kazakhstan.

In October 2016 he was elected as the Chairperson of the Board of Directors of KTZ NC JSC.

Citizen of the Republic of Kazakhstan.

He does not hold any shares of the Company or the Company's competitors. He was first elected as a Member of the Board of Directors on April 4, 2008.



KANAT KALIYEVICH ALPYSBAYEV

Chairperson of the Management Board (President) of KTZ NC JSC, Member of the Board of Directors. He was born in 1972. He graduated from the Alma-Ata Institute of Railway Transport Engineers, University of Kentucky (USA), Moscow International Higher Business School. He has a master's degree.

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

In 2002-2003: Finance and Management Director, Vice President on Finance and Information Technologies of Air Astana CJSC.

From November 2005 to June 2008: Business Development Director of the branch office of General Electric Corporation.

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

From January 2013 to December 2014: Vice President for Logistics of KTZ NC JSC.

From December 2014 to April 2016: Vice President of KTZ NC JSC.

Since April 29, 2016: Vice President on Coordination of Operational Activities of KTZ NC JSC.

Since September 15, 2016: President KTZ NC JSC.



ADAMAS ILKEVICIUS

Was born in 1975. He started his career in 1996 with Digital Equipment Corporation (DEC) and continued with Compaq (DEC’s successor).

Starting **from 2001 to 2008**, he held senior positions in companies taking leading positions in the technology market, such as HP, Siemens and IBM, and also worked as a consultant for international organizations of the private, public and non-profit sectors.

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

Since 2013: Chief Director on Business Transformation of Samruk-Kazyna JSC, Managing Director on Transformation and Special Projects of Samruk-Kazyna JSC.

Citizen of the Republic of Lithuania.

He does not hold any shares of the Company, Company’s suppliers or competitors. He was first elected as a Member of the Board of Directors of KTZ NC JSC on August 1, 2014.



**BERIK TURSYNBEKOVICH
BEISENGALIYEV**



Representative of the Sole Shareholder’s Interests. He was born in 1966. He graduated from the Karaganda State University. Doctor of Economic Sciences.

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

Then **from 1995 to 2006** he worked in various banking structures: Kazkommertsbank JSC, Alem Bank Kazakhstan, Bank Turan-Alem CJSC, Almaty Trade and Financial Bank JSC in Astana, ATF Bank JSC, starting from the dealer of the dealing department to the Managing Director, First Deputy Chairperson of the Management Board of ATF Bank JSC.

From 2006 to 2009: General Director of Astana Capital Investment Group.

From 2009 to 2012: Deputy Chairperson of the Management Board, Chairperson of the Management Board of KazAgro National Managing Holding JSC.

Since 2012: Managing Director, Chief Business Development Director – Member of the Management Board, Managing Director on Asset Optimization – Member of the Management Board of Samruk-Kazyna JSC. He was elected as a Member of the Board of Directors of a number of companies, such as Halyk Savings Bank of Kazakhstan JSC, Bank Siberia JSC, T. Ryskulov Kazakh Economic University JSC, Energobank of Kyrgyzstan JSC, Food Contract Corporation NC JSC, KazAgroFinance JSC, Agrarian Credit Corporation JSC, Temirbank JSC, KazMunayGas NC JSC.

Citizen of the Republic of Kazakhstan.

He does not hold any shares of the Company, Company’s suppliers or competitors. He was first elected as a Member of the Board of Directors of KTZ NC JSC on July 5, 2016.



CHRISTIAN KUHN

Independent Director of the Board of Directors of KTZ NC JSC. He was born in 1965.

1992-1996 – he started his career at the University of Hanover as a Researcher at the Institute of Transport, Railway Construction and Railway Operation, PhD of the University of Hanover.

1996-1999 – Deutsche Eisenbahn Gesellschaft GmbH (DEG): Project Manager, Head of the Freight Transportation Department.

1996-2005 – Connex (Veolia group),

2000-2005 – Connex Cargo Logistics GmbH (CCL): Managing Director of Connex Cargo Logistics (CCL).

1998-2005 – Industriebahn-Gesellschaft Berlin GmbH (IGB) and Niederbarnimer Eisenbahn AG (NEB): Managing Director of IGB and Member of the Management Board of NEB.

2005-2009 and 2010-2011 – Deutsche Bahn AG: Member of the Management Board, Managing Director.

2005-2009 – Stinnes Freight Logistics/Railion Deutschland AG: Head of Steelmaking and Coal Industry Unit.

2009 to 2016 – Managing Director of Martrade Holding und Management GmbH, Independent Director of Martrade Group and Tata Martrade International Logistics Ltd (TMILL), Kolkata, India.

2010-2011 – Deputy Chairperson of the Management Board of Production of Schenker Rail, Managing Director on Production of DB Schenker Rail GmbH, Independent Director of BLS Cargo AG (Bern), NordCargo srl (Milan), DB Schenker Rail Scandinavia A/S (Copenhagen) and XRail SA (Brussel).

From 2011 to 2015 he worked as an independent consultant in railway and logistics.

Since 10/2015 – Managing Director of Neuss-Dusseldorfer Hafen GmbH & Co KG.

From 10/2015 to 10/2016 – Managing Director of RheinCargo GmbH & Co KG.

German citizen.

He does not hold any shares of the Company, Company's suppliers or competitors. He was first elected as a Member of the Board of Directors of KTZ NC JSC on August 1, 2014.



TITO UAKHAPOVICH SYZDYKOV

Independent Director of the Board of Directors of KTZ NC JSC. He was born in 1948. He graduated from the Semipalatinsk Zootechnic and Veterinary Institute, Pavlodar University. Master of Science in Economics and Management in the industries and social sphere. Candidate of Economic Sciences.

About a dozen years Tito Syzdykov worked at the farms of Pavlodar Region. He headed the state farm, and then was elected to responsible party and Soviet positions for many years.

From 1997 to 1999 he worked as Akim of Aksu in Pavlodar Region.

In 1999, he was elected to the Mazhilis of the Parliament of the Republic of Kazakhstan.

Since 2012: Independent Director, Member of the Board of Directors of KTZ NC JSC.

Citizen of the Republic of Kazakhstan.

He does not hold any shares of the Company, Company's suppliers or competitors. He was first elected as a Member of the Board of Directors of KTZ NC JSC on October 2, 2012.



SERIK AMANZHOLOVICH SVYATOV

Independent Director of the Board of Directors of KTZ NC JSC. He was born in 1954. He graduated from the Lomonossov Moscow State University. Doctor of Economics, Professor. He began his career in 1976 with research and teaching activities.

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

From 1991 to 2004 he worked in leading commercial banks of Kazakhstan on the positions of Deputy and First Deputy Chairperson of the Management Board.

From 2004 to 2006: Chairperson of the Board of Directors of ATF Bank JSC.

From 2006 to 2012: Chairperson of the Board of Directors of T. Ryskulov Kazakh Economic University JSC.

Since 2015: Chairperson of the Board of Directors of ForteBank JSC, Chairperson of the Board of Directors of Narxoz University JSC.

Citizen of the Republic of Kazakhstan.

He does not hold any shares of the Company, Company's suppliers or competitors. He was first elected as a Member of the Board of Directors of KTZ NC JSC on July 5, 2016.



WILHELM BENDER

Independent Director of the Board of Directors of KTZ NC JSC. Doctor Wilhelm Bender studied law and economic sciences, JD.



From 1974 to 1984 he took different posts at Deutsche Bahn. In 1984, he became the first managing director of Verkehrsforum Bahn (Forum of Rail Transport Industrial Association, currently Deutsches Verkehrsforum).

From 1990 he was the Chairperson of the Management Board of the international transportation Company Schenker, and later he was the Member of the Management Board of Schenker-Rhenus and the Chairperson of the Management Board of Schenker Waggon-und Beteiligungs AG.

From January 1993 to August 2009, he was the Chairperson of the Management Board of Fraport AG and CEO of Fraport Group. In addition, he is the Chief Advisor in the private Company dealing with direct investment Advent International, and international lawyers partnership Norton Rose Fulbright; Member of the Board of Directors of The Germany Funds (New York City/Boston, US).

German citizen.

He does not hold any shares of the Company, Company's suppliers or competitors. He was first elected as a Member of the Board of Directors of KTZ NC JSC on July 5, 2016.

Information concerning the operation of the Board of Directors of KTZ NC JSC

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

The Board of Directors of KTZ NC JSC held 12 meetings in total in 2016, 10 of them in presentia.

Attendance of Members of the Board of Directors in physical meetings during the reporting period was as follows:

Name	Attendance at physical meetings
N.T.Baidaletov	2 of 2
B.A. Sagintayev	2 of 3
A.U. Mamin	7 of 10
K.K. Alpysbayev	2 of 2
K. Somodi	4 of 5
Y.Z. Balapanov	4 of 5
J. Drew	5 of 5
C. Kuhn	10 of 10
T.U. Syzdykov	10 of 10
A. Ilkevicius	9 of 10
W. Bender	3 of 5
S.A. Svyatov	4 of 5
B.T. Beisengaliyev	4 of 5

In 2016, the Board of Directors of KTZ NC JSC considered 156 issues on the following topics:

- Board of Directors of KTZ NC JSC – 37;
- Management Board of KTZ NC JSC – 14;
- transformation in KTZ NC JSC – 12;
- of production and economic nature – 46;
- HR – 21;
- Sole Shareholder of KTZ NC JSC – 5; and
- action reports of KTZ NC JSC – 17.

In 2016, the Board of Directors considered 3 issues related to transactions in which there is an interest:

1. Concerning the conclusion of a transaction by KTZ NC JSC, where KTZ NC JSC has an interest, by signing a supplementary agreement for the provision of cargo handling and storage services in the future between Continental Logistics Limited Liability Partnership, KTZ Express Joint-Stock Company, KTZ

NC JSC, a subsidiary bank of Sberbank of Russia JSC and Odyssey Investments Group LLP.

2. Concerning entering into a transaction by KTZ NC JSC, where KTZ NC JSC has an interest, by signing an agreement for the provision of cargo handling and storage services in the future between Continental Logistics Shymkent LLP, KTZ Express JSC, KTZ NC JSC and Odyssey Investments Group LLP.

3. Concerning entering into a transaction, where KTZ NC JSC has an interest, by signing a supplementary agreement to the guarantee agreement between KTZ NC JSC and Transport Technologies Limited Liability Partnership as a security to the guarantee agreement between KTZ NC JSC and Development Bank of Kazakhstan Joint-Stock Company to secure the obligations of Aktobe Rail and Section Works Limited Liability Partnership.

Information concerning the committees of the Board of Directors of KTZ NC JSC

Four committees were established under the Board of Director of KTZ NC JSC:

1) Audit Committee of the Board of Directors of KTZ NC JSC:

J. Drew	Independent Director Committee Chairperson
K. Somodi	Independent Director, Committee Member
T.U. Syzdykov	Independent Director, Committee Member

On August 8, new members of the Committee were elected by the decision of the Board of Directors of KTZ NC JSC:

S.A. Svyatov	Independent Director, Committee Chairperson
T.U. Syzdykov	Independent Director, Committee Member
W. Bender	Independent Director Committee Member

2) Personnel and Remuneration Committee of the Board of Directors of KTZ NC JSC: from the beginning of the year to June 21, 2016, it consisted of four members of the Board of

from the beginning of the year to June 21, 2016 it consisted of 3 members of the Board of Directors, who are independent members:

Directors, three of whom were independent members:

T.U. Syzdykov	Independent Director, Committee Chairperson
C. Kuhn	Independent Director, Committee Member
K. Somodi	Independent Director, Committee Member
Y.Z. Balapanov	Representative of the Sole Shareholder's Interests, Committee Member

On August 8, new members of the Committee were elected by the decision of the Board of Directors of KTZ NC JSC:

T.U. Syzdykov	Independent Director, Committee Chairperson
S.A. Svyatov	Independent Director, Committee Member
B.T. Beisengaliyev	Representative of the Sole Shareholder's Interests, Committee Member

3) Strategic Planning and Innovation Committee of the Board of Directors of KTZ NC JSC: Directors, two of whom were independent members:
from the beginning of the year to June 21, 2016,
it consisted of four members of the Board of

C. Kuhn	Independent Director, Committee Chairperson
J. Drew	Independent Director, Committee Member
Y.Z. Balapanov	Representative of the Sole Shareholder, Committee Member
A. Ilkevicius	Representative of the Sole Shareholder, Committee Member

On August 8, new members of the Committee were elected by the decision of the Board of Directors of KTZ NC JSC:

C. Kuhn	Independent Director, Committee Chairperson
S.A. Svyatov	Independent Director, Committee Member
W. Bender	Independent Director, Committee Member
A. Ilkevicius	Representative of the Sole Shareholder, Committee Member

4) Environment Protection and Safety Committee of the Board of Directors of KTZ NC JSC: Directors, three of whom were independent members:
from the beginning of the year to June 21, 2016,
it consisted of four members of the Board of

K. Somodi	Independent Director, Committee Chairperson
C. Kuhn	Independent Director, Committee Member
T.U. Syzdykov	Independent Director, Committee Member;
Y.Z. Balapanov	Representative of the Sole Shareholder's Interests, Committee Member

On August 8, new members of the Committee were elected by the decision of the Board of Directors of KTZ NC JSC:

W.Bender	Independent Director, Committee Chairperson
C. Kuhn	Independent Director, Committee Member
T.U. Syzdykov	Independent Director, Committee Member

28 meetings of the Committees of the Board of Directors of KTZ NC JSC were held in 2016 in total, of which:

Attendance rate of the members of the Audit Committee of the Board of Directors of KTZ NC JSC at the meetings was as follows:

The Audit Committee of the Board of Directors of KTZ NC JSC held 7 physical meetings where 27 issues were considered.

Name	Attendance at physical meetings
J. Drew	5 of 5
K. Somodi	4 of 5
T.U. Syzdykov	7 of 7
S.A. Svyatov	2 of 2
W. Bender	1 of 2

The Personnel and Remuneration Committee of the Board of Directors of KTZ NC JSC held 9 physical meetings where 48 issues were considered.

Attendance rate of the members of the Personnel and Remuneration Committee of the Board of Directors of KTZ NC JSC at the meetings was as follows:

Name	Attendance at physical meetings
T.U. Syzdykov	9 of 9
Y.Z. Balapanov	3 of 4
K. Somodi	3 of 4
C. Kuhn	3 of 4
B.T. Beisengaliyev	5 of 5
S.A. Svyatov	3 of 5

The Strategic Planning and Innovation Committee of the Board of Directors of KTZ NC JSC held 9 physical meetings where 77 issues were considered.

Attendance rate of the members of the Strategic Planning and Innovation Committee of the Board of Directors of KTZ NC JSC at the meetings was as follows:

Name	Attendance at physical meetings
C. Kuhn	9 of 9
J. Drew	5 of 5
A. Ilkevicius	7 of 9
Y.Z. Balapanov	4 of 4
W.Bender	2 of 4
S.A. Svyatov	4 of 4

The Environment Protection and Safety Committee of the Board of Directors of KTZ NC JSC held 3 physical meetings in 2016, where 12 issues were considered.

Attendance rate of the members of the Environment Protection and Safety Committee of the Board of Directors of KTZ NC JSC at the meetings was as follows:

Name	Attendance at physical meetings
K. Somodi	2 of 2
Y.Z. Balapanov	1 of 2
T.U. Syzdykov	3 of 3
C. Kuhn	2 of 3
W. Bender	1 of 1

Interaction between Members of the Board of Directors and the Company

As part of the Induction Program for newly elected Members of the Board of Directors of KTZ NC JSC, a meeting of Members of the Board of Directors with the Company's management, Members of the Management Board was arranged where they discussed the strategic issues the Company faced.

During the information day on the transformation program, the Members of the Board of Directors took an active part in the discussion on transformation projects. At this event, they acquainted with KTZ-Freight Transportation JSC, the branch of KTZ NC JSC – Directorate of the Main Network, Passenger Transportation JSC, KTZ Express JSC.

In 2016, Members of the Board of Directors took part in events initiated by the Company. At the enlarged session of the Council for Modernization and Transformation, a number of issues were considered, such as status of the implementation of the Road Map of the Operational Transformation of KTZ NC JSC for 2016 and the KTZ NC JSC's Project Portfolio, implementation of automated processes in the new system and the new model of maintenance and repair management (MRO), etc.

Also a meeting was held with the reservists of the Company in 2016, where Members of the Board of Directors got acquainted with candidates for top positions, discussed personnel potential, were interested in conditions of replacement and rotation of staff.

Management Board

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

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

Thus, in accordance with the decisions of the Board of Directors of KTZ NC JSC, as of

December 31, 2016 the Management Board of KTZ NC JSC was elected as follows:

1. Kanat Kaliyevich Alpysbayev: Chairperson of the Management Board – President KTZ NC JSC
2. Yerkin Semetayevich Zhussanbayev: Vice President on Development of KTZ NC JSC
3. Erik Yerkinovich Imashev: Vice President on Corporate Procurement
4. Maksat Rakhimzhanovich Kabashev: Vice President of KTZ NC JSC
5. Bauyrzhan Pazyzbekovich Urynbassaro: Chief Engineer
6. Akbulat Landyshovich Zhagiparov: Director of Occupational Safety and Environment of KTZ NC JSC
7. Rustem Koibagarovich Khassenov: Director of Legal Coverage, Litigation and Claim Settlement Department.

Information concerning the activities of the Management Board of KTZ NC JSC

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

In 2016, 38 meetings of the Management Board of KTZ NC JSC were held, including 35 physical meetings and 3 meetings by correspondence.

At the meetings, the Management Board of KTZ NC JSC considered 412 issues submitted by structural units, branches and subsidiaries of KTZ NC JSC.

Remuneration of the Company's Officers

Remuneration to the management personnel of KTZ NC JSC is paid based on their performance for the year in accordance with the Rules for Evaluation of Performance and Payment of Remuneration to the Management Personnel of KTZ NC JSC, approved by the decision of the Board of Directors of KTZ NC JSC as of October 30, 2014 (Minutes No. 11).

The above Rules are based on the following principles:

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

According to Paragraph 28 of these Rules, the main condition for the payment of remuneration based on the performance for a year is the availability of the consolidated final profit for the reporting year calculated with respect to the planned amount for the payment of remuneration.

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

In 2016, 38 meetings of the Management Board of KTZ NC JSC were held, including 35 physical meetings and 3 meetings by correspondence.

Information Concerning the Activities of the Internal Audit Service of KTZ NC JSC for 2016

The Internal Audit Service of KTZ NC JSC is a body that monitors financial and business activities, evaluates internal control, risk management, corporate governance document management and advises on improving the activities of KTZ NC JSC.

The audit plan of the Internal Audit Service of KTZ NC JSC for 2016 was approved by the decision of the Board of Directors of November 5, 2015 No. 10.

The Internal Audit Service completed all 16 audit tasks, with 21 audits conducted in accordance with the Annual Audit Plan for 2016.

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

Based on the results of the performed audit tasks, the Internal Audit Service issued 260 recommendations. In accordance with the Internal Audit Arrangement Policies of KTZ NC JSC, the Internal Audit Service ensures that the audited entities take corrective action plans, which are monitored on a quarterly basis.

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

In accordance with the Code of Corporate Governance approved by the decision of the Board of Samruk-Kazyna JSC dated May 27, 2015 (Minutes No. 22/15), the Board of Directors of KTZ NC JSC is responsible for monitoring the implementation of the provisions of the Code.

So, according to the provisions of the Code, the Corporate Secretary monitors and advises the Board of Directors on proper compliance with the Code, and also prepares an annual report on compliance with its principles and provisions.

As is known, the Code operates according to the basic principle “observe or explain the reasons for non-compliance”. Accordingly, in the event that the principles and provisions of the Code are observed, the Company shall indicate the relevant sections of its charter and/or internal documents that establish provisions to ensure compliance with these principles, and in case of non-compliance, they describe the reasons for their non-compliance.

In the reporting year, the independent external consultant NURTEAM AUDIT LLP carried out an independent external evaluation of the efficiency of the Internal Audit Service of KTZ NC JSC.

According to the Report on the Independent External Evaluation of the Performance of the Internal Audit Service, the activities of the Internal Audit Service generally correspond to the Definition of Internal Audit, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing, as well as internal documents regulating the activities of the Internal Audit Service. The overall level of development of the Internal Audit Service “Sustainable/Managed” in accordance with the used model of maturity means that the internal audit properly fulfills its functions, and demonstrates the application of the best practices of internal audit in certain areas of responsibility. The final assessment of the compliance of the Internal Audit Service with the requirements of the Standards was 91%.

At the same time, an independent appraiser gave a number of recommendations aimed at further improving the performance of the Internal Audit Service, on the basis of which the Corrective Action Plan was adopted.

Thus, monitoring compliance with the principles and provisions of the Code for 2016 was carried out on the five fundamental principles of the Code of Corporate Governance, such as:

- shareholders’ rights and fair attitude to shareholders;
- efficiency of the Board of Directors;
- sustainable development;
- risk management, internal control and audit; and
- transparency.

In general, it should be noted that monitoring results revealed that the fundamental principles and provisions of the Corporate Governance Code in KTZ NC JSC are observed. There is sufficient evidence that the basic provisions of the Code are implemented.

In particular, the criterion of a fair attitude to a shareholder and shareholder’s ability to exercise shareholder’s rights is confirmed by determination of the rights, duties and exclusive competence of the Sole Shareholder in the Company’s Charter, which

complies with the requirements of the legislation of the Republic of Kazakhstan.

According to the efficiency component of the Board of Directors and the executive body, compliance with the principles of the Code is expressed in approval of the Company's Development Strategy by 2025 by the Board of Directors, which sets out plans to achieve long-term objectives.

From the point of view of the principle of balancing of the composition of the Board of Directors in accordance with the level of professional knowledge, experience, skills and independence, compliance is evidenced by business skills, level of education, industrial and life experience of Members of the Board of Directors, which correspond to the scale, complexity and specific features of the Company's activities. The independence of the decisions made by the Board of Directors is subject to the presence of four independent directors, which is half of the total of the Board of Directors.

Compliance with the criterion for thorough consideration of issues by the committees is reflected in the fact that all the main issues to be discussed at a meeting of the Board of Directors are preliminary worked out at the level of committees and sent to the Board of Directors for further consideration. These committees consist of the Members of the Board of Directors with the necessary professional knowledge and experience, whose qualifications correspond to the performance of their duties to

work in a particular Committee. The chairpersons of the committees are independent directors.

At the same time, it should be noted that for certain components there are facts of partial inconsistency with the established principles.

In particular, as for the Risk Management component, it was revealed that the Company did not fully comply with the established procedures for determining risk appetite subject to failure to implement the process of developing and establishing a risk appetite and levels of tolerance on an annual basis. Also there is no written procedure for calculating risk appetite.

Also, as for the efficiency component of the Board of Directors, some non-compliance with respect to the failure to conduct the performance assessment of the Board of Directors (*in accordance with the decision of the Board of Directors*) was found. This was due to the fact that the powers of the Board of Directors expired in June 2016 and, accordingly, the performance assessment of the Board of Directors in 2016 was unreasonable.

At the same time, in 2016, the Company's corporate governance system was diagnosed, the results of which reflect a complete picture of the state of corporate governance in the Company. The results of the performed diagnostics showed that the Company's corporate governance system corresponded in all significant aspects to most of the established criteria and there was sufficient evidence that the system worked effectively.

Report on observance of the requirements of the Code of Business Ethics of KTZ NC JSC by KTZ NC JSC

In order to implement the provisions of the Corporate Governance Code, the Company's Code of Business Ethics was approved by the decision of the Board of Directors of the Company on March 19, 2013 (Minutes No. 2).

The purpose of this Code is to develop and improve the corporate culture, facilitate the effective interaction of the Company's officers/employees with stakeholders through the application of business conduct practices.

The fundamental corporate values based on which the Company's activities are formed are as follows: honesty, integrity, respect to people, mutual assistance and trust.

Safety, quality and environmental protection, responsibility, sustainable development and mutual prosperity, teamwork, openness to development, professionalism and pride in their business are also indispensable values of the Company's corporate culture.

This Code applies to all officers and employees of the Company.

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

Reports on violations of the provisions of the Code of Business Ethics by KTZ NC JSC employees are accepted:

- by a courier, via mailing department;
- by emailing to temirzhol@railways.kz;
- via the mailboxes installed in the lobby of B Block near the pass office;
- by the hotline.

For clarification of the requirements of the Code or arising ethical issues, in cases of violations of the requirements of the Code, the Company's officers and employees, stakeholders may address:

- immediate supervisors of their structural units or senior managers;

- Corporate Secretary;
- Head of the Internal Audit Service;
- Chairperson of the Management Board;
- Board of Directors.

In order to implement the Action Plan for the implementation of the Code of Business Ethics of the Company approved by the decision of the Board of Directors of the Company dated March 19, 2013 (Minutes No. 2) for 2013 – 2015, an online questioning of 191 employees of the central office was conducted to determine the moral and

psychological climate in the Company's working teams.

Based on the results of this questioning, social and psychological climate of the team was analyzed and each structural unit of the Company's central office was provided with feedback and recommendations to regulate the moral and psychological climate in the teams.

The data of the survey showed that the results of the work carried out to implement the Code of Business Ethics in the Company were positive.



7. FINANCIAL STATEMENTS



KAZAKSHTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

Management of Kazakhstan Temir Zholy National Company JSC (the "Company") is responsible for the preparation of consolidated financial statements that present fairly the financial position of the Company and its subsidiaries (collectively, the "Group") as at 31 December 2016, 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 ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements were authorized for issue by management on 13 March 2017, preapproved by the Audit Committee of the Board of Directors of the Company and subject to approval by the Board of Directors and the Shareholder.

On behalf of management of the Group:

Kanat Alpysbayev
President

13 March 2017

Maxat Kabashev
Vice-President for finance

13 March 2017

Nazira Abilova
Chief accountant

13 March 2017

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

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Why the matter was determined to be a key audit matter
How the matter was addressed in the audit
Potential impairment of property, plant and equipment

Property, plant and equipment of the Group, which are mainly represented by infrastructure and rolling stocks, comprise 56% of the Group's total assets. Due to the existence of impairment indicators, such as a continuing economic and market downturn, increase of market interest rates and decrease in freight turnover, the Group performed an impairment test of the property, plant and equipment.

The recoverable amount was defined as value in use based on the Group's Development plan for 2017–2021. The impairment valuation is based on management judgements and includes modeling and projecting certain assumptions. As discussed in Note 4, the determination of the appropriate cash-generating unit is a critical management judgement and projected cash flows are dependent on certain key financial data and assumptions, and the calculated present (discounted) value is very sensitive to these assumptions. Accordingly, the potential impairment of property, plant and equipment is considered to be a key audit matter.

Our procedures focused on the critical evaluation of the key assumptions made by management, including the determination of the appropriate cash-generating unit. During our procedures, we engaged our internal valuation specialists.

Our audit procedures included:

- ▶ Evaluating whether the model used to calculate the value in use complies with the requirements of IAS 36 Impairment of assets.
- ▶ Evaluation of the determination of the cash-generating unit.
- ▶ Validating assumptions applied in the calculation of the discount rate and mathematical recalculation of the rate.
- ▶ Running a range of sensitivity tests to confirm that no impairment was required if less optimistic assumptions were applied with respect to the discount rate, projected foreign exchange rates, freight turnover growth in transit transportation, the level of subsidies for passengers transportation and the volume of capital expenditures.
- ▶ Comparing projected cash flows, including revenue and operating profit growth assumptions, to historical data and the Group's Development plan for 2017–2021. We analyzed the accuracy of management's forecasts, validity of the assumptions used in the forecasts, and consistency with the plans approved by the Board of Directors.
- ▶ Assessing the completeness and correctness of the information disclosed in the financial statements.

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

Why the matter was determined to be a key audit matter**How the matter was addressed in the audit****Liquidity and the going concern principle**

As at 31 December 2016, the current liabilities of the Group exceeded its current assets by 137,921,380 thousand tenge.

In addition, as discussed in Note 17, the loans received from EBRD and HSBC France with a carrying value of 92,961,537 thousand tenge and 53,664,002 thousand tenge include certain financial covenants, whereby non-compliance with these covenants may result in the loans becoming payable on demand. Management forecasted the expected financial position and financial results for 2016 and concluded that the Group would not be able to meet certain financial covenants, so that, as at 31 December 2016, management had received waivers from its creditors regarding the financial covenants.

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

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

Our audit procedures included:

- ▶ Examining the classification of assets and liabilities as part of our audit procedures.
- ▶ Analyzing events and conditions, including financial and operating, which could cast doubt on the ability to continue as a going concern.
- ▶ Analyzing management's evaluation of the principles of going concern and their plans to settle current liabilities.
- ▶ Examining the reliability and reasonableness of data and assumptions applied in preparing forecasted cash flows, including consistency of input data to other tests, such as impairment, actuarial valuation and hedge effectiveness testing.
- ▶ Analyzing possible scenarios with respect to forecasts, which affect the liquidity of the Group and its ability to settle obligations, including the ability of the Group to generate a sufficient level of cash flows from operating activities to serve and settle its loans, as well as the impact of possible change in exchange rates on the amounts of liabilities and revenues.
- ▶ Examining the documents supporting the availability of financing sources, including credit agreements, negotiations with financial institutions, and Board of Directors' minutes.
- ▶ Where applicable, recalculating financial covenants for mathematical accuracy.
- ▶ Examining the waivers received with respect to existing financial covenants prior to 31 December 2016.
- ▶ Assessing the completeness and correctness of the information disclosed in the financial statements.

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

Why the matter was determined to be a key audit matter
How the matter was addressed in the audit
Accounting for capital expenditures

The Group invests significant amounts in infrastructure and the acquisition of rolling stocks from its own funds as well as through capital contributions received from the Group's parent company and borrowings.

As disclosed in Note 7 to the consolidated financial statements, during 2016 the Group incurred capital expenditure of 320,089,998 thousand tenge.

Due to the significance of the incurred costs for the acquisition, construction and maintenance of property, plant and equipment, the appropriate accounting of these costs is considered to be a key audit matter.

Our audit procedures included:

- ▶ Examining, on a sample basis, capital expenditures and agreeing such expenditures to supporting documents and investment budgets and for compliance with recognition and measurement criteria as per IAS 16 Property, plant and equipment.
- ▶ Examining the appropriateness of the capitalization of borrowing costs on a sample basis.
- ▶ Examining the stage of completion of the constructions to budgets and physical inspection of the assets as part of annual property, plant and equipment counting and observation.

We found that capital expenditures met the capitalization criteria and were supported by relevant documentation and calculations.

Privatization program of the Group companies

As discussed in Notes 4 and 15 to the consolidated financial statements, in accordance with complex privatization plan for 2016–2020 approved by the Government on 30 December 2015, in April 2016 the Board of Directors approved a list of subsidiaries, joint ventures and associates that are subject to privatization.

As at 31 December 2016, the Group classified certain entities as disposal groups classified as held for sale.

Since the classification of the disposal groups as held for sale and/or discontinued operations require management judgement, it is considered to be a key audit matter.

Our audit procedures included:

- ▶ Examining the disposal group of assets and liabilities for compliance with the criteria for classification as held for sale, including challenging management's judgement with respect to the probability of sale and the status of actions taken to sell.
- ▶ Examining the correctness of recognition at the lower of carrying amount and fair value less costs to sell, including examination of the amounts per sales agreements as at reporting date, if any, or valuation reports of independent appraisers.
- ▶ Comparing the carrying amounts of the subsidiaries that were disposed of during 2016 to their sales prices, and ensuring that the financial results recognized with respect to these subsidiaries was appropriate, including the classification as a discontinued operation.
- ▶ Assessing the completeness of disclosed information, including management judgements and estimates.

We found that all disposal groups met the relevant classification criteria and were appropriately accounted for and measured with respect to the circumstances in existence.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

Management is responsible for the other information included in the Annual Report, which comprises all the information included in the Annual Report, excluding the consolidated financial statements and our auditor's report 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 the 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 skepticism 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 to 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, which constitute the key audit matters included herein.

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

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

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

Nurlan Bekenov
General Director
Deloitte, LLP

13 March 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

(in thousands of tenge)

	Notes	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	7	2,521,329,368	2,395,441,635
Intangible assets		11,589,266	13,288,840
Asset held for the benefit of the Shareholder	31	-	41,268,374
Investments in joint ventures	8	11,720,150	22,104,613
Investments in associates	8	11,357,875	10,898,604
Deferred tax assets	19	8,632,019	-
Investment property		-	6,574,127
Other non-current financial assets	9	2,333,030	178,929
Long-term trade accounts receivable	10	117,217	137,599
Other non-current assets	11	91,920,382	99,847,392
Total non-current assets		2,658,999,307	2,589,740,113
Current assets			
Cash and cash equivalents	12	48,978,173	67,838,129
VAT recoverable		57,252,499	53,353,425
Other current financial assets	9	16,186,691	41,466,840
Inventories	13	28,846,944	29,315,295
Trade accounts receivable	10	15,416,517	9,616,182
Prepaid income tax		1,903,220	2,224,060
Asset held for the benefit of the Shareholder	31	48,067,799	30,158,259
Other current assets	14	39,174,885	25,511,265
		255,826,728	259,483,455
Assets and disposal groups classified as held for sale	15	120,625,761	34,750,812
Total current assets		376,452,489	294,234,267
Total assets		3,035,451,796	2,883,974,380
EQUITY AND LIABILITIES			
Equity			
Share capital	16	993,460,480	865,393,896
Cash flow hedging reserve	16	(39,073,931)	(43,491,357)
Foreign currency translation reserve	16	4,110,006	4,601,406
Retained earnings		198,501,308	142,411,682

	Notes	31 December 2016	31 December 2015
Equity attributable to the Shareholder		1,156,997,863	968,915,627
Non-controlling interests	16	11,035,349	(651,552)
Total equity		1,168,033,212	968,264,075
Non-current liabilities			
Borrowings	17	1,098,117,957	1,174,883,855
Deferred tax liability	19	224,357,530	229,520,855
Constructive obligation for the benefit of Shareholder	31	-	48,601,265
Employee benefit obligation	18	26,169,983	28,429,598
Finance lease liabilities		-	2,183,849
Other non-current liabilities	21	4,399,245	-
Total non-current liabilities		1,353,044,715	1,483,619,422
Current liabilities			
Borrowings	17	141,561,817	199,754,238
Trade accounts payable	20	124,453,799	97,281,627
Other taxes payable		8,128,214	6,629,531
Employee benefit obligation	18	2,960,557	3,254,055
Income tax payable		117,552	1,579,639
Finance lease liabilities		-	499,023
Constructive obligation for the benefit of Shareholder	31	48,067,799	30,188,574
Other current liabilities	21	92,267,628	88,450,436
		417,557,366	427,637,123
Liabilities directly associated with disposal groups classified as held for sale	15	96,816,503	4,453,760
Total current liabilities		514,373,869	432,090,883
Total liabilities		1,867,418,584	1,915,710,305
Total equity and liabilities		3,035,451,796	2,883,974,380

Kanat Alpysbayev
President

13 March 2017

Maxat Kabashev
Vice-President for finance

13 March 2017

Nazira Abilova
Chief accountant

13 March 2017

The notes below form an integral part of the consolidated financial statements.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of tenge)

	Notes	2016	2015
Continuing operations			
Revenue			
Freight transportation		688,204,339	629,049,742
Passenger transportation		80,133,552	71,787,391
Government grants		22,528,832	21,721,705
Other revenue	22	32,244,835	29,946,430
Total revenue		823,111,558	752,505,268
Cost of sales	23	(658,852,600)	(616,768,734)
Gross profit		164,258,958	135,736,534
General and administrative expenses	24	(76,443,963)	(75,922,529)
Impairment of assets	7, 9, 11, 13	(2,168,347)	(4,960,728)
Other profit and loss		3,585,503	814,768
Finance income	25	6,325,198	5,581,810
Finance costs	26	(85,417,894)	(60,884,278)
Foreign exchange gain/(loss)		20,863,279	(450,997,658)
Share of profit/(loss) of associates and joint ventures	8	670,248	(12,187,711)
Gain from disposal of shares in joint ventures	8	7,253,741	-
Gain from disposal of subsidiaries not qualifying as discontinued operations	27	2,494,373	1,512,011
Profit/(loss) before tax		41,421,096	(461,307,781)
Income tax benefit	19	4,763,234	9,001,175
Profit/(loss) for the year from continuing operations		46,184,330	(452,306,606)
Discontinued operations			
Loss for the year from discontinued operations	15	(4,907,711)	(7,675,103)
Profit/(loss) for the year		41,276,619	(459,981,709)

	Notes	2016	2015
Other comprehensive income/(loss) net of tax:			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remeasurement of employee benefit obligations		4,106,607	174,318
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net fair value gain/(loss) on hedging instruments entered into for cash flow hedges	16	4,417,426	(43,491,357)
Exchange differences on translating foreign operations		(486,819)	5,391,426
Other comprehensive income/(loss) for the year		8,037,214	(37,925,613)
Total comprehensive income/(loss) for the year		<u>49,313,833</u>	<u>(497,907,322)</u>
Profit/(loss) for the year attributable to:			
Shareholder		40,979,582	(460,875,531)
Non-controlling interests		297,037	893,822
		<u>41,276,619</u>	<u>(459,981,709)</u>
Total comprehensive income/(loss) for the year attributable to:			
Shareholder		49,012,215	(498,808,660)
Non-controlling interests		301,618	901,338
		<u>49,313,833</u>	<u>(497,907,322)</u>
Earnings/(loss) per share from continuing and discontinued operations (in whole tenge)	28	83	(937)
Earnings/(loss) per share from continuing operations (in whole tenge)	28	93	(921)

Kanat Alpysbayev
President

13 March 2017

Maxat Kabashev
Vice-President for finance

13 March 2017

Nazira Abilova
Chief accountant

13 March 2017

The notes below form an integral part of the consolidated financial statements.

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

(in thousands of tenge)

	Notes	2016	2015
Cash flows from operating activities:			
Profit/(loss) for the year		41,276,619	(459,981,709)
Income tax benefit recognized in profit or loss including discontinued operations	15, 19	(3,622,748)	(6,881,118)
Adjustments for:			
Depreciation and amortization		115,383,866	107,519,344
Finance costs	15, 26	91,603,653	66,506,639
Impairment of assets		2,068,496	4,940,387
Finance income	15, 25	(7,174,522)	(6,077,255)
Defined benefit plan costs		4,688,159	4,605,250
Share of (profit)/loss of associates and joint ventures	8	(670,248)	12,187,711
Allowance for doubtful debts		244,235	10,638,658
Foreign exchange (gain)/loss		(19,756,929)	449,570,560
Gain from disposal of subsidiaries not qualifying as discontinued operations	27	(2,494,373)	(1,512,011)
Gain from disposal of discontinued operations	15	-	(1,096,611)
Gain from disposal of shares in joint ventures	8	(7,253,741)	-
Other		4,031,207	3,121,682
Operating income before changes in working capital and other balances		218,323,674	183,541,527
Change in trade accounts receivable		(657,908)	(66,756)
Changes in inventories		680,674	3,464,520
Change in other current and non-current assets (including non-current VAT recoverable)		(8,038,819)	(7,037,335)
Changes in trade accounts payable		7,666,138	(20,800,383)
Changes in other taxes payable		(17,804,812)	18,657,442
Change in other current liabilities		25,254,806	(14,721,747)
Change in employee benefit obligations		(2,506,445)	(2,955,062)
Change in other non-current liabilities		(283)	1,352,587
Cash generated from operations		222,917,025	161,434,793
Interest paid		(75,615,767)	(59,115,772)
Interest received		5,741,089	5,471,074
Income tax paid		(3,597,022)	(4,766,768)
Net cash flows from operating activities		149,445,325	103,023,327
Cash flows from investing activities:			

	Notes	2016	2015
Purchase of property, plant and equipment, including advances paid		(269,421,794)	(209,055,211)
Purchase of intangible assets		(2,283,525)	(1,395,471)
Proceeds from sale of shares in joint ventures		8,294,044	-
Proceeds from sale of other non-current assets		15,528,122	8,607,778
Investments in associates	8	(2,465,230)	(3,645,194)
Investments in other financial assets		(82,842,991)	(79,035,388)
Proceeds from return of other financial assets		102,711,572	86,986,193
Dividends received from joint ventures		1,659,754	1,358,688
Net cash inflows from disposal of subsidiaries and discontinued operations		1,160,952	17,947,051
Other		1,719,743	644,520
Net cash flows used in investing activities		(225,939,353)	(177,587,034)
Cash flows from financing activities:			
Contributions to share capital	16	127,923,000	68,338,937
Proceeds from borrowings		178,830,508	81,879,893
Repayments of borrowings		(235,886,216)	(77,708,027)
Proceeds from sale of derivative financial instrument		-	327,008
Proceeds from sale of non-controlling shares in subsidiary	16	9,000,000	-
Dividends and distributions paid		(39,682)	(306,471)
Purchase of asset held for the benefit of the Shareholder		(7,172,307)	(18,069,308)
Other		(716,247)	(602,523)
Net cash flows from financing activities		71,939,056	53,859,509
Net decrease in cash and cash equivalents		(4,554,972)	(20,704,198)
Cash and cash equivalents at the beginning of the year	12	74,903,521	89,964,767
Effects of exchange rate changes on the balance of cash held in foreign currencies		(3,263,118)	5,642,952
Cash and cash equivalents at the end of the year	12	67,085,431	74,903,521
Non-cash transactions:			
Trade accounts payable and receivable arising from disposal of subsidiaries		1,408,339	23,539,128
Additions to construction-in-progress arising from disposal of subsidiaries		-	12,562,464
Advances paid and received arising from disposal of subsidiaries		-	8,978,155
Additions of property, plant and equipment for the borrowing funds directly transferred by bank to supplier		21,613,436	4,971,503
Settlement of loans given by non-current assets		2,093,503	3,671,032

	Notes	2016	2015
Railway administrations receivables and payables offset		8,507,263	3,505,050
Offset of borrowings with non-current assets	17	47,832,538	-
Recognized fair value of financial guarantees given to associates	21	4,399,245	-

Kanat Alpysbayev
President

13 March 2017

Maxat Kabashev
Vice-President for finance

13 March 2017

Nazira Abilova
Chief accountant

13 March 2017

The notes below form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of tenge)

	Share capital	Cash flow hedging reserve	Foreign currency translation reserve	Retained earnings	Equity attributable to the Shareholder	Non-controlling interests	Total equity
At 1 January 2015	793,329,985	-	(782,574)	600,970,019	1,393,517,430	16,056,277	1,409,573,707
(Loss)/profit for the year	-	-	-	(460,875,531)	(460,875,531)	893,822	(459,981,709)
Other comprehensive (loss)/income for the year	-	(43,491,357)	5,383,980	174,248	(37,933,129)	7,516	(37,925,613)
Total comprehensive (loss)/income for the year	-	(43,491,357)	5,383,980	(460,701,283)	(498,808,660)	901,338	(497,907,322)
Shares issue (Note 16)	72,063,911	-	-	-	72,063,911	-	72,063,911
Dividends declared (Note 16)	-	-	-	(4,559,619)	(4,559,619)	(6,471)	(4,566,090)
Other distributions (Note 16)	-	-	-	(952,660)	(952,660)	-	(952,660)
Other contributions (Note 16)	-	-	-	7,167,201	7,167,201	-	7,167,201
Disposal of subsidiaries (Note 15)	-	-	-	-	-	(13,389,698)	(13,389,698)
Change in ownership share in subsidiaries without loss of control	-	-	-	488,024	488,024	(4,212,998)	(3,724,974)
At 31 December 2015	865,393,896	(43,491,357)	4,601,406	142,411,682	968,915,627	(651,552)	968,264,075
At 1 January 2016	865,393,896	(43,491,357)	4,601,406	142,411,682	968,915,627	(651,552)	968,264,075
Profit for the year	-	-	-	40,979,582	40,979,582	297,037	41,276,619
Other comprehensive income/(loss) for the year	-	4,417,426	(491,400)	4,106,607	8,032,633	4,581	8,037,214
Total comprehensive income/(loss) for the year	-	4,417,426	(491,400)	45,086,189	49,012,215	301,618	49,313,833
Shares issue (Note 16)	128,066,584	-	-	-	128,066,584	-	128,066,584
Dividends declared	-	-	-	-	-	(39,682)	(39,682)
Other distributions (Note 16)	-	-	-	657,924	657,924	-	657,924
Other contributions (Note 16)	-	-	-	12,770,576	12,770,576	-	12,770,576
Disposal of subsidiaries (Note 27)	-	-	-	-	-	(98)	(98)
Change in ownership share in subsidiaries without loss of control (Note 16)	-	-	-	(2,425,063)	(2,425,063)	11,425,063	9,000,000
At 31 December 2016	993,460,480	(39,073,931)	4,110,006	198,501,308	1,156,997,863	11,035,349	1,168,033,212

Kanat Alpysbayev
President

13 March 2017

Maxat Kabashev
Vice-President for finance

13 March 2017

Nazira Abilova
Chief accountant

13 March 2017

The notes below form an integral part of the consolidated financial statements.

1. GENERAL INFORMATION

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

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

The Group operates a Government regulated nationwide railway system providing freight transportation, passenger transportation and maintenance of railway infrastructures within the Republic of Kazakhstan. As part of the regulation of the rail industry in Kazakhstan, the Government sets the tariffs, which the Group charges its freight and passenger customers, as well as partially subsidizes certain passenger transportation activities through government grants. These regulated tariffs differ based on the type of transportation provided. The tariff for freight transportation in international transit direction is not regulated by the Government.

The Government of Kazakhstan approved a tariff for 2016–2020 for railway network services with annual tariff increase in freight transportation of 4%. In 2016, the average increase in freight transportation amounted to 4%, including railway network access of 4% and locomotive haulage services of 4.6%. Starting from 25 April 2016, the increase in tariffs for passenger transportation in the interdistrict routes for all types of wagons amounted to 10%.

Starting from 1 January 2017, the Government approved the increase in tariffs for railway network access of 4% and for passenger transportation in number of interdistrict routes of 7%.

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 fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014–2016, the oil price decreased significantly, which led to significant decrease in national export revenue. On 20 August 2015, the Government and the National Bank of Kazakhstan announced a transition to a new monetary policy based on a free-floating tenge exchange rate, and cancelled the currency corridor. In 2015, the tenge depreciated significantly against major foreign currencies.

Management of the Group is monitoring developments in the current environment and taking measures it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future. However, the impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

The Government controls the structure of the Group and establishes the long-term strategy of the railway operations in the Republic of Kazakhstan. Since 1997, the Government has been in the process of restructuring the rail system in Kazakhstan, which includes the segregation of freight transportation and infrastructure and the associated tariffs, as well as subsidies of the passenger transportation. The Group's development strategy through 2025, along with the State privatization program and the Business transformation program assumed the establishment of KTZh-Freight Transportation JSC and KTZh-Infrastructure JSC. From 1 July 2016, KTZh-Freight Transportation JSC had started its operations on freight transportation. During 2017, creation of infrastructure operator is planned.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

Statement of compliance

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

Going concern

The 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 in the foreseeable future. As at 31 December 2016, current liabilities of the Group exceeded its current assets by 137,921,380 thousand tenge. The Group historically financed large investment projects through the capital contributions received from the Government, and external borrowings, in addition to cash flows from operating activities. As at 31 December 2016, the Group's borrowings of 141,561,817 thousand tenge are payable within twelve months of the reporting date, including borrowings from the Shareholder of 75,000,000 thousand tenge payable in September 2017. The Group has assessed its needs for cash, including its scheduled debt repayments and its development plans. In assessing its going concern basis, management have also considered the Group's financial position, expected future performance and cash flows from operations, its borrowings, available credit facilities, its capital expenditure commitments, considerations of tariffs, currency exchange rates and other risks facing the Group. After making appropriate enquiries, management concluded that the Group has adequate resources to continue in operational existence and settle its liabilities (Note 32) and that the going concern basis is appropriate in preparing these consolidated financial statements.

Basis for measurement

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

Basis of consolidation

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

Functional and presentation currency

The Group's consolidated financial statements are presented in Kazakhstan tenge ("tenge" or "KZT"). 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 and the 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 of the accumulated exchange differences related to that specific foreign operation are recognized in profit or loss.

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

Monetary assets and liabilities that are denominated in foreign currencies are translated 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 date of a transaction recognized in profit or loss. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The following table summarizes the foreign currency exchange rates for tenge at:

	31 December 2016	31 December 2015
US Dollar	333.29	340.01
Euro	352.42	371.46
Swiss Franc	328.14	343.48
Russian Ruble	5.43	4.61

3. SIGNIFICANT ACCOUNTING POLICIES

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

Adoption of new and revised standards

In 2015, the Group early adopted the amendments to IAS 1 Presentation of Financial Statements, which are effective for annual periods beginning on and after 1 January 2016.

Other amendments, effective from 1 January 2016:

- ▶ Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortization;
- ▶ Amendments to IAS 27 – Equity Method in Separate Financial Statements;
- ▶ Annual Improvements to IFRSs 2012–2014 Cycle.

The Annual Improvements to IFRSs 2012–2014 Cycle include a number of amendments to various IFRSs, which are summarized below.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The application of these amendments has had no material effect on the Group's consolidated financial statements.

New and revised IFRSs in issue but not yet effective

The Group has not applied the new and revised IFRSs that have been issued but are not yet effective.

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for

financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' measurement category for certain simple debt instruments.

The key requirements of IFRS 9 are:

- ▶ *Classification and measurement of financial assets.* All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- ▶ *Classification and measurement of financial liabilities.* With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- ▶ *Impairment.* In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- ▶ *Hedge accounting.* The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Management of the Group anticipates that the application of IFRS 9 in the future may have an impact on amounts reported in respect of the Group's financial assets and financial liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

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

- ▶ Identify the contract with the customer
- ▶ Identify the performance obligations in the contract
- ▶ Determine the transaction price
- ▶ Allocate the transaction price to the performance obligations in the contracts
- ▶ Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

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

Management of the Group also anticipates that the application of IFRS 15 in the future may have an impact on amount and timing of revenue recognition.

FRS 16 Leases

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

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

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion, which will be presented as financing and operating cash flows respectively.

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

Furthermore, extensive disclosures are required by IFRS 16.

Management of the Group anticipates that the application of IFRS 16 in the future may have a significant impact on the amount of assets and liabilities due to recognition of all leases for contracts where the Group is a lessee.

Management is still in the process of assessing the full impact of the application of IFRS 9, IFRS 15 and IFRS 16 on the Group's consolidated financial statements and it is not practicable to provide a reasonable financial estimate of the effect until the management completes the detailed review. Management expects to be able to provide more precise information in the interim financial statements for the six months ended 30 June 2017.

For other Standards, amendments and Interpretations effective starting on and after 1 January 2017, management anticipates that application of those Standards, amendments and Interpretations will not have a material effect of the consolidated financial statements in the periods of their application.

Property, plant and equipment

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

Subsequent expenditure

Maintenance expenses incurred during the useful life of the asset (regular maintenance activities to maintain the asset in a good condition) and repair expenses (technical inspections, maintenance contracts, etc.) are recorded as operating expenses.

Only those costs are capitalized which 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 the assets, including appropriate allocation of directly attributable variable overheads incurred during the construction. Depreciation is charged on the same basis as for other assets and commence once the asset becomes available for its intended use. Carrying value of construction-in-progress is regularly reviewed for impairment.

Borrowing costs

The Group capitalizes 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 capitalizes the borrowing costs on generally used borrowings to the extent that it uses them for the purpose of obtaining a qualifying asset. The capitalization rate is the weighted average of the borrowing costs applicable

to the borrowings of the entity that are outstanding during the period and used for construction and production of a qualifying asset, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

All other borrowing costs, including any excess exchange differences, are recognized in profit or loss in the period in which they are incurred.

Inventories

Inventories are valued at the lower of cost or net realizable value. Costs comprise of charges incurred to bring the inventory to its present location and condition for its intended use. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and costs necessary to make the sale. Inventory is valued on a weighted-average cost basis.

Equity

Share capital

Common shares are classified as equity. Costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. 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 recognized as additional paid-in capital until the common shares are registered, when such proceeds are transferred to share capital.

Other contributions

The Group enters into equity transactions with the Shareholder, such as transfer of assets, benefits from below market interest loans and others that would not relate to acquisition of additional equity interest in the Group. The Group recognizes such transactions in retained earnings.

Other distributions

Distributions are recognized in equity when the Group has irrevocably committed to transfer cash or non-cash assets to its Shareholder/Ultimate Shareholder and the amount of the commitment can be reliably measured. Distributions are recognized in equity at their fair value, net of any related deferred tax effects, where appropriate.

Financial instruments

Financial instruments are contracts that give rise to a financial asset of one party and a financial liability or equity instrument of another party.

Financial instruments are recognized initially at fair value, which is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties.

Subsequent measurement depends on how the financial instruments have been classified. Accounts receivable and investments, classified as loans and receivables, are measured at amortized cost, using the effective interest method. Certain equity investments, classified as available for sale, are recognized at cost as fair value cannot be reliably established. Accounts payable, accrued liabilities, borrowings, dividends payable and other liabilities, classified as other liabilities, are also measured at amortized cost.

Hedge accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the 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 recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'finance costs' line item.

Amounts previously recognized 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 recognized hedged item.

Hedge accounting is discontinued:

- a) when the Group revokes the hedging relationship,
- b) when the hedging instrument expires or is sold, terminated, or exercised, or
- c) when it no longer qualifies for hedge accounting

Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Recognition of revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and measured based upon the fair value of the consideration received or receivable.

In respect of services related to transportation, revenue is recognized by reference to the stage of completion of the transportation at the reporting date provided that the stage of completion of the transportation and the amount of revenue can be measured reliably. The extent of completion of the cargo transportation process is calculated as the ratio of services volume, provided as at the reporting date to the total services volume according to information on the dates of cargo departure and arrival (intersection of joint station).

Prepayments received from customers relating to transportation services that have not been initiated are recognized as 'Advances received from customers'. Upon commencement of the services, the amount related to that service is reclassified to deferred income under the 'Other current liabilities' caption in the consolidated statement of financial position. Deferred income is credited to revenue as the service is provided.

Revenue relating to services for the use of wagons is recognized in the period of use of the Group's wagons.

In respect to the sale of goods, revenue is recognized when the goods are delivered and titles have passed, at which time all of the following conditions are satisfied:

- ▶ the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- ▶ the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- ▶ the amount of revenue can be reliably measured;
- ▶ it is probable that the economic benefits associated with the transaction will flow to the Group; and
- ▶ the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Government grants

The Group is eligible to receive a subsidy, in the form of a Government grant, for a portion of the costs of transporting passengers on socially important routes within the Republic of Kazakhstan, as defined by the Government. The Group, along with other railway companies in the Republic of Kazakhstan, submits an application for these grants to the Government on an annual basis. If awarded the contract, the Group is eligible for a subsidy of the costs to transport passengers on the socially important routes within the Republic of Kazakhstan up to a pre-budgeted amount, which is determined by the Government.

Government grants are recognized in profit or loss in the period in which the transportation is provided to the passengers at the reduced tariffs set by the Government when there is reasonable assurance that the Group will comply with the conditions attaching to the grants and the collection of the grant funds can be reasonably assured.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments 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 revenues and expenses during the reporting period. Although these estimates are based on historical experience and other factors that are considered to be relevant, events or actions may mean that actual results ultimately differ from those estimates.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Control assessment

Control over KazAutoZhol National Company JSC

On 29 January 2015, the Group and the Committee of state property and privatization of the Ministry of Finance of the Republic of Kazakhstan (the "Committee") entered into a trust management agreement of 100% state-owned shares of KazAutoZhol National Company JSC, which is owned by the Ministry of Investments and Development of the Republic of Kazakhstan. The Group has not recognized KazAutoZhol National Company JSC as a subsidiary, as the Group is acting as an agent and does not control this entity, exercising its decision making authority delegated to the Group by the Committee for and on behalf of the Committee. This agreement does not entitle the Group to any returns from operations of KazAutoZhol National Company JSC.

Control over Aktau International Sea Commercial Port National Company JSC

Aktau International Sea Commercial Port National Company JSC is recognized as a subsidiary of the Group (Note 30), although the Group does not legally own shares in Aktau International Sea Commercial Port. The Group assessed whether it has control over Aktau International Sea Commercial Port, considering all relevant facts and circumstances arising from a trust management agreement concluded with Samruk-Kazyna National Welfare Fund JSC, the legal owner, in respect of its 100% ownership interest in Aktau International Sea Commercial Port. The Group concluded that it controls Aktau International Sea Commercial Port. In reaching this judgment, management of the Group considered the broad power granted to the Group by the Shareholder, which gives the Group the practical ability to unilaterally direct the relevant activities of Aktau International Sea Commercial Port to affect its returns to the Group.

Control over airports

The Group and the Committee of the state property and privatization of the Ministry of Finance of the Republic of Kazakhstan (hereinafter referred to as the "Committee") have entered into an agreement on the trust management of 100% state-owned shares of joint-stock companies Kokshetau Aircompany, Petropavlovsk International Airport, Astana International Airport, Kostanay International Airport and Shymkent Airport, which are owned by the Ministry of Transport and Communications of the Republic of Kazakhstan, and shares of joint-stock companies Aktobe International Airport, Atyrau International Airport and Pavlodar Airport, which are accounted for at the balance of the Shareholder. The Group has not recognized the airports as subsidiaries as the Group is acting as an agent and does not control these airports. This agreement does not entitle the Group to any returns from the operating activities of the airports.

Control over Khorgos International Centre of Boundary Cooperation JSC

The Group entered into a trust management agreement with the Committee in respect of 100% equity interest in JSC Khorgos International Centre of Cross-border Cooperation (hereinafter, "Khorgos"), a state-owned company. The Group has not recognized Khorgos as a subsidiary as the Group is acting as an agent, exercising decision-making authority for and on behalf of the Committee, and does not control the entity. This agreement does not entitle the Group to any returns from the operating activities of Khorgos.

Control over Tulpar-Talgo LLP

The Group, represented by the subsidiary Remlocomotive JSC, owns 99.99% interest in Tulpar-Talgo LLP.

On 15 May 2015, the Group and Patent Talgo S.L.U., sole founder of Talgo Kazajstan S.L., entered into a preliminary agreement on sale of 51% of the shares in Tulpar-Talgo LLP, under which the Group received an advance of 23,000 thousand euro (4,661,410 thousand tenge). The agreement provides certain conditional clauses, including the Shareholder's

approval of the transaction by the stated date, reimbursement of financial consequences of changes in euro exchange rate against tenge, as well as an increase in the purchase price of passenger coaches delivered in 2015 or later in the case of growth of the exchange rate of euro against tenge, which resulted in increased costs for the production of these passenger coaches. In October 2016, the State commission on modernization of economy of Kazakhstan approved direct sale of shares in Tulpar-Talgo LLP to Talgo Kazajstan S.L. As at 31 December 2016, the Group received all approvals, signed agreements for increase in purchase prices for a portion of passenger coaches volumes. Management still considers the sale transaction as highly probable. Accordingly, it classifies the subsidiary within disposal group classified as held for sale and discontinued operations.

Control over Kazakhstan Wagon Construction Company LLP

In April 2016, the Group, represented by Kaztemirtrans JSC, and ZIKSTO LLP entered into a trust management agreement in respect of 69.94% equity interest in its subsidiary Kazakhstan Wagon Construction Company LLP for the purpose of financial rehabilitation. The Group continues to control Kazakhstan Wagon Construction Company LLP, since ZIKSTO LLP is an agent and does not have the power to direct the financial and operating activities, exercising its decision-making authority delegated for and on behalf of the Group.

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 of interest for similar loans in arm's length transactions. These loans are initially recognized at the fair value of the consideration received less directly attributable transaction costs. The Group calculates the fair value (amortized cost) of these loans using market rates on governmental long-term treasury bonds with comparable maturities and recognizes 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 amortized cost using the effective interest method.

Assets classified as held for sale

In December 2015, the Government of Kazakhstan approved the 'Complex Plan of Privatization for 2016–2020', under which management of the Group approved the list of subsidiaries, associates and joint ventures subject to sale. IFRS 5 Non-current Assets Held for Sale and Discontinued Operations requires management to apply judgements regarding high probability of sale of the asset. As at reporting date, management of the Group assessed the status of execution of the Complex Plan of Privatization and classified certain assets / liabilities as disposal groups held for sale, relating to those, which meet the criteria of IFRS 5 (Note 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 that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

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

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

Due to existing indicators, the Group performed an impairment test as at 31 December 2016.

Management of the Group considered all segments as a single cash-generating unit (CGU) for the purposes of the impairment testing as under the current operating model of the Group the cash flows for each segment are not considered to be sufficiently independent. The 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 specifics of tariff regulation for freight transportation and the need to cross-subsidize

passenger transportation, railway infrastructure can not generate independent cash flows. Accordingly, the Group is treated as one cash-generating unit in the impairment testing performed.

The Government of Kazakhstan as Ultimate Shareholder of the Company has approved a privatization plan of certain entities of the Group, which, if realized, would result in a new scheme of interaction among the various business units within the group, and would include development of the new tariff system. Due to absence of approved detailed plans, these possible developments have not been taken into account for the purposes of the current year impairment testing. Subsequent changes in identification of the cash generating units may affect the carrying value of the Group's assets.

Additionally, there are a number of subjective factors both operational and financial, using the best evidence available.

The operational considerations used in the test reflect the most likely volume of transportation services, including transit volumes, based on historical data and forecasted demand.

The financial assumptions include significant estimates associated with forecasted level and growth rate of tariffs, discounts, as well as forecasted tenge to US Dollar and Swiss franc exchange rates. The key long-term assumptions used in calculation were the annual growth in tariffs of 4%, the exchange rate of 360 tenge per 1 USD and the discount rate of 12.74%. These assumptions related to cash flow projections in real terms.

As at 31 December 2016, no impairment has been identified based on the estimate of the value in use of the Group's property, plant and equipment. However, the value in use estimate is sensitive to the following assumptions:

- ▶ discount rate;
- ▶ volume of transit freight transportation;
- ▶ exchange rate to foreign currencies, including to Swiss franc and US Dollar; and
- ▶ volume of capital investments to maintain the assets and continue operations.

Adverse changes to the planned growth rates of cargo and passenger traffic associated with the general trends in the economy, lack of appropriate indexation of tariffs to inflation, the continuing volatility of tenge against foreign currencies, the level of government support, as well as adverse changes in other factors in the future may lead to significant impairment losses in the period in which they occur.

Recoverability of VAT

At each reporting date, the Group assesses the recoverability of VAT arising on sales to customers on international transportation. The Group cannot charge VAT onwards to these customers, and accordingly can only receive these amounts through a collection from the tax authorities. In assessing the recoverability of the VAT recoverable, the Group considers information from its internal tax department regarding projected collection of VAT, 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 amortization of intangible assets

Depreciation of property, plant and equipment and intangible assets is computed using the straight-line method over estimated useful lives. The estimates of useful lives, residual values and methods of depreciation are reviewed at each reporting date, and adjusted if appropriate. Any changes are accounted for prospectively as a change in accounting estimate. Estimates of the useful lives and residual value of these assets are based on the expected economic use, repair and maintenance programs, and volume of activity, technological advancements and other business conditions and may require significant future expenditures in order to maintain the property to a high level. If these assumptions were to change, it could result in significantly different depreciation amounts than those previously recorded.

The estimated useful lives used by the Group presented are as follows (in years):

Buildings and construction	10–140
Railway infrastructure	5–100
Machinery and equipment	3–35
Transport	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 50% of the additional taxes accrued, and interest

is assessed at 13.75% of taxes not settled on a timely basis. As a result, penalties and interest can exceed the amount of additional accrued taxes.

Because of the uncertainties disclosed above, the ultimate amount of taxes, penalties and interest, if any, imposed may be in excess of the amount expensed to date and accrued as at 31 December 2016. Any difference between the estimated amount and the actual amount paid, if any, could have a significant impact on future operating results.

5. CHANGES IN CLASSIFICATION AFFECTING COMPARATIVE INFORMATION

In pursuance of the Complex Plan of Privatization for 2016–2020 of the Government of Kazakhstan, management of the Group approved the list of subsidiaries, associates and joint ventures subject to sale.

The Group recognized the results of operations of its subsidiary Transtelecom JSC, which represents a separate major line of business in discontinued operations and accordingly, comparative amounts for the year ended 31 December 2015 were restated.

Effect on the consolidated statement of profit or loss and other comprehensive income

	As previously reported	Discontinued operations	As restated
2015			
Other revenue	37,950,983	(8,004,553)	29,946,430
Total revenue	760,509,821	(8,004,553)	752,505,268
Cost of sales	(622,968,439)	6,199,705	(616,768,734)
Gross profit	137,541,382	(1,804,848)	135,736,534
General and administrative expenses	(78,452,245)	2,529,716	(75,922,529)
Finance income	6,000,871	(419,061)	5,581,810
Finance costs	(66,170,599)	5,286,321	(60,884,278)
Foreign exchange loss	(449,940,248)	(1,057,410)	(450,997,658)
Other profit and loss	885,734	(70,966)	814,768
Loss before tax	(465,771,533)	4,463,752	(461,307,781)
Income tax benefit	7,955,960	1,045,215	9,001,175
Loss from continuing operations	(457,815,573)	5,508,967	(452,306,606)
Loss from discontinued operations	(2,166,136)	(5,508,967)	(7,675,103)
Loss for the year	(459,981,709)	–	(459,981,709)
Loss per share from continuing and discontinued operations (in whole tenge)	(932)	(11)	(921)

6. SEGMENT INFORMATION

The Group's operating segments are based on the services provided. The Group has two reportable segments, namely cargo transportation and passenger transportation. All other operating segments including mainly communication services, utilities services, loading and unloading services and vessels servicing, which in aggregate do not exceed quantitative thresholds for disaggregation, are thus not separately disclosed.

The Chief Operating Decision Maker ("CODM") of the Group monitors multiple measures of segment profitability for the Group's operating segments, such as profit before taxation, profit for the year and gross profit. However, profit for the

year from continuing operations is the primary measure used by the CODM for the purpose of resource allocation and assessment of segment performance.

The Group does not have a specified pricing policy for inter-segmental sales, however in general intersegment transactions are charged at prevailing market prices.

	For the year ended 31 December 2016				
	Freight transportation	Passenger transportation	Total reportable segments	Other	Total
Key operating measures					
Revenue					
Transportation	712,942,787	82,087,215	795,030,002	-	795,030,002
Government grants	-	22,528,832	22,528,832	-	22,528,832
Other revenue	20,608,236	3,327,070	23,935,306	16,232,959	40,168,265
Intersegment revenue	(27,222,487)	(2,301,216)	(29,523,703)	(5,091,838)	(34,615,541)
Revenue	706,328,536	105,641,901	811,970,437	11,141,121	823,111,558
Cost of sales	(555,011,504)	(96,090,141)	(651,101,645)	(7,750,955)	(658,852,600)
General and administrative expenses	(68,073,668)	(4,446,869)	(72,520,537)	(3,923,426)	(76,443,963)
Reversal of impairment/ (impairment) of assets	819,577	(2,965,490)	(2,145,913)	(22,434)	(2,168,347)
Other profit and loss	2,626,096	786,877	3,412,973	172,530	3,585,503
Finance income	4,512,384	776,696	5,289,080	1,036,118	6,325,198
Finance costs	(80,249,140)	(2,278,514)	(82,527,654)	(2,890,240)	(85,417,894)
Foreign exchange gain/ (loss)	21,153,440	(66,094)	21,087,346	(224,067)	20,863,279
Share of profit/(loss) of associates and joint ventures	4,564,036	-	4,564,036	(3,893,788)	670,248
Gain from disposal of share in joint ventures	154,644	-	154,644	7,099,097	7,253,741
Gain from disposal of subsidiaries	452,510	2,041,863	2,494,373	-	2,494,373
Profit before tax	37,276,911	3,400,229	40,677,140	743,956	41,421,096
Income tax benefit/(expenses)	5,731,387	(883,694)	4,847,693	(84,459)	4,763,234
Profit for the year from continuing operations	43,008,298	2,516,535	45,524,833	659,497	46,184,330
Other key segment information					
Additions to property, plant and equipment	273,763,391	34,827,234	308,590,625	12,669,269	321,259,894
Depreciation of property, plant and equipment	98,826,352	7,595,524	106,421,876	8,783,736	115,205,612

	For the year ended 31 December 2015				
	Freight transportation	Passenger transportation	Total reportable segments	Other	Total
Key operating measures					
Revenue					
Transportation	656,811,366	73,755,616	730,566,982	-	730,566,982
Government grants	-	21,721,705	21,721,705	-	21,721,705
Other revenue	17,142,194	3,945,284	21,087,478	40,669,277	61,756,755
Intersegment revenue	(29,405,609)	(2,446,681)	(31,852,290)	(29,687,884)	(61,540,174)
Revenue	644,547,951	96,975,924	741,523,875	10,981,393	752,505,268
Cost of sales	(527,614,931)	(91,185,150)	(618,800,081)	2,031,347	(616,768,734)
General and administrative expenses	(67,369,185)	(4,865,439)	(72,234,624)	(3,687,905)	(75,922,529)
Impairment of assets	(3,088,728)	(1,872,000)	(4,960,728)	-	(4,960,728)
Other profit and loss	(274,483)	924,963	650,480	164,288	814,768
Finance income	4,355,188	503,864	4,859,052	722,758	5,581,810
Finance costs	(58,330,928)	(1,500,780)	(59,831,708)	(1,052,570)	(60,884,278)
Foreign exchange loss	(450,383,148)	(129,861)	(450,513,009)	(484,649)	(450,997,658)
Share of loss of associates and joint ventures	(5,818,460)	-	(5,818,460)	(6,369,251)	(12,187,711)
Gain on disposal of subsidiaries	1,215,814	-	1,215,814	296,197	1,512,011
(Loss)/profit before tax	(462,760,910)	(1,148,479)	(463,909,389)	2,601,608	(461,307,781)
Income tax benefit/ (expenses)	9,091,984	(903,429)	8,188,555	812,620	9,001,175
(Loss)/profit for the year from continuing operations	(453,668,926)	(2,051,908)	(455,720,834)	3,414,228	(452,306,606)
Other key segment information					
Additions to property, plant and equipment	238,693,032	24,146,718	262,839,750	26,318,850	289,158,600
Depreciation of property, plant and equipment	90,135,335	7,504,226	97,639,561	7,957,740	105,597,301
Geographical information for the Group					
The Group derives its revenues from customers in multiple geographical regions. The table below provides revenue based on customer country of domicile for each of the years ended 31 December:					
	Customer country of domicile	2016	2015		
Kazakhstan		815,752,533	741,539,465		
Russia		4,722,506	8,381,189		
Other		2,636,519	2,584,614		
		823,111,558	752,505,268		

Substantially all of the Group's non-current assets are in Kazakhstan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 december 2016 (in thousands of tenge unless otherwise is stated)

7. PROPERTY, PLANT AND EQUIPMENT

	Railway infrastructure	Buildings and construction	Machinery and equipment	Transport	Land	Other	Capital construction in progress	Total
Carrying value at 1 January 2015	630,972,166	136,772,940	210,603,867	789,606,132	3,975,088	15,418,897	441,593,040	2,228,942,130
Additions	30,419	14,821	1,577,316	65,173,653	58,568	111,828	216,657,349	283,623,954
Disposals	(97,918)	(347,754)	(1,674,664)	(3,604,480)	(51,410)	(482,889)	-	(6,259,115)
Depreciation charge	(23,301,032)	(6,918,496)	(26,263,509)	(47,255,961)	-	(1,858,303)	-	(105,597,301)
Depreciation on disposal	78,377	208,357	1,623,946	3,131,919	-	387,164	-	5,429,763
Impairment/reversal of impairment	511,216	(1,467,711)	(184,109)	(45,773)	-	(8,325)	(795,619)	(1,990,321)
Transfer from assets of disposal groups classified as held for sale	-	3,480,070	3,047,313	21,783	7,917	54,567	-	6,611,650
Transfer to non-current assets and assets of disposal groups classified as held for sale	-	(15,001,695)	(2,583)	(168,698)	(93,757)	(2,948)	-	(15,269,681)
Other movements	(1,741,182)	16,741	3,372,039	167,759	-	1,898,269	(3,763,070)	(49,444)
Other transfers and regrouping	297,623,524	8,404,158	44,700,010	2,015,995	-	(21,137)	(352,722,550)	-
Carrying value at 31 December 2015	904,075,570	125,161,431	236,799,626	809,042,329	3,896,406	15,497,123	300,969,150	2,395,441,635
Cost	1,048,883,901	156,822,649	362,903,067	1,108,852,072	3,896,406	23,839,402	307,132,911	3,012,330,408
Accumulated depreciation and impairment	(144,808,331)	(31,661,218)	(126,103,441)	(299,809,743)	-	(8,342,279)	(6,163,761)	(616,888,773)
Carrying value at 1 January 2016	904,075,570	125,161,431	236,799,626	809,042,329	3,896,406	15,497,123	300,969,150	2,395,441,635
Additions	69,787	4,234,240	2,782,462	68,849,250	9,179	175,144	243,969,936	320,089,998
Disposals	(814,518)	(2,953,044)	(4,056,054)	(6,282,626)	(2,955)	(720,580)	-	(14,829,777)
Depreciation charge	(23,771,201)	(12,730,263)	(30,705,857)	(46,087,366)	-	(1,910,925)	-	(115,205,612)
Depreciation on disposal	445,260	405,675	3,132,694	5,664,224	-	696,069	-	10,343,922
Impairment/reversal of impairment	(30,688)	(145,540)	(2,330,476)	16,890	-	(77,096)	(2,428,672)	(4,995,582)
Transfer from assets of disposal groups and other assets classified as held for sale, including to the Government	-	2,438,230	1,545	251	2,696	491	-	2,443,213

	Railway infrastructure	Buildings and construction	Machinery and equipment	Transport	Land	Other	Capital construction in progress	Total
Transfer to non-current assets and assets of disposal groups classified as held for sale	(9,277)	(1,886,195)	(53,178,475)	(2,876,778)	(180,695)	(330,096)	(6,723,839)	(65,185,355)
Other movements	(841,598)	(1,913,842)	(971,356)	137,694	(78,398)	187,215	(3,292,789)	(6,773,074)
Transfers	80,785,214	59,344,877	99,698,721	2,460,558	-	(1,044,533)	(241,244,837)	-
Carrying value at 31 December 2016	959,908,549	171,955,569	251,172,830	830,924,426	3,646,233	12,472,812	291,248,949	2,521,329,368
Cost	1,126,320,967	213,595,902	375,261,894	1,166,677,283	3,646,233	21,801,749	299,796,652	3,207,100,680
Accumulated depreciation and impairment	(166,412,418)	(41,640,333)	(124,089,064)	(335,752,857)	-	(9,328,937)	(8,547,703)	(685,771,312)

In 2016, the Group received property, plant and equipment of 143,584 thousand tenge from the Ultimate Shareholder/ Shareholder (2015: 50,816 thousand tenge) and recognized them in the consolidated statement of changes in equity as a contribution to share capital and other contributions (Note 16).

As at 31 December 2016, capital construction in progress primarily comprises project costs for the construction of railway lines Zhezkazgan-Beineu and Arkalyk-Shubarkol of 42,184,635 thousand tenge (31 December 2015: 142,091,568 thousand tenge), the development of a railway junction at Astana station, including construction of a railway station of 125,070,257 thousand tenge (31 December 2015: 54,124,453 thousand tenge), and construction of dry port and infrastructure of special economic zone "Khorgos-Eastern Gates" of 328,304 thousand tenge (2015: 49,345,478 thousand tenge).

As at 31 December 2016 and 2015, property, plant and equipment of the Group with a carrying value of 143,316,485 thousand tenge and 149,720,567 thousand tenge, respectively, were pledged as collateral for a portion of the Group's borrowings.

For the years ended 31 December 2016 and 2015, capitalized borrowing costs amounted to 3,636,255 thousand tenge and 5,411,762 thousand tenge, respectively. The average capitalization rate varied from 2.59% to 8.63% (2015: 2.59% to 10%).

As at 31 December 2016 and 2015, the cost of fully depreciated property, plant and equipment which was still in use amounted to 235,839,055 thousand tenge and 235,488,259 thousand tenge, respectively.

8. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Name	Principal activity	Place of incorporation and principal place of business	2016		2015	
			Carrying value	Share	Carrying value	Share
Associates:						
China-Kazakhstan International Logistics Company in Lianyungang	International multimodal transportation	China	9,906,269	49%	10,792,218	49%
Aktobe Rail and Section Mill Plant LLP	Production and sales of metal roll	Kazakhstan	-	30%	-	30%
Continental Logistics LLP	Construction and exploitation of transportation and logistics centers	Kazakhstan	-	30%	-	30%
Aktau Sea North Terminal LLP	Construction and exploitation of logistics, industrial and infrastructural constructions	Kazakhstan	1,284,568	40%	-	40%
Electrovoz kurastyru зауыты LLP	Cargo and passenger electric locomotives production	Kazakhstan	-	25%	-	-
Other			167,038	25-49%	106,386	25-49%
Total investments in associates			11,357,875		10,898,604	
Joint ventures:						
Logistic System Management B.V.	Forwarding services, handling rolling stock, terminal service	Kazakhstan/ incorporated in Netherlands	11,720,150	50%	9,887,179	50%
Locomotive Kurastyru Zauyty JSC	Assembly of locomotives	Kazakhstan	-	-	8,378,678	50%
Astyk Trans LLP	Forwarding services for grain transportation and other agricultural products by railway	Kazakhstan	-	-	3,464,364	50%
Electrovoz kurastyru зауыты LLP ¹	Cargo and passenger electric locomotives production	Kazakhstan	-	-	374,392	25%
Total investments in joint ventures			11,720,150		22,104,613	

¹ As at 31 December 2015, the Group owned 50% interest in joint venture, where 25% were classified as held for sale in accordance with the Group's decision to sell this ownership share (Note 15). As at 31 December 2016, 25% interest is accounted for as investments in associates.

All the above-mentioned associates and joint ventures are strategic for the Group's activities.

For the years ended 31 December, the movement in investments in associates and joint ventures was as follows:

	2016	2015
Associates		
At 1 January	10,898,604	16,299,164
Effect of foreign currency exchange differences	(896,087)	4,725,013
Contributions to charter capital without change in ownership share	2,465,230	3,645,194
Share of loss	(4,891,472)	(13,770,767)
Fair value of financial guarantees given	3,519,396	-
Transfer from joint ventures	262,204	-
At 31 December	11,357,875	10,898,604
Joint ventures		
At 1 January	22,104,613	21,086,452
Share of profit	5,561,720	1,583,056
Contributions to charter capital without change in ownership share	-	793,793
Fair value adjustment on loans given at below market rate	58,425	-
Transfer to associates	(262,204)	-
Dividends	(3,128,141)	(1,358,688)
Transfer to disposal groups classified as held for sale (Note 15)	(12,614,263)	-
At 31 December	11,720,150	22,104,613

As at 31 December 2016, the joint venture investments in Locomotive Kurastyru Zauyty JSC and Astyk Trans LLP with a total carrying value of 12,614,263 thousand tenge were classified as held for sale (Note 15).

In February 2016, the Group, represented by its subsidiary, Remlocomotive JSC, sold to a third party a 25% interest in the joint venture Electrovoz kurastyru zauyty LLP. The gain from the disposal amounted to 7,099,097 thousand tenge. As a result of the sale, the Group lost joint control over Electrovoz kurastyru zauyty LLP, retaining a 25% interest and significant influence. Accordingly, the Group classified Electrovoz kurastyru zauyty LLP as an associate.

In November 2016, the Group, represented by Kamkor Repair Corporation LLP, sold its 50% interest in joint venture KazElectroPrivod JV LLP to a third party. The gain from the disposal of amounted to 154,644 thousand tenge. As a result of sale, the Group lost joint control over KazElectroPrivod JV LLP.

As at 31 December 2016, the Group's unrecognized share of losses with respect to significant associates, Aktobe Rail and Section Mill Plant LLP, Continental Logistics LLP and Electrovoz kurastyru zauyty LLP, amounted to 6,716,574 thousand tenge (2015: 6,479,905 thousand tenge).

During 2016, the Group, represented by KTZ Express JSC and Aktau International Sea Commercial Port National Company JSC, made an additional cash contribution without change in ownership share of 1,662,260 thousand tenge and 554,087 thousand tenge, respectively, to the associate Aktau Sea North Terminal LLP (2015: 1,643,400 thousand tenge and 547,800 thousand tenge).

During 2015, the Group, represented by its subsidiary Remlocomotive JSC, made an additional cash contribution without change in ownership share of 1,453,994 thousand tenge to Aktobe Rail and Section Mill Plant LLP.

During 2015, the Group, represented by its subsidiary Kaztemirtrans JSC, made an additional contribution without change in ownership share by non-current assets to Astyk Trans LLP of 708,288 thousand tenge with the other joint venture party contributing non-current assets of the same value.

Summary financial information for the Group's material investments in associates as at 31 December and for the years then ended was as follows:

	2016 г.					2015 г.				
	China-Kazakhstan International Logistics Company in Lianyungang	Aktobe Rail and Section Mill Plant LLP	Continental Logistics LLP	Aktau Sea North Terminal LLP	Electrovoz kurastyru zauyty LLP	China-Kazakhstan International Logistics Company in Lianyungang	Aktobe Rail and Section Mill Plant LLP	Continental Logistics LLP	Aktau Sea North Terminal LLP	
Current assets	2,370,433	13,346,834	5,903,523	6,839,215	33,806,498	3,616,003	8,608,842	1,747,331	12,351,231	
Non-current assets	20,977,803	75,654,249	29,154,188	40,728,440	21,775,211	18,718,986	74,672,980	31,239,237	22,763,567	
Total assets	23,348,236	89,001,083	35,057,711	47,567,655	55,581,709	22,334,989	83,281,822	32,986,568	35,114,798	
Current liabilities	3,131,361	23,693,304	13,284,123	3,475,033	48,584,202	310,054	13,516,573	11,703,912	3,642,958	
Non-current liabilities	-	80,379,160	23,454,603	40,881,201	13,760,929	-	90,419,983	22,227,605	33,301,562	
Total liabilities	3,131,361	104,072,464	36,738,726	44,356,234	62,345,131	310,054	103,936,556	33,931,517	36,944,520	
Net assets	20,216,875	(15,071,381)	(1,681,015)	3,211,421	(6,763,422)	22,024,935	(20,654,734)	(944,949)	(1,829,722)	
Group's ownership interest	49%	30%	30%	40%	25%	49%	30%	30%	40%	
Group's share of net assets	9,906,269	(4,521,414)	(504,305)	1,284,568	(1,690,855)	10,792,218	(6,196,420)	(283,485)	(731,889)	
Carrying amount of investments	9,906,269	-	-	1,284,568	-	10,792,218	-	-	-	
Revenue	1,622,074	14,721,285	3,876,209	295,121	39,928,906	811,478	674,032	944,524	-	
Profit/(loss) for the year and total comprehensive income/(loss)	20,690	(5,589,497)	(1,565,675)	(499,724)	(8,482,398)	7,743	(39,665,863)	(12,739,277)	(13,006,193)	
Group's recognized share of total comprehensive income/(loss) of associate	10,138	(3,351,855)	(248,883)	(931,779)	(429,745)	3,794	(5,703,339)	(3,538,298)	(4,470,588)	

9. OTHER FINANCIAL ASSETS

	31 December 2016	31 December 2015
Amounts in credit institutions (short-term financial investments)	17,549,976	39,705,096
Loans given	1,885,605	2,502,804
Less: allowance on loans given	(915,860)	(562,131)
	<u>18,519,721</u>	<u>41,645,769</u>
Current portion of other financial assets	16,186,691	41,466,840
Non-current portion of other financial assets	2,333,030	178,929
	<u>18,519,721</u>	<u>41,645,769</u>

As at 31 December 2016 and 2015, loans given are mainly represented by loans in tenge given to joint venture, Locomotive Kurastyru Zauyty JSC.

Amounts in credit institutions:

	31 December 2016	31 December 2015
Ratings from BBB-(Baa3) to BB-(Ba3)	313,100	349,592
Ratings from B+(B1) to B-(B3)	17,236,876	39,355,504
	<u>17,549,976</u>	<u>39,705,096</u>

As at 31 December 2016, weighted average interest rate on amounts in credit institutions comprised 4.54% in US Dollars and 13.08% in tenge (2015: 5.32% in US Dollars and 13.99% in tenge).

As at 31 December 2016, weighted average interest rate on amounts in credit institutions pledged as a collateral comprised 4.00% in US Dollars (2015: nil).

Amounts in credit institutions as at 31 December were denominated in the following currencies:

	31 December 2016	31 December 2015
US Dollars	17,202,382	39,593,209
Tenge	347,594	111,887
	<u>17,549,976</u>	<u>39,705,096</u>

10. TRADE ACCOUNTS RECEIVABLE

	31 December 2016	31 December 2015
Trade accounts receivable	23,628,423	21,017,888
Less: allowance for doubtful debts	(8,094,689)	(11,264,107)
	<u>15,533,734</u>	<u>9,753,781</u>
Current portion of trade accounts receivable	15,416,517	9,616,182
Non-current portion of trade accounts receivable	117,217	137,599
	<u>15,533,734</u>	<u>9,753,781</u>

The movements in the allowance for doubtful debts for the years ended 31 December were as follows:

	2016	2015
Allowance for doubtful debts at the beginning of the year	(11,264,107)	(5,232,322)
Foreign currency translation	1,331	-
Reversed/(provided for) during the year	2,131,352	(6,174,680)
Written-off during the year against previously created allowance	874,803	142,895
Transfer to disposal groups classified as held for sale	161,932	-
Allowance for doubtful debts at the end of the year	<u>(8,094,689)</u>	<u>(11,264,107)</u>

As at 31 December, ageing analysis of trade accounts receivables that are past due but not impaired were as follows:

	Total	Not past due and not impaired	Past due but not impaired		
			Less than 90 days	From 90 to 120 days	More than 120 days
2016	15,533,734	15,430,606	-	103,128	-
2015	<u>9,753,781</u>	<u>9,657,932</u>	-	<u>4,811</u>	<u>91,038</u>

11. OTHER NON-CURRENT ASSETS

	31 December 2016	31 December 2015
Advances to suppliers for property, plant and equipment	65,111,134	67,150,813
VAT recoverable	34,141,032	27,178,359
Assets for sale to the Government	-	12,977,064
Loans given to employees	6,400,774	7,205,444
Prepaid expenses	1,488,627	4,323,531
Residential properties	439,954	1,766,689
Other	1,391,967	1,897,449
	<u>108,973,488</u>	<u>122,499,349</u>
Less: allowance for advances to suppliers for property, plant and equipment	(2,068,719)	(2,452,512)
Less: allowance for non-recoverable VAT	(14,984,387)	(20,199,445)
	<u>91,920,382</u>	<u>99,847,392</u>

As at 31 December, advances to suppliers for property, plant and equipment comprised the following:

	31 December 2016	31 December 2015
Construction of a railway station in Astana	20,278,582	-
Construction of ferry in sea port Kuryk and utilization of freight and passengers ferry	9,020,197	1,630,615
Supply of passenger coaches components	8,317,108	19,085,136
Supply of locomotives	7,344,090	12,864,944
Construction of dry port and infrastructure at Khorgos-Eastern Gates Special Economic Zone	-	4,154,798
Supply of sea-crafts	3,139,592	-
Construction of Zhezkazgan-Beineu and Arkalyk-Shubarkol railway lines	2,401,224	14,686,212
Supply of railroad portal cranes	2,279,533	
Other	12,330,808	14,729,108
	<u>65,111,134</u>	<u>67,150,813</u>

In December 2016, in accordance with the decision of the Ultimate Shareholder, the assets constructed within railway lines construction projects and accounted for as Assets for sale to the Government of 10,536,209 thousand tenge were transferred to the state as an offset against borrowings received from the Shareholder (Note 16). The remaining assets with a carrying value of 2,440,855 thousand tenge were transferred to property, plant and equipment.

As at 31 December 2016 and 2015, non-current VAT recoverable represents amounts that arose from the purchases of goods, services, and property, plant and equipment and are expected to be recovered in more than one year.

During 2016, the Group reversed an allowance for non-recoverable VAT of 8,070,058 thousand tenge, since management believes that the amount will be offset in subsequent periods.

12 CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash in current accounts in tenge	15,436,352	35,443,413
Cash in current accounts in US Dollars	5,659,164	7,394,554
Cash in current accounts in other currencies	1,565,122	2,070,226
Short-term bank deposits in tenge	26,218,883	20,254,433
Short-term bank deposits in US Dollars	-	2,663,862
Short-term bank deposits in other currencies	84,165	-
Petty cash	14,487	11,641
	<u>48,978,173</u>	<u>67,838,129</u>
Cash included in disposal groups classified as held for sale (Note 15) ²	18,107,258	7,065,392
	<u>67,085,431</u>	<u>74,903,521</u>

² Amounts include 4,500,168 thousand tenge (2015: 6,940,920 thousand tenge) of cash and cash equivalents held by Tulpar-Talگو LLP that were included "Assets of newly acquired subsidiary" in Note 15.

As at 31 December 2016, the weighted average interest rate on cash on current accounts was 6.10% in tenge, 0.47% in US Dollars and 0.44% in other currencies (31 December 2015: 7.12%, 0.37% and 1.97%, respectively).

Short-term bank deposits in tenge and in foreign currency are placed for varying periods of up to three months depending on the Group's immediate cash requirements. As at 31 December 2016, the weighted average interest rate on short-term bank deposits was 10.63% in tenge and 7.06% in other currencies (31 December 2015: 37.34% in tenge and 5.21% in US Dollars).

13. INVENTORIES

	31 December 2016	31 December 2015
Materials and supplies	10,247,492	10,764,000
Spare parts	7,729,888	7,056,514
Fuel	5,287,640	6,512,774
Upper railway components	3,373,485	2,946,970
Construction materials	776,322	869,095
Finished goods	420,866	485,040
Work in process	267,601	307,422
Other	977,286	782,127
	29,080,580	29,723,942
Less: allowance for obsolete and slow-moving inventories	(233,636)	(408,647)
	28,846,944	29,315,295

14. OTHER CURRENT ASSETS

	31 December 2016	31 December 2015
Other taxes prepaid	15,536,701	8,874,213
Advances paid	9,217,302	4,644,594
Claims, fines and penalties	7,330,878	7,667,593
Prepaid expenses	4,257,444	4,028,963
Receivables from sales of subsidiaries	3,525,000	-
Dividends receivable	1,663,776	-
Restricted cash	1,782,029	2,393,520
Receivables from employees	1,560,333	1,448,224
Other	5,093,177	6,595,196
	49,966,640	35,652,303
Less: allowance for doubtful debts	(10,791,755)	(10,141,038)
	39,174,885	25,511,265

The movements in the allowance for doubtful debts related to advances paid and other current assets for the years ended 31 December were as follows:

	2016	2015
Allowance for doubtful debts at the beginning of the year	(10,141,038)	(6,807,166)
Foreign currency translation	17,995	-
Provided for the year	(2,259,563)	(3,605,099)
Written off during the year against previously created allowance	1,061,792	274,679
Transfer to disposal groups classified as held for sale	529,059	(3,452)
Allowance for doubtful debts at the end of the year	(10,791,755)	(10,141,038)

15. NON-CURRENT ASSETS, ASSETS AND LIABILITIES OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

During 2016, as part of the Government privatization plan for 2016–2020, approved by the Government of the Republic of Kazakhstan, the Shareholder approved a list of the Group's subsidiaries, associates and joint ventures subject to disposal to private investors.

As at 31 December 2016 and 2015, assets and liabilities of the subsidiaries satisfying criteria of non-current assets held for sale were classified as "disposal groups classified as held for sale" in the consolidated statement of financial position.

As per Note 16, in June 2016, the Group sold 49% of its share in Transtelecom JSC to a third party. As at 31 December 2016, Transtelecom JSC (the remaining 51% subsidiary owned by the Group) was classified as a disposal group, as the Group initiated a selling process of 26% less 1 share, which is expected to be completed during 2017. Thus, on 30 December 2016, the first stage of the selling process was completed.

During 2016, shares in Transport Services Center JSC, Rauan Burabai LLP, Regional Forward Logistics LLC, Temir Zhol Electrification LLP, Bas Balkhash LLP, Mak-Ekibastuz LLP, and Astyk-trans JSC were sold on auction. As at 31 December 2016, the transactions have not been completed and ownership rights have not been transferred, therefore these assets were classified as disposal groups classified as held for sale (Note 33).

In December 2016, the Group entered into a sale contract relating to the 50% of shares held in Locomotive Kurastyru Zauyty JSC (Note 8). The ownership rights will be transferred to the third party after meeting certain conditional administrative clauses provided in the contract. Management expects that these conditional administrative clauses will be met within 12 months after the reporting date and therefore the asset was classified as held for sale.

Tulpar-Talgo LLP

In May 2015, the Group, represented by its subsidiary Remlocomotive JSC, entered into a preliminary agreement for the sale of 51% of the shares in Tulpar-Talgo LLP with Patentes Talgo S.L.U., the sole shareholder of Talgo Kazajstan S.L., under which the Group received an advance of 23,000 thousand euro (4,661,410 thousand tenge). The agreement provides certain conditional clauses, including the Shareholder's approval of the transaction by the stated date, reimbursement of financial consequences relating to changes in the euro exchange rate against tenge, as well as an increase in the purchase price of passenger coaches delivered in 2016 or later in the case of growth of the exchange rate of euro against tenge, which resulted in increased costs for the production of these passenger coaches.

As at 31 December 2016, the conditions have partially been met and the management believes that the transaction will be completed within the 12 months period. As such, the subsidiary continue to be held as a subsidiary held for sale.

The assets and liabilities relating to Transport Services Center JSC, Rauan Burabai LLP, Regional Forward Logistics LLC, Temir Zhol Electrification LLP, Bas Balkhash LLP, Mak-Ekibastuz LLP, and investments in joint ventures Astyk-trans JSC and Locomotive Kurastyru Zauyty JSC are presented in the column marked "other" on the following pages.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 december 2016 (in thousands of tenge unless otherwise is stated)

Assets classified as held for sale, assets and liabilities of disposal groups are as follows:

	At 31 December 2016			At 31 December 2015			
	Transtelecom JSC	Tulpar-Talgo LLP	Other	Total	Tulpar-Talgo LLP	Other	Total
Assets							
Property, plant and equipment	62,193,300	-	751,136	62,944,436	-	357,185	357,185
Intangible assets	3,556,450	-	2,044	3,558,494	-	1,049	1,049
Other non-current assets	1,250,748	-	399	1,251,147	-	-	-
Inventories	680,233	-	85,821	766,054	-	40,767	40,767
Trade accounts receivable	3,543,338	-	885,747	4,429,085	-	34,049	34,049
Other current assets	4,859,875	-	1,144,199	6,004,074	-	15,648	15,648
Cash and cash equivalents	13,201,627	-	405,463	13,607,090	-	124,472	124,472
Assets of newly acquired subsidiary	-	15,451,118	-	15,451,118	18,074,855	-	18,074,855
Total assets of disposal groups classified as held for sale	89,285,571	15,451,118	3,274,809	108,011,498	18,074,855	573,170	18,648,025
Transfer from investments in joint ventures	-	-	12,614,263	12,614,263	-	1,040,303	1,040,303
Administrative building 'Emerald Quarter'	-	-	-	-	-	15,062,484	15,062,484
Total non-current assets classified as held for sale	-	-	12,614,263	12,614,263	-	16,102,787	16,102,787
Total non-current assets and assets of disposal groups classified as held for sale	89,285,571	15,451,118	15,889,072	120,625,761	18,074,855	16,675,957	34,750,812
Liabilities							
Loans	53,560,485	-	-	53,560,485	-	-	-
Finance lease obligation	1,839,073	-	136,052	1,975,125	-	-	-
Employee benefit obligations	418,391	-	36,834	455,225	-	20,183	20,183
Deferred tax liabilities	3,072,754	-	289,147	3,361,901	-	13,720	13,720
Trade accounts payables	8,561,108	-	767,679	9,328,787	-	19,668	19,668
Other taxes	450,065	-	232,428	682,493	-	21,208	21,208
Other current liabilities	7,898,517	-	247,506	8,146,023	-	34,703	34,703
Liabilities of newly acquired subsidiary	-	19,306,464	-	19,306,464	4,344,278	-	4,344,278
Total liabilities of disposal groups classified as held for sale	75,800,393	19,306,464	1,709,646	96,816,503	4,344,278	109,482	4,453,760
Net assets/(liabilities) of disposal group	13,485,178	(3,855,346)	-	-	13,730,577	-	-

Discontinued operations

The Group has presented the results of operations of subsidiaries of Transtelecom JSC and Tulpar-Talgo LLP in the consolidated statement of profit or loss and other comprehensive income as discontinued operations.

On 4 May 2015, the Group sold its share in subsidiaries of Kamkor Repair Corporation LLP to a third party, based on the sale and purchase agreement of the ownership interest in subsidiaries dated 31 December 2014.

The assets and liabilities of disposed subsidiaries of Kamkor Repair Corporation LLP are presented as follows at the date of disposal:

	At 4 May 2015
Assets	
Property, plant and equipment	30,096,095
Intangible assets	374,472
Other non-current assets	20,520
Inventories	13,317,926
Trade accounts receivable	22,074,751
Other current assets	10,737,214
Cash and cash equivalents	4,218,292
Total assets of disposal groups classified as held for sale	80,839,270
Liabilities	
Loans	4,083,755
Employee benefit obligations	1,412,695
Deferred tax liabilities	2,365,327
Trade accounts payables	18,332,427
Other taxes	1,586,450
Other non-current liabilities	94,147
Other current liabilities	24,642,312
Total liabilities of disposal groups classified as held for sale	52,517,113
Net assets of disposal group	28,322,157

Net cash inflows relating to the disposal of subsidiaries of Kamkor Repair Corporation LLP are as follows:

	2015
Consideration received	16,029,070
Less cash and cash equivalents disposed of	(4,218,292)
Net cash inflow	11,810,778

The results of the discontinued operations in 2016 and 2015 were as follows:

	2016			Total
	Transtelecom JSC	Tulpar-Talgo LLP		
Revenue	13,758,406	-		13,758,406
Cost of sales	(7,171,889)	-		(7,171,889)
General and administrative expenses	(2,994,630)	(969,935)		(3,964,565)
Other income and expenses	17,989	35,619		53,608
Finance income	817,240	32,084		849,324
Finance cost	(6,035,743)	(150,016)		(6,185,759)
Foreign exchange loss	(91,746)	(1,014,604)		(1,106,350)
Loss before tax	(1,700,373)	(2,066,852)		(3,767,225)
Income tax expenses	(1,140,486)	-		(1,140,486)
Loss from discontinued operations for the year	(2,840,859)	(2,066,852)		(4,907,711)
Basic loss per share (in tenge)	(6)	(4)		(10)
	2015			Total
	Transtelecom JSC	Subsidiaries of Kamkor Repair Corporation LLP	Tulpar-Talgo LLP	
Revenue	8,004,553	1,410,052	-	9,414,605
Cost of sales	(6,199,705)	(454,820)	-	(6,654,525)
General and administrative expenses	(2,529,716)	(1,514,943)	(1,681,547)	(5,726,206)
Other income and expenses	70,966	34,906	(91,585)	14,287
Finance income	419,061	41,442	34,942	495,445
Finance cost	(5,286,321)	(97,911)	(238,129)	(5,622,361)
Foreign exchange gain	1,057,410	42,433	327,255	1,427,098
Loss before tax	(4,463,752)	(538,841)	(1,649,064)	(6,651,657)
Income tax expenses	(1,045,215)	(750,700)	(324,142)	(2,120,057)
Loss from discontinued operations for the period	(5,508,967)	(1,289,541)	(1,973,206)	(8,771,714)
Amount of consideration for the disposed subsidiaries	-	16,029,070	-	16,029,070
Net assets disposed	-	(28,322,157)	-	(28,322,157)
Disposed non-controlling interests	-	13,389,698	-	13,389,698
Gain on disposal of subsidiaries	-	1,096,611	-	1,096,611
Loss from discontinued operations for the period	(5,508,967)	(192,930)	(1,973,206)	(7,675,103)
Basic loss per share (in tenge)	(11)	(2)	(3)	(16)

The cash flows from discontinued operations of subsidiaries are presented as follows:

	2016	2015
Net cash inflows from operating activities	16,856,436	9,035,574
Net cash outflows from investing activities	(6,649,162)	(17,383,946)
Net cash (outflows)/inflows from financing activities	(4,485,219)	12,978,087
Net cash inflows	5,722,055	4,629,715

16. EQUITY

Share capital as at 31 December 2016 and 2015 comprised the following:

	Number of shares authorized	Number of shares issued and paid	Share capital, in thousands of tenge
At 1 January 2015	502,040,458	491,628,019	793,329,985
New shares issued	-	3,070,025	72,063,911
At 31 December 2015	502,040,458	494,698,044	865,393,896
New shares issued	-	1,365,676	128,066,584
At 31 December 2016	502,040,458	496,063,720	993,460,480

The Company's initial 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 property in the event of liquidation, and preference in purchasing the Company's shares or other securities convertible into the Company's shares.

Contributions

Contributions to share capital

During 2016, additions to share capital were as follows:

- an issue of 464,000 shares for which cash of 46,400,000 thousand tenge was received. This capital was received to finance construction of "Zhezkazgan-Beineu" railway lines, construction of second railway lines on sector Almaty 1 – Shu, Construction of ferry in sea port Kuryk and development of multi-purpose freight-passenger ferries;
- an issue of 741,830 shares for which cash of 74,183,000 thousand tenge was received. This capital was received to finance development of Astana railway center, including construction of railway station complex and construction of railway lines "Zhezkazgan-Beineu";
- an issue of 73,400 shares for which cash of 7,340,000 thousand tenge was received. This capital was received for Construction of ferry in sea port Kuryk and development of multi-purpose freight-passenger ferries;
- an issue of 642 shares for which building for Group Scientific and Technical Information and Analysis Center, technical library, in Taraz city valued at 57,780 thousand tenge was received;
- an issue of 85,804 shares for which 7 buildings of railway stations and 4 passenger platforms valued at 85,804 thousand tenge were received.

During 2015, additions to share capital were as follows:

- an issue of 361,907 shares for which cash of 36,190,700 thousand tenge was received. This capital was received to finance construction of Zhezkazgan-Beineu and Arkalyk-Shubarkol railway lines;
- an issue of 67,000 shares for which cash of 6,700,000 thousand tenge was received. This capital was received for completion of the project "Completion of construction Borzhakty-Yersai railway lines";
- an issue of 48,000 shares for which cash of 4,800,000 thousand tenge was received. This capital was received for completion of the project "Construction of ferry in sea port Kuryk";
- an issue of 83,000 shares for which cash of 8,300,000 thousand tenge was received. This capital was received for completion of the project "Construction of second railway lines on sector Shu-Almaty 1";

- (e) an issue of 2,472,492 shares for which cash of 12,348,237 thousand tenge was received. This capital was received for completion of the project “Construction of second railway lines on sector Shu–Almaty 1” и “Creation and complex development of special economic zone “Khorgos–Eastern Gates”;
- (f) an issue of 37,626 shares for which 35% of shares in subsidiary Kazakh Academy of Transport and Communications named after M. Tynyshpaev JSC for the total amount of 3,724,974 thousand tenge were received.

Other contributions

Other contributions during the years ended 31 December were as follows:

	2016	2015
Property, plant and equipment received by the Company	-	50,816
Fair value adjustment of loans received at below market interest rate	3,189,571	7,116,385
Early extinguishment of debt, received from the Shareholder	9,581,005	-
	<u>12,770,576</u>	<u>7,167,201</u>

During 2016, there was a fair value adjustment with respect to loans received at below market interest rate of 3,986,964 thousand tenge (2015: 8,895,481 thousand tenge) less deferred tax effect of 797,393 thousand tenge (1,779,096 thousand tenge) (Note 17).

In December 2016, in accordance with the decision of the Ultimate Shareholder, the Group made early repayment of principal amount of loans that were received from the Sole Shareholder of 47,832,538 thousand tenge by transferring of non-core assets including administrative-technological complex “Transport Tower”, complex of assets of Rehabilitation Center, teleradio complex equipment, that has been recognized as Asset held for the benefit of the Shareholder (Note 31), and assets, constructed within the projects of railway lines construction, that has been recognized as Assets for the sale to the Government (Note 11). The impact of the extinguishment was treated as an equity transaction on the basis that it involved various transactions with the Ultimate Shareholder and was part of a separate negotiation process, rather than being an early repayment as part of the existing loan terms.

During 2015, the Company received property, plant and equipment valued at 50,816 thousand tenge for which no shares were issued in exchange.

These contributions were recognized in the Group's retained earnings.

Foreign currency translation reserve

Foreign currency translation reserve is used for accounting of exchange differences occurred due to recalculation of financial statements of structural subdivisions of subsidiaries, joint ventures and associates of the Company, whose functional currency is not tenge and whose financial statements are included in the consolidated financial statements of the Group.

Cash flow hedging reserve

Cash flow hedging reserve includes effect of cash flow hedging for accounting of any gains or losses at fair value related to revenue denominated in foreign currency.

On 7 August 2015, the Group performed hedging of cash flows to decrease the risk of changes in tenge equivalent revenues denominated in Swiss Francs. The principal amounts of Eurobonds issued on 20 June 2014 on Swiss stock exchange and maturing on 20 June 2019 and 2022 are used as the hedging instruments, which are separately identifiable and reliably estimated. A highly probable forecasted revenue stream relating to the transit transportation 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.

In order to confirm the highly probable transactions, the Group used available historical cash flows from transit traffic in Swiss francs, sufficient infrastructure and advantageous geographical location for transit traffic. The Group is a monopolist in terms of access to the mainline railway network and dominant in freight transportation.

Hedging effectiveness is assessed at each reporting date using prospective and retrospective tests, and at the time of recognition of the hedging relationship using prospective test, and on the hedging closing date using retrospective test.

Prospective effectiveness test is carried out by comparing the fair value of the hedging instrument to the fair value of the cash flows of the hedged item.

Retrospective effectiveness test is carried out by comparing the changes in spot rates of the hedging instrument to the fair value change based on the spot rate method of the cash flows of the hedged item on a cumulative basis for the period since the beginning of the hedge accounting and till the balance sheet date/closing date.

For the year ended 31 December 2016, the effective part of 4,417,426 thousand tenge was recorded in other comprehensive income in the cash flow hedging reserve (2015: 43,491,357 thousand tenge). Ineffective part of 45,526 thousand tenge was recorded in finance costs (2015: 16,743 thousand tenge).

Dividends

During 2015, the Company declared dividends of 4,559,619 thousand tenge in respect of 2014 results.

As at 31 December 2016, the amount of dividends payable to the Shareholder was to 16,424,670 thousand tenge (31 December 2015: 16,424,670 thousand tenge) (Notes 21 and 31).

Other distributions

In 2012 and 2014, the Group entered into an irrevocable commitment with the Kazakhstan Government for the construction of the multifunctional Ice Palace and a Kindergarten in Astana City and, as a result, recognized a distribution to the Shareholder equal to the amount of the estimated costs of construction.

In 2016, the Group recognized an additional irrevocable commitment and the distribution of 195,587 thousand tenge, which represented the amount of VAT arising as a result of the transfer of the Kindergarten to local authorities and recognized a decrease in the irrevocable commitment and a reversal of the distribution of 30,315 thousand tenge due to a decrease in the costs of construction (2015: additional distribution of 952,660 thousand tenge).

In 2016, due to a decrease in the expected costs of construction of the Ice Palace, the Group recognized a decrease in the irrevocable commitment and a reversal of the distribution of 823,196 thousand tenge.

Change of share in subsidiaries, resulting in no loss of control

In June 2016, the Group sold 49% of its 100% share in Transtelecom JSC to a third party for 9,000,000 thousand tenge resulting in the recognition of non-controlling interests of Transtelecom JSC of 11,425,063 thousand tenge. The difference of 2,425,063 thousand tenge was recognized in retained earnings of the Group.

17. BORROWINGS

Borrowings, including accrued interest, as at 31 December comprised the following:

	31 December 2016		31 December 2015	
	Amount	Weighted average interest rate (%)	Amount	Weighted average interest rate (%)
<i>Borrowings with fixed interest rate</i>				
Loans	382,813,330	8.20	467,861,572	8.42
Debt securities	715,583,589	6.26	852,871,232	6.36
<i>Borrowings with floating interest rate:</i>				
Loans	85,525,355	5.88	53,905,289	3.78
Debt securities	55,757,500	16.92	-	
	<u>1,239,679,774</u>		<u>1,374,638,093</u>	
Current portion of borrowings	141,561,817		199,754,238	
Non-current portion of borrowings	1,098,117,957		1,174,883,855	
	<u>1,239,679,774</u>		<u>1,374,638,093</u>	

Borrowings, excluding debt securities, are repayable as follows:

	31 December 2016	31 December 2015
Within 1 year	131,291,780	75,052,223
1 to 2 years	40,488,001	48,110,930
2 to 3 years	40,383,364	123,084,189
3 to 4 years	40,276,838	35,361,210
4 to 5 years	33,725,480	34,119,006
Over 5 years	182,173,222	206,039,303
	<u>468,338,685</u>	<u>521,766,861</u>

Borrowings as at 31 December were denominated in currencies as follows:

	31 December 2016	31 December 2015
US Dollars	803,503,513	916,750,198
Tenge	283,039,276	280,656,118
Euro	53,664,002	72,263,520
Other currencies	99,472,983	104,968,257
	<u>1,239,679,774</u>	<u>1,374,638,093</u>

Early extinguishment of debt

In December 2016, in accordance with the decision of the Ultimate Shareholder, the Group made early repayment of principal amount of loans that were received from the Sole Shareholder of 47,832,538 thousand tenge by transferring certain non-core assets (Note 16). The loans were received in 2011–2015 from republican budget for total amount of 48,948,650 thousand tenge for renewal of rolling stock of passenger coaches with interest rate 0.075–0.75% per annum and maturity in 2036–2045. The early extinguishment was recognized in equity.

Loans

During 2016, the Group received the following loans:

European Bank for Reconstruction and Development (EBRD)

Loan 1

Under the loan agreement dated 19 December 2013 with the European Bank for Reconstruction and Development (“EBRD”) for the total amount of 40,000,000 US Dollars on the financing of the project “Purchase and installation of the components of the energy efficiency in the stationary devices, such as heat pumps, solar collectors, effective lightening, gas boilers”, the Group, represented by KTZ Express shipping LLP, borrowed funds of 14,000,000 US Dollars (4,787,580 thousand tenge). In November 2016, the Group signed an addendum to the loan agreement with the Bank reducing the total loan limit amount by 15,750,000 US Dollars.

For the year ended 31 December 2016, effective interest rate is 6.09% per annum.

Loan 2

In April 2016, an addendum to loan agreement dated 24 July 2015 for total amount of 300,000,000 US Dollars between the Group and EBRD was signed, to decrease the loan amount to 100,000,000 US Dollars.

In April 2016, the Group used the funds of 100,000,000 US Dollars (32,766,000 thousand tenge) to refinance part of 350,000,000 US Dollars Eurobonds, issued in 2006. Interest is paid on a semi-annual basis at 6 months LIBOR + 4.5% per annum. The principal is repaid semiannually until 2024.

On 22 December 2016, the Group, represented by the Company and its subsidiary, Kaztemirtrans JSC entered into loans restructuring agreement for the total amount of 180,913,719 US Dollars by merging Loan 2 and loans of 250,000,000 US Dollars previously received by Kaztemirtrans JSC for purchasing of rolling stock. The loans maturities were extended from 2023 to 2026 for the Company and from 2019 to 2026 for Kaztemirtrans JSC. Interest is paid on a semi-annual basis at 6 months LIBOR + 4.35% per annum. The principal is repaid semiannually, starting October 2017 until full repayment in 2026. The loans restructuring agreement was treated as a modification of debt.

Shareholder

On 20 July 2016, the Group concluded a new loan agreement with the Shareholder for 5,500,000 thousand tenge. The purpose of the loan relates to the renewal of rolling stock park of passenger coaches of the subsidiary, Passenger Transportation JSC. The loan is unsecured. Interest is paid annually starting from 10 June 2017 at 0.075% per annum. The principal is repaid after grace period of 10 years, by equal annual payments until fully repaid in 2046. The Group has a right for early repayment of full or partial amount of loan per agreement with Shareholder without premiums or penalties.

The loan was provided at below market interest rate and fair value of the loan was calculated based on a market interest rate of 7.34%. During 2016 the Group recognized fair value adjustment of 3,986,964 thousand tenge less deferred tax of 797,393 thousand tenge in retained earnings.

“HSBC France”

During 2016, under the General Framework Agreement, HSBC France, together with HSBC Bank PLC and SB HSBC Kazakhstan JSC, and with the support of export-credit agency, COFACE, entered on 31 May 2012 for purchasing of cargo and passenger electric locomotives for total amount of 880,877,000 Euro, and its additional addendums, the Group, represented by subsidiary, KTZ-Freight Transportation, borrowed funds of 61,660,832 Euro (23,932,554 thousand tenge) (including COFACE premium). Interest is paid on a semiannual basis at EUR CIRR + margin 0.75%. The principal is repaid on a semiannual basis until fully repaid in 2026. Loan is received under the Company’s guarantee. For the year ended 31 December 2016, effective interest rate is 12.86% per annum.

In December 2016, the Group partially early repaid the loan of 75,815,516 Euro (26,687,820 thousand tenge) and shortened maturity upon which the Group paid a commission of 16,578,502 Euro (5,832,915 thousand tenge) and

recognized such commission as finance costs. The maturity of the loan was changed until 2020, with the change in terms accounted for as a modification.

Development Bank of Kazakhstan JSC

In May 2016, the Group, represented by its subsidiary, NC Aktau Sea Trade Port JSC, amended the loan agreement with Development Bank of Kazakhstan JSC dated 7 August 2007 of 75,000,000 US Dollars for financing the first stage of investment project "Expansion of Aktau International Trade Sea Port in the North Direction. Construction of mole and breakwater". In accordance with the addendum, the interest rate was changed from 8.078% to 6 months LIBOR + 5.14%, based on replacement of the source of financing per credit agreement (Sumitomo Mitsui Banking Corporation funds), with the change in terms accounted for as a modification.

National Bank of Kazakhstan JSC

Loan 1

Under the credit facility agreement with National Bank of Kazakhstan JSC entered into on 15 April 2016 for 100,000,000 US Dollars to refinance part of 350,000,000 US Dollars Eurobonds, issued in 2006, the Group borrowed funds of 50,000,000 US Dollars (16,690,500 thousand tenge). The principal is repaid after grace period of 12 months, by semiannual payments until 2021. Interest is paid on a semiannual basis at 5.65% per annum. The loan is unsecured. For the year ended 31 December 2016, effective interest rate is 5.74% per annum.

Loan 2

Under the credit facility agreement with National Bank of Kazakhstan JSC entered into on 9 December 2016 for 100,000,000 US Dollars to refinance part of HSBC France loan, the group, represented by subsidiary, KTZ-Freight Transportation JSC, borrowed funds of 33,112,000 thousand tenge in December 2016. The principal is repaid by semiannual payments until 2023. Interest is paid on a semiannual basis at 14% per annum. The loan is unsecured. For the year ended 31 December 2016, the effective interest rate is 14.38% per annum.

Debt securities

Debt securities as at 31 December comprised the following:

	Maturity date	Markets	31 December 2016	31 December 2016
Eurobonds issued at price				
6.95% Eurobonds (105.521%)	10 July 2042	LSE/KASE	383,857,203	391,928,889
6.375% Eurobonds (100%)	6 October 2020	LSE	236,673,280	241,414,460
7% Eurobonds (98.292%)	11 May 2016	SGX-ST	-	120,045,700
3.638% Eurobonds (100%)	20 June 2022	SIX Swiss Exchange	61,813,397	64,696,345
16.92% (inflation rate +2.52%) UNPF JSC	25 April 2026	KASE	55,757,500	-
2.59% Eurobonds (100%)	20 June 2019	SIX Swiss Exchange	33,239,709	34,785,838
Total debt securities issued			771,341,089	852,871,232
Current portion of debt securities			10,270,037	124,702,015
Long-term portion of debt securities			761,071,052	728,169,217
			771,341,089	852,871,232

On 25 April 2016, the Group placed debt securities on the local market of 50,000,000 thousand tenge for 10 years to refinance part of 350,000,000 US Dollars Eurobonds of the Group, issued in 2006. The interest rate of these debt securities is market and indexed to annual inflation rate + 2.52% (16.92% per annum in the first coupon year).

On 11 May 2016, the Group repaid 10-year Eurobonds issued in 2006 on the Singapore stock exchange (SGX-ST) of 350,000,000 US Dollars with coupon 7% per annum.

Fair value of the borrowings is disclosed in Note 32.

Covenants and breach of loan agreements

The Eurobonds contain covenants that place certain limitations on the Group including, but not limited to, limitations on changes in the business and the disposal of property, limitations on mergers and consolidations with other legal entities. In the case of default, as defined by the Eurobond indenture, investors are entitled to require repayment of the Eurobonds.

EBRD and HSBC France loan agreements include certain financial covenants, such as debt to EBITDA, debt to equity and interest coverage ratio.

As at 31 December 2016, the Group negotiated with creditors to change thresholds for financial covenants in order to avoid the non-compliance on obligations to creditors. As at 31 December 2016, waivers were received on credit agreements concluded with HSBC France. As at 31 December 2016, the Group complied with financial covenants of EBRD.

As at 31 December 2015, the Group negotiated with creditors to change thresholds for financial covenants in order to avoid the non-compliance on obligations to creditors. As at 31 December 2015, waivers were received on credit agreements concluded with EBRD and HSBC France.

18.EMPLOYEE BENEFIT OBLIGATION

Defined benefits scheme and other non-current employee benefits

According to certain legislation of the Republic of Kazakhstan, pension contributions are the responsibility of employees, and the Group has no current or future obligations to make payments to employees following their retirement, apart from those stipulated in the agreement with the Labor Union (see below).

Employee benefit obligations and other non-current employee benefits are payable in accordance with the Labor Union Agreement concluded between the Group and its employees for 2015–2017. Pursuant to this agreement, the Group provides the following benefits under an unfunded scheme:

- ▶ one-time retirement grant;
- ▶ annual financial support to pensioners;
- ▶ free train passenger tickets;
- ▶ funeral aid to pensioners;
- ▶ jubilees of workers and pensioners;
- ▶ financial assistance on denture treatment; and
- ▶ other benefits.

The movements in the present value of the obligations for the years ended December 31 were as follows:

	2016	2015
Total liability at the beginning of the year	31,683,653	30,156,756
Current service cost	1,255,578	1,258,561
Past service cost	1,490,261	635,214
Interest cost	2,384,060	2,064,322
Actuarial remeasurement recognized in other comprehensive loss	(4,009,740)	(152,951)
Benefits paid during the year	(2,465,603)	(2,951,913)
Actuarial (gain)/loss recognized in profit and loss during the year	(547,476)	647,973
Transfer to disposal groups classified as held for sale	(470,624)	36,463
Disposal of subsidiaries	(189,569)	(10,772)
Total liability at the end of the year	29,130,540	31,683,653
Including liabilities due within a year	2,960,557	3,254,055
Liabilities due after one year	26,169,983	28,429,598
Total liability at the beginning of the year	29,130,540	31,683,653

The total amounts recognized in profit and loss in respect to these defined benefit obligations and other long term benefits during 2016 and 2015 were as follows:

	2016	2015
Cost of sales (Note 23)	3,980,118	3,932,608
General and administrative expenses (Note 24)	606,129	588,150
Recognized in profit and loss during the year	4,586,247	4,520,758

The estimates of the Group's obligations were made based on the published statistical data regarding mortality and the actual Group's data concerning the number, age, sex and years of service of the employees and pensioners and the Group's turnover statistics. Other significant actuarial assumptions at the reporting date were as follows:

	2016	2015
Discount rate	9.60%	7.29%
The expected rate of future annual material assistance increases	4.5% (average)	5.90% (average)
The expected rate of future annual minimum salary increases	4.5% (average)	7.20% (average)
The expected rate of future annual railway ticket price increases	7.0% (average)	10.20% (average)

Based on sensitivity analysis made by the actuary, the maximum increase in employee benefits obligation is 8.3%, which may result in case of inflation rate increase by 1%.

19. INCOME TAX EXPENSES

Income tax expense for the years ended 31 December comprised the following:

	2016	2015
Current income tax expense	1,215,067	3,403,820
Adjustment in respect of prior years	118,670	1,772,332
Deferred income tax benefit	(6,096,971)	(14,177,327)
	(4,763,234)	(9,001,175)

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense reported in the consolidated financial statements was as follows for the years ended 31 December:

	2016	2015
Profit/(loss) before taxation from continuing operations	41,421,096	(461,307,781)
Statutory tax rate	20%	20%
Theoretical tax expense/(benefit) at the statutory rate	8,284,219	(92,261,556)

	2016	2015
Tax effect of expenses that are not deductible for tax purposes and other effects:		
Adjustment in respect of previous years	118,670	1,772,332
Non-deductible expenses	11,366,924	20,019,075
Change in unrecognized deferred tax assets	(24,533,047)	61,468,974
Income tax benefit recognized in profit or loss (relating to continuing operations)	(4,763,234)	(9,001,175)

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

	31 December 2016	31 December 2015
Deferred tax assets:		
Tax losses carried forward	128,598,283	97,725,451
Differences in accounts receivable	3,109,493	3,908,672
Accrued liabilities to employees	2,336,725	2,457,249
Adjustment to fair value of loans given	2,273,781	2,238,931
Other	1,625,773	344,272
	137,944,055	106,674,575
Less: deferred tax assets offset with deferred tax liabilities	(129,312,036)	(106,674,575)
Deferred tax assets	8,632,019	-
Deferred tax liabilities:		
Property, plant and equipment and other non-current assets	(307,907,254)	(284,778,900)
Adjustment to fair value of loans received	(44,890,129)	(49,942,550)
Prepaid expenses	(856,264)	(1,473,980)
Other	(15,919)	-
	(353,669,566)	(336,195,430)
Less: deferred tax liabilities offset with deferred tax assets	129,312,036	106,674,575
Deferred tax liabilities	(224,357,530)	(229,520,855)
Total net deferred tax liabilities:	(215,725,511)	(229,520,855)

	2016	2015
Net deferred income tax liability as at the beginning of the year	(229,520,855)	(240,880,392)
Recorded in profit or loss	6,096,971	13,132,112
Recorded in the consolidated statement of changes in equity	4,297,609	(1,779,096)
Transfer to liabilities of disposal groups classified as held for sale	2,214,906	-
Transfer from (liabilities)/assets of disposal groups classified as held for sale	(8,572)	25,881
Disposal of subsidiaries	314,581	(19,360)
Recognized in investments in associates	879,849	-
Net deferred income tax liability as at the end of the year	<u>(215,725,511)</u>	<u>(229,520,855)</u>

The Group has not recognized deferred tax assets relating to tax losses carried forward. In management's opinion, it is not considered probable that there will be sufficient taxable income available in the future against which such deferred tax assets can be utilized. The total tax effect of unrecognized tax losses carried forward as at 31 December 2016 amounted to 3,806,189 thousand tenge (31 December 2015: 64,231,715 thousand tenge). These tax losses carried forward expire in ten years from the date they were incurred.

20. TRADE ACCOUNTS PAYABLE

	31 December 2016	31 December 2015
Accounts payable for services	38,204,408	37,498,000
Accounts payable for property, plant and equipment	53,630,962	36,658,975
Accounts payable for inventory	32,099,886	22,823,523
Other accounts payable	518,543	301,129
	<u>124,453,799</u>	<u>97,281,627</u>

Trade accounts payable as at 31 December were denominated in various currencies as follows:

	2016	2015
Tenge	103,845,042	91,115,840
US Dollars	16,746,337	3,319,841
Swiss francs	444,343	481,334
Other currencies	3,418,077	2,364,612
	<u>124,453,799</u>	<u>97,281,627</u>

The average credit period taken for trade purchases is 61 days (2015: 55 days).

21. OTHER LIABILITIES

	31 December 2016	31 December 2015
Advances received	36,531,256	41,227,532
Dividends payable (Note 16)	16,424,670	16,424,670
Salaries payable	14,687,152	5,672,409
Unused vacation provision	9,897,257	11,265,432
Deferred income	5,935,882	5,225,137
Obligatory pension and social contributions	4,440,239	3,971,576
Liabilities under financial guarantee contracts	4,399,245	-
Other liabilities	4,351,172	4,663,680
	<u>96,666,873</u>	<u>88,450,436</u>
Current portion of other liabilities	92,267,628	88,450,436
Long-term portion of other liabilities	4,399,245	-
	<u>96,666,873</u>	<u>88,450,436</u>

As at 31 December 2016 and 2015, current salaries payable and other liabilities were mainly denominated in tenge.

As disclosed in Note 29, the Group has financial guarantees issued on the bank loans obtained by associates Electrovoz Kurastyru Zauyty LLP and Aktobe Rail and Section Mill Plant LLP. As at 31 December 2016, the Group estimated a fair value of the guarantees and recognized a fair value adjustment in the cost of investments in associates of 4,399,245 thousand tenge less deferred tax effect of 879,849 thousand tenge (Note 8).

22. OTHER REVENUE

	2016	2015
Revenue from the sale of goods and provision of other services	29,341,540	26,200,585
Penalties received	2,903,295	3,745,845
	<u>32,244,835</u>	<u>29,946,430</u>

Revenue from the sale of goods and provision of other services consists primarily of revenue from sale of loading and unloading services, vessels servicing, the sale of inventory and scrap, communication services and sales of electricity.

Penalties received represent mainly revenue earned on the assessment of penalties on the late pickup of cargo cars for breach of contract terms.

23. COST OF SALES

	2016	2015
Personnel costs, including taxes, contributions and unused vacation provision	230,445,645	219,810,748
Depreciation and amortization	109,123,181	99,687,648
Repair and maintenance	75,480,043	60,337,493
Fuels and lubricants	72,176,287	66,053,137
Services	46,699,053	51,480,402
Materials and supplies	46,061,978	40,069,113
Electricity	39,796,578	40,441,072
Taxes	14,182,546	13,035,528
Employee benefit expense (Note 18)	3,980,118	3,932,608
Communication services	3,355,347	1,623,103
Utilities and building maintenance	2,789,336	2,575,612
Business trip expenses	2,098,496	2,320,269
Insurance	1,309,050	2,142,908
Operating lease expenses	1,219,558	1,638,325
Transportation services	1,029,195	1,082,685
Other	9,106,189	10,538,083
	<u>658,852,600</u>	<u>616,768,734</u>

24. GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
Personnel costs, including taxes, contributions and unused vacation provision	35,849,356	31,525,512
Property tax and other taxes	12,849,299	10,998,906
Depreciation and amortization	4,889,502	5,817,511
Consulting, audit and legal services	4,836,673	4,388,328
Business trip expenses	1,379,835	1,035,886
Operating lease expenses	1,185,762	129,523
Bank services	1,040,357	879,082
Other services of third parties	951,464	446,159
Materials	873,784	583,992
Expenses on holiday and cultural events	810,630	751,107
Advertising expenses	768,555	679,289
Utilities and building maintenance	760,108	811,470
Employee benefit expenses (Note 18)	606,129	588,150
Social sphere objects maintenance	468,859	335,038

	2016	2015
Insurance	238,886	210,342
Professional trainings and qualifications	212,611	253,380
Repair and maintenance	194,928	247,006
Allowances for doubtful debts	128,211	9,773,595
Charities and sponsorship	1,796	521,180
Other	8,397,218	5,947,073
	<u>76,443,963</u>	<u>75,922,529</u>

25. FINANCE INCOME

	2016	2015
Interest income on cash and cash equivalents	4,119,683	3,367,541
Interest income on amounts in credit institutes (short-term financial investments)	1,731,425	1,846,564
Other finance income	474,090	367,705
	<u>6,325,198</u>	<u>5,581,810</u>

26. FINANCE COSTS

	2016	2015
Interest expense on borrowings	77,995,432	54,673,080
Change in fair value of derivative financial asset designated as at fair value through profit or loss	-	4,350,988
Finance leasing expense	69,923	76,744
Other finance cost	7,352,539	1,783,466
	<u>85,417,894</u>	<u>60,884,278</u>

27. DISPOSAL OF SUBSIDIARIES

Almaty Wagon Repair Plant JSC

In August 2016, the Group sold its 100% share in its subsidiary Almaty Wagon Repair Plant JSC under the sale-purchase agreement dated 12 November 2015. The total sale price is 4,700,000 thousand tenge, with payment being made in four equal installments one year from the date of the agreement. Ownership rights are transferred after the first payment. In August 2016, the Company received advance payment of 1,175,000 thousand tenge, and, as a result, lost control over Almaty Wagon Repair Plant JSC.

Other

During 2016, the Group sold its 100% share in Magistral Kyzmet LLP and Birzhan – Atyrau LLP to third parties. The Group lost control over the subsidiaries as a result of these sales.

During 2015, the Group sold 100% in Transport Service Center JSC, Gasyr Mangystau LLP and Ak Beren LLP to a third party. The Group lost control over the subsidiaries as a result of these sales.

Gain on disposal of subsidiaries:

	2016			2015
	Almaty Wagon Repair Plant JSC 22 August 2016	Other	Total	Other
Consideration received	4,700,000	299,401	4,999,401	2,003,863
Disposed total net assets/(liabilities)	(2,658,235)	153,109	(2,505,126)	(491,852)
Non-controlling interests	98	-	98	-
Gain on disposal	2,041,863	452,510	2,494,373	1,512,011

Net cash flows from the disposal of subsidiaries:

	2016			2015
	Almaty Wagon Repair Plant JSC 22 August 2016	Other	Total	Other
Cash consideration	4,700,000	299,401	4,999,401	2,003,863
Less: unpaid balance (Note 14)	(3,525,000)	-	(3,525,000)	-
Less: cash and cash equivalents of disposed subsidiaries	(311,783)	(1,666)	(313,449)	(529,000)
Total	863,217	297,735	1,160,952	1,474,863

28. EARNINGS PER SHARE

Basic earnings per share are calculated based on the weighted average number of common shares outstanding during the year. Basic and diluted per share data are the same, as there are no dilutive instruments outstanding. During 2016 and 2015, there were no antilutive instruments outstanding.

	2016	2015
Weighted average number of common shares	495,218,425	492,114,758
Profit/(loss) for the year attributable to the owner of the Company (thousand tenge)	40,979,582	(460,875,531)
Profit/(loss) per common share (tenge)	83	(937)
Profit/(loss) for the year from continued operations attributable to the owner of the Company (thousand tenge)	45,887,293	(453,200,428)
Profit/(loss) from continued operations per common share (tenge)	93	(921)
Net assets, excluding intangible assets and non-controlling interests	1,145,408,597	955,626,787
Number of common shares in issue	496,063,720	494,698,044
Carrying value per share, tenge ³	2,309	1,932

³ Carrying value of shares is calculated in accordance with requirements of Kazakhstan Stock Exchange (KASE).

29. FINANCIAL AND CONTINGENT LIABILITIES

Capital commitments

As at 31 December 2016, the Group had capital commitments for the construction of railway lines Zhezkazgan–Beineu and Arkalyk–Shubarkol, purchase of long rails, development of railway center in Astana including railway station, acquisition of freight and passenger electric locomotives, freight and passenger diesel locomotives totaling 1,136,590,240 thousand tenge (31 December 2015: 409,412,239 thousand tenge). This amount includes commitments for the purchase of long rails from associate, Aktobe Rail and Section Mill Plant LLP for 165,347,877 thousand tenge (31 December 2015: nil) electric locomotives from the associate, Electrovoz Kurastyru Zauyty LLP for 119,284,504 thousand tenge (31 December 2015: 179,246,693 thousand tenge) and diesel locomotives from joint venture Locomotive Kurastyru Zauyty JSC for 714,652,200 thousand tenge (31 December 2015: 41,849 thousand tenge).

Other contractual liabilities

The Group has contingent liabilities under the three agreements for the provision of freight handling services and freight storage in the future, concluded with LLP Continental Logistics, SB Sberbank of Russia JSC, Odyssey Investments Group LLP and KTZ Express JSC dated 20 November 2015; LLP Aktau Sea North Terminal, SB Sberbank of Russia JSC, Inter Port Development PTE LTD and KTZ Express JSC dated 28 December 2015; and LLP Continental Logistics Shymkent, Odyssey Investments Group LLP and KTZ Express JSC dated 15 August 2016 (hereinafter together – “the Agreements”). The Agreements stipulate that the Group has to acquire the minimum volume of freight storage services for 10, 13 and 15 years, which is a potentially onerous term. Starting of 15 September 2016 the period of rendering services has started under the agreement dated 20 November 2015.

Based on the assessment performed, the management of the Group considers that as at 31 December 2016 nonfulfillment of the minimum volumes of services for storage of goods is not considered probable, and, therefore, the Group has not provided for contingent liabilities.

Contingent liabilities

Legal claims

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

Contingent liabilities related to Kazakhstan taxation

As at 31 December 2016, contingent liabilities related to Kazakhstan taxation comprised the following.

During the thematic tax audit of the VAT refund carried out for the periods from 2009 to 2011, the tax authorities revealed that VAT amounts of 4,443,986 thousand tenge claimed for refund, but not confirmed by counter check of suppliers, and assessed a penalty of 2,712,425 thousand tenge.

During the thematic tax audit of VAT refund carried out for the periods from 2013 to 2014 of the subsidiary, Passenger Transportation JSC, the tax authorities revealed that VAT amounts of 562,565 thousand tenge claimed for refund, but not confirmed by counter check of suppliers, and also accrued additional VAT payable of 28,961 thousand tenge.

As at 31 December 2016, the Group did not accrue provisions for these amounts, since the Group believes that actions of tax authorities contradict tax law and the Group intends to defend its position in the court and state bodies.

Due to the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, may be in excess of the amount expensed to date and accrued as at 31 December 2016. It is not practicable to determine the amount of any unasserted claims that may manifest, if any, or the likelihood of any unfavorable outcome.

Insurance

The insurance market is still in the early stage of development in Kazakhstan and, in common with other state-owned enterprises, the Group does not, with the exception of obligatory passenger insurance with regard to personal injury, death and loss or damage to passenger property, maintain any insurance against the risk of damage to any of its properties, assets or equipment (including infrastructure, rolling stock and stations) nor against business interruption or third party liability in respect of property or environmental damage arising from accidents to the Group's property or relating to the Group's operations. The Group maintains the required insurance coverage under policies purchased from commercial insurance operators in Kazakhstan.

Guarantees

As at 31 December 2016, guarantees comprised the following:

	Guarantee purpose	Guarantee issued date	Guarantee maturity	Guarantee amount
Eurasian Development Bank	execution of obligations of the joint venture Electrovoz Kurastyru Zauyty LLP on financing construction of the plant for production of locomotives	17 September 2012	till 2022	2,370,000 thousand tenge
Development Bank of Kazakhstan JSC	execution of obligations of the associate Aktobe Rail and Section Mill Plant LLP on financing construction of rail and section mill plant in Aktobe.	4 July 2013	till 2023	13,353,126 thousand tenge

In the Note 21, a fair value of these guarantees is disclosed. As at 31 December 2016 and 2015, the Group did not have any obligations related to the guarantees listed above, which would require recognition of provisions for these guarantees.

In order to avoid non-compliance with respect to its obligations to its creditors, the Group received a waiver related to the non-application of financial covenants as at 31 December 2016 relating to the financial guarantee contract with Development Bank of Kazakhstan JSC.

Finance lease

In December 2016, the Group, represented by the subsidiary, Passenger Transportation JSC, concluded finance lease agreement with BRK Leasing JSC for rent of 43 wagons, produced by Tulpar-Talgo LLP, for total amount of 12,938,279 thousand tenge, for 20 years and interest rate 1.75% per annum. The Group will be a lessee in the arrangement and the inception of lease is expected in December 2017.

30. SUBSIDIARIES

Information about the composition of the Group at the end of the reporting period is included in the following table:

Subsidiary	Nature of activities	Country of residence	Ownership share, %	
			2016	2015
1. Kaztemirtrans JSC	Operation of cargo wagons	Kazakhstan	100	100
2. Passenger Transportation JSC	Passenger transportation	Kazakhstan	100	100
3. KTZ-Freight Transportation JSC (Locomotive JSC)	Freight transportation and locomotive haul services	Kazakhstan	100	100
4. KTZ Express JSC	Multimodal freight services	Kazakhstan	100	100
5. Temirzholsu JSC	Utilities	Kazakhstan	100	100
6. Remlocomotive JSC	Production of rolling stocks	Kazakhstan	100	100
7. Almaty Wagon Repair Plant JSC	Repair of wagons	Kazakhstan	-	100
8. Locomotive Service Center JSC	Repair of locomotives	Kazakhstan	-	100
9. Kaztransservice JSC	Transit cargo transportation	Kazakhstan	-	100
10. Transtelecom JSC	Communication services	Kazakhstan	51	100
11. Magistral Kyzmet LLP	Protection of railway transportation property from unfavorable weather conditions	Kazakhstan	-	100
12. Militarized Railway Guard JSC	Security services	Kazakhstan	100	100
13. Kamkor Repair Corporation LLP	Production of machinery	Kazakhstan	100	100
14. Vokzal-service JSC	Railway stations activities	Kazakhstan	100	100
15. Kazakh Academy of Transport and Communications named after M.Tynyshpaev JSC	Education, training and retraining	Kazakhstan	100	100
16. Aktau International Sea Commercial Port National Company JSC ⁴	Sea port services, loading, unloading vessels servicing	Kazakhstan	100	100
17. Port Kuryk LLP (Research Institute of Transport and Communications LLP)	Transfer of cargo and vessels servicing	Kazakhstan	100	100

During 2016, the subsidiaries KTZ-Freight Transportation JSC and KTZ Express JSC were reorganized through the merger of subsidiaries Locomotive Service Center JSC and Kaztransservice JSC to them, respectively.

During 2016, the Group's 100% share in Almaty Wagon Repair Plant JSC and Magistral Kyzmet LLP were sold to a third party (Note 27) and 49% of shares in Transtelecom JSC (Note 15) were disposed of.

31. RELATED PARTY TRANSACTIONS

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In addition, parties under common control with 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 of the Group	Joint ventures where the Group is a participant	Companies in the group of the Shareholder	Other related parties
Debt due from related parties for goods, services and non-current assets	2016	-	9,580,245	7,397,824	1,656,854	-
	2015	-	3,614,794	13,861,465	410,365	-
Including allowances for doubtful debt	2016	-	(16,763)	(191,312)	(33,552)	-
	2015	-	-	(5,753)	(1,454,035)	-
Debt to from related parties for goods, services and non-current assets	2016	-	1,619,534	4,299,385	3,816,564	-
	2015	-	1,015,857	3,590,081	1,938,274	20
Current accounts and contributions	2016	-	-	-	-	309
	2015	-	-	-	-	792
Restricted cash	2016	-	-	-	-	357,811
	2015	-	-	-	-	862,705
Loans given	2016	-	-	99,428	-	-
	2015	-	-	1,301,568	-	-
Including impairment provision on loans	2016	-	-	(590,075)	-	-
	2015	-	-	(562,131)	-	-
Loans received	2016	152,960,581	-	-	-	43,813,136
	2015	171,249,829	-	-	-	50,480,696
Liabilities on finance lease	2016	-	-	-	-	136,052
	2015	-	-	-	-	229,092
Dividends receivable	2016	-	-	1,663,776	-	-
	2015	-	-	-	-	-
Dividends payable	2016	16,424,670	-	-	-	-
	2015	16,424,670	-	-	-	-

⁴ In November 2013, the Shareholder transferred 100% interest in Aktau International Sea Commercial Port National Company JSC to the Group under the trust management agreement. The entity was recognised as the Group's subsidiary, while the entity is not legally owned by the Group.

Operations with related parties for the years ended 31 December comprised the following:

		Shareholder	Associates of the Group	Joint ventures, where the Group is a participant	Companies in the Group of the Shareholder	Other related parties
Sale of goods, services and non-current assets	2016	-	636,232	39,022,259	16,957,257	-
	2015	-	73,706	21,811,681	24,805,368	-
(Accrued)/ reversed allowances for doubtful debt	2016	-	(16,763)	(191,312)	1,420,483	-
	2015	-	-	(5,287)	(317,258)	-
Purchase of goods, services and non-current assets	2016 r.	-	55,815,681	3,782,148	10,068,762	19
	2015 r.	-	5,581,952	30,468,830	13,639,711	1,706
Loans issued	2016 r.	-	-	810,928	-	-
	2015 r.	-	-	4,965,051	-	-
Repayment of loans issued	2016	-	-	2,093,503	-	-
	2015	-	-	2,963,152	-	-
Loans received	2016	5,500,000	-	-	-	1,070,299
	2015	8,862,000	-	-	-	-
Repayment of loans received	2016	48,948,658	-	-	-	7,527,599
	2015	-	-	-	-	-
Finance income	2016	-	-	225,229	-	-
	2015	-	-	32,810	-	-
Finance cost	2016	8,761,044	-	58,425	-	3,523,381
	2015	8,097,515	-	85,505	-	3,183,738
Dividends declared	2016	-	-	-	-	-
	2015	4,559,619	-	-	-	-
Dividends receivable	2016	-	-	3,128,141	-	-
	2015	-	-	-	-	-
Share capital contributions	2016	128,066,584	-	-	-	-
	2015	72,063,911	-	-	-	-

As at 31 December 2016 and 2015, certain of the Group's borrowings of 3,285,544 thousand tenge and 4,096,677 thousand tenge, respectively, were guaranteed by the Government of the Republic of Kazakhstan.

As at 31 December 2016, certain borrowings of the associates and joint ventures have been guaranteed by the Group (Notes 21 and 29).

Transactions with the companies in the group of the Shareholder, 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 (post services), Kazakhstan Engineering National Company JSC (engineering production) and Samruk-Energo JSC (electricity). In addition, the Group provides cargo transportation services to the associates and joint ventures of the Shareholder.

As at and for the years ended 31 December, the Group recognized constructive obligations for the construction of the following projects for the benefit of the Shareholder:

	Current liabilities				Total	Non-current liabilities
	Teleradio complex equipment	Mangystau municipalities	Kindergarten in Astana	Ice palace		Ice palace
At 1 January 2015	28,238,638	247,276	750,000	-	29,235,914	48,601,265
Additions	-	-	952,660	-	952,660	-
At 31 December 2015	28,238,638	247,276	1,702,660	-	30,188,574	48,601,265
Additions	-	-	195,587	-	195,587	-
Decrease	-	-	(30,315)	-	(30,315)	(823,196)
Disposals	(28,238,638)	-	(1,825,478)	-	(30,064,116)	-
Transfers	-	-	-	47,778,069	47,778,069	(47,778,069)
At 31 December 2016	-	247,276	42,454	47,778,069	48,067,799	-

As at and for the years ended 31 December, the Group incurred the following costs related to the construction of the projects for the benefit of the Shareholder under abovementioned constructive obligations:

	Current assets				Total	Non-current liabilities
	Teleradio complex equipment	Mangystau municipalities	Kindergarten in Astana	Ice palace		Ice palace
At 1 January 2015	28,238,638	247,276	511,535	-	28,997,449	23,850,672
Additions	-	-	1,160,810	-	1,160,810	17,417,702
At 31 December 2015	28,238,638	247,276	1,672,345	-	30,158,259	41,268,374
Additions	-	-	-	-	-	6,509,695
Disposals	(28,238,638)	-	(1,629,891)	-	(29,868,529)	-
Transfers	-	-	-	47,778,069	47,778,069	(47,778,069)
At 31 December 2016	-	247,276	42,454	47,778,069	48,067,799	-

In accordance with the decision of the Ultimate Shareholder, Teleradio complex equipment, recognized as Assets for the benefit of the Shareholder, were transferred in exchange for the early extinguishment of debt (received from the Shareholder) in December 2016 (Note 16).

As at 31 December 2016, construction of Ice palace in Astana is completed and the asset is commissioned. The Group classified the asset and respective constructive obligation to the Shareholder as current, as it believes that the transfer to Astana mayor office will occur within 12 months of the year-end.

Compensation of key management personnel of the Group

Key management personnel comprise members of the Group's Management Board and Board of Directors totaling 14 persons as at 31 December 2016 (31 December 2015: 13 persons). Total amount of compensation to key management personnel, included in the personnel costs in the consolidated statement of profit or loss and other comprehensive income, comprised 574,755 thousand tenge for the year ended 31 December 2016 (31 December 2015: 486,357 thousand tenge). Compensation to key management personnel mainly consists of expenses related to salary based on agreements, and bonuses based on operational results.

32. FINANCIAL INSTRUMENTS, FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES, AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group's principal financial instruments consist of borrowings, debt securities issued (Eurobonds), finance lease liabilities, cash and cash equivalents and short-term deposits as well as trade accounts receivable and trade accounts payable. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and credit risk. The Group further monitors the market risk and liquidity risk arising from all financial instruments.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to the Shareholder by optimizing the balance of debt and equity. The Group's overall strategy remains unchanged from 2015.

The Group's capital structure includes net debt (borrowings, debt securities and finance lease liabilities after deducting cash and cash equivalents) and equity of the Group (which comprises share capital, foreign currency translation reserve, retained earnings and non-controlling interests).

Financial risk management objectives

Management of risk is an essential element of the Group's operations. The Company monitors and manages financial risks relating to the Group's operations through internal reports on risks, which analyze the exposure to risk 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 borrowings and debt securities issued. 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 floating interest rates.

The Group's exposure to the interest rate risk mainly relates to the Group's borrowings with the floating interest rate.

The following table shows the sensitivity of the Group's profit before tax and equity to the reasonably possible change in interest rates on borrowings (through the effect on the interest on borrowings with floating interest rate) with all other variables remaining constant.

	31 December 2016		31 December 2015	
	Increase/decrease in interest rates in basis points	Effect on profit before tax/equity	Increase/decrease in interest rates in basis points	Effect on profit before tax/equity
US Dollars	60/(8)	(499,987)/66,665	50/(12)	(261,435)/62,744
Tenge	60/(8)	(303,857)/40,514	50/(12)	(6,640)/1,594

Foreign currency risk

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise.

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 Dollar, or any other foreign currency in which debt is denominated will result in a foreign exchange gain or loss. The Group maintains a portion of its cash and cash equivalents and other financial assets in US dollars in order to partially offset any foreign currency gain or loss on the borrowings.

The following table reflects sensitivity of the Group's profit before tax and equity to potential changes in the exchange rate of US Dollars, Euro, Russian Rubles and other currencies, provided all other parameters are constant values.

	31 December 2016			31 December 2015		
	Increase/ decrease in exchange rate	Effect on profit before tax	Effect on equity	Increase/ decrease in exchange rate	Effect on profit before tax	Effect on equity
US Dollars	13%/(13%)	(102,659,544)/ 102,659,544	-	60%/(20%)	(519,146,138)/ 173,048,713	-
Euro	15%/(15%)	(8,309,478)/ 8,309,478	-	60%/(20%)	(43,222,489)/ 14,407,496	-
Russian rubles	23%/(19%)	(124,392)/ 102,759	-	40%/(29%)	133,661/ (96,904)	-
Swiss francs	15%/(15%)	24,266/ (24,266)	(14,257,966)/ 14,257,966	60%/(20%)	(32,784)/ 10,928	(59,689,310)/ 19,896,437
Other currencies	15%/(15%)	(653,534)/ 653,534	-	60%/(20%)	(3,286,138)/ 1,095,379	-

On 7 August 2015, the Group commenced cash flow hedging in order to decrease the risk of changes in tenge equivalent of revenue denominated in Swiss francs. Eurobonds issued on 20 June 2014 on the Swiss stock exchange are used as the hedging instruments. Revenue from the transit transportation in Swiss francs is the hedged item. As a result of hedging, effect of 4,417,426 thousand tenge was recognized in other comprehensive income (2015: 43,491,357 thousand tenge).

Credit risk

Credit risk arising from the inability of a party 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 obligations of the Group to that party. It is the Group's policy to enter into financial instruments with a diversity of creditworthy parties. The maximum exposure to credit risk is represented by the carrying value of each financial asset.

Concentrations of credit risk may arise from exposures to a single debtor or to groups of debtors having similar characteristics such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions.

The Group has procedures in place to ensure that sales are only made to customers with an appropriate credit history and that an acceptable credit exposure limit is not exceeded. Credit risk is minimized by the fact that the Group operates on a prepayment basis with the majority of its customers.

The Group does not guarantee the obligations of other parties, other than those disclosed in Note 29.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Group manages market risk through the periodic estimation 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 requirements of the Shareholder. The Group manages the liquidity risk by maintaining adequate reserves, bank loans and accessible credit lines by constant monitoring of the projected and actual cash flows and comparison of maturities of financial assets and liabilities.

As at 31 December 2016, the Group has also available credit lines in credit organizations: Halyk Bank of Kazakhstan JSC and CitiBank of Kazakhstan for a total amount of 23,776,141 thousand tenge.

The Group focuses on control over compliance with the covenants set by the Shareholder and credit/guarantee agreements on a constant basis.

As at 31 December 2016, the Group negotiated with creditors to change the thresholds for the financial covenants in order to avoid the non-compliance on obligations to creditors. As at 31 December 2016, waivers were received on credit agreements concluded with HSBC France and Development Bank of Kazakhstan.

To refinance long-term borrowings, received by subsidiaries, Kaztemirtrans JSC and KTZ-Freight Transportation JSC from the Shareholder for total amount of 75,000,000 thousand tenge, the Group plans to issue debt securities on internal market of Russian Federation of 10–15 billion Russian rubles.

The following tables reflect contractual terms of the Group's financial liabilities. The table was prepared based on the undiscounted cash flows on financial liabilities based on the earliest date at which the Company can be required to pay. The table includes cash flows on both interest and principal.

	Less than 1 month	1-3 months	3 months – 1 year	1-5 years	Beyond 5 years	Total
2016						
<i>Non-interest bearing:</i>						
Trade accounts payable	109,480,452	12,922,007	2,051,340	–	–	124,453,799
Other current liabilities	–	–	4,351,172	–	–	4,351,172
<i>Interest bearing:</i>						
Borrowings	14,822,109	11,378,646	166,484,226	695,639,570	1,474,260,485	2,362,585,036
Finance lease	506,501	8,091,690	26,978,086	28,728,978	27,591,296	91,896,551
	<u>124,809,062</u>	<u>32,392,343</u>	<u>199,864,824</u>	<u>724,368,548</u>	<u>1,501,851,781</u>	<u>2,583,286,558</u>
2015						
<i>Non-interest bearing:</i>						
Trade accounts payable	64,727,938	20,731,983	11,821,706	–	–	97,281,627
Other current liabilities	–	–	4,663,680	–	–	4,663,680
<i>Interest bearing:</i>						
Borrowings	18,028,832	10,393,658	234,049,141	854,365,077	1,516,137,093	2,632,973,801
Finance lease	70,177	163,704	698,882	2,849,893	–	3,782,656
	<u>82,826,947</u>	<u>31,289,345</u>	<u>251,233,409</u>	<u>857,214,970</u>	<u>1,516,137,093</u>	<u>2,738,701,764</u>

The following table reflects expected maturities of Group's financial assets. The table was prepared based on undiscounted contractual cash flows of financial assets, including interest received on these assets, except when the Company expects the cash flow in a different period.

	Less than 1 month	1-3 months	3 months - 1 year	1-5 years	Indefinite settlement term ⁵	Total
2016						
<i>Interest bearing:</i>						
Short-term deposits	25,494,025	809,023	-	-	-	26,303,048
Interest on short-term deposits	30,918	-	35,385	-	-	66,303
Other financial assets	-	3,287,073	11,901,019	2,333,030	-	17,521,122
Interest on other financial assets	-	36,907	325,437	549,700	-	912,044
Cash and cash equivalents	9,981,319	-	-	-	-	9,981,319
<i>Non-interest bearing:</i>						
Cash and cash equivalents	12,693,806	-	-	-	-	12,693,806
Restricted cash	-	-	1,782,029	-	-	1,782,029
Trade accounts receivable	3,976,777	28,965	11,257,448	270,544	8,094,689	23,628,423
	52,176,845	4,161,968	25,301,318	3,153,274	8,094,689	92,888,094
2015						
<i>Interest bearing:</i>						
Short-term deposits	19,886,199	61,474	2,970,622	-	-	22,918,295
Interest on short-term deposits	217,112	1,026	199,870	-	-	418,008
Other financial assets	6,758,521	344,470	32,517,979	-	-	39,620,970
Interest on other financial assets	29,701	3,759	911,200	-	-	944,660
Cash and cash equivalents	12,192,810	-	-	-	-	12,192,810
<i>Non-interest bearing:</i>						
Cash and cash equivalents	32,727,024	-	-	-	-	32,727,024
Restricted cash	-	-	2,393,520	-	-	2,393,520
Trade accounts receivable	9,543,141	42,794	30,127	137,719	11,264,107	21,017,888
	81,354,508	453,523	39,023,318	137,719	11,264,107	132,233,175

Fair values 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, judgment 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.

⁵ Due to uncertainty in recoverability of doubtful debts, the Group included the provided trade accounts receivable in the 'Indefinite settlement term'.

Financial assets and liabilities

For assets and liabilities maturing within twelve 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 twelve months, the fair value represents the present value of estimated future cash flows discounted at year-end market rates.

Borrowings

The estimated fair value for loans from banks was made by discounting the scheduled future cash flows of individual loans through the estimated maturity using prevailing market rates as at the respective year-end for debt with a similar maturity and credit-rating profile. The Group's bank loans are mostly provided by international development institutions and foreign banks at floating rates, which are considered to be the market interest rates for this category of lenders. The fair value of debt securities issued (Eurobonds) has been determined based on market prices at the reporting date.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

As at 31 December 2016 and 2015, the fair value of financial assets and financial liabilities, except for borrowings and debt securities, was not significantly different from its cost. Carrying value and fair value of borrowings and debt securities (Eurobonds) as at 31 December is presented as follows:

	31 December 2016		31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans given	969,745	969,745	1,940,673	1,940,673
Other financial assets	17,549,976	17,549,976	39,705,096	39,705,096
Borrowings	468,338,685	451,931,634	521,766,861	492,188,671
Debt securities (Eurobonds)	771,341,089	790,399,781	852,871,232	801,131,583
Financial guarantees	4,399,245	4,399,245	-	-
Finance lease	-	-	2,682,872	2,682,872

Fair value hierarchy as at 31 December 2016

	Level 1	Level 2	Level 3	Total
<i>Financial assets</i>				
Loans given	-	969,745	-	969,745
Other financial assets	-	17,549,976	-	17,549,976
Total	-	18,519,721	-	18,519,721
<i>Financial liabilities</i>				
Financial liabilities held at amortized cost:				
- debt securities (Eurobonds)	790,399,781	-	-	790,399,781
- bank loans	-	277,311,629	7,705,421	285,017,050
- loans from related parties	-	166,914,584	-	166,914,584
- financial guarantees	-	4,399,245	-	4,399,245
Total	790,399,781	448,625,458	7,705,421	1,246,730,660

Fair value hierarchy as at 31 December 2015

	Level 1	Level 2	Level 3	Total
<i>Financial assets</i>				
Loans given	-	1,940,673	-	1,940,673
Other financial assets	-	39,705,096	-	39,705,096
Total	-	41,645,769	-	41,645,769
<i>Financial liabilities</i>				
Financial liabilities held at amortized cost:				
- debt securities (Eurobonds)	801,131,583	-	-	801,131,583
- bank loans	-	269,838,663	9,582,751	279,421,414
- loans from related parties	-	212,767,257	-	212,767,257
- finance lease	-	2,682,872	-	2,682,872
Total	801,131,583	485,288,792	9,582,751	1,296,003,126

The fair values of the financial assets and financial liabilities included in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

For trade accounts receivable and payable, the fair value approximates its carrying value and relates to Level 3 of the hierarchy.

During 2015 and 2014, there were no transfers between the hierarchy levels.

33. EVENTS AFTER THE REPORTING DATE

State regulation

Starting from 1 January 2017, changes to the legislation of Kazakhstan regarding market competition matters are effective, which assume cancelation of regulated markets and extension of price regulation on entities of publicly important markets, which render freight transportation services, including locomotive haulage. The amendments exclude price regulation on wagons rental services, wagons (containers) operator services and freight transportation in the transit routes through Kazakhstan. Accordingly, the Group will be able to set prices (tariffs) on their own.

Disposal of non-current assets classified as held for sale

In January 2017, the Group, represented by its subsidiary, Kaztemirtrans JSC, sold 100% interests in its subsidiary, Center of Transportation Services JSC. In January-February 2017, the Group, represented by its subsidiary, KTZ-Freight Transportation JSC, sold 100% interests in its subsidiaries Rauan-Burabai LLP, Mak-Ekibastuz LLP and Bas-Balkhash LLP. As a result of these sales, the Group lost control over these subsidiaries.

In February 2017, the Group represented by its subsidiary, Kaztemirtrans JSC, sold 50% interest in joint venture Astyk-Trans JSC. As a result of this sale, the Group lost joint control over Astyk-Trans JSC.

Borrowings

In February 2017, the Group obtained loans from Halyk Bank of Kazakhstan of 20,000,000 thousand tenge at interest rates of 13%–14% due within one year.

In February 2017, the Group, represented by its subsidiary KTZ-Freight Transportation JSC, obtained loans from Citi Bank JSC of 2,700,000 thousand tenge at interest rate of 13% due within one year.

In February 2017, the Group registered a subsidiary KTZ Finance LLP for the purposes of issuing debt securities in the Russian Federation.

In February 2017, the Group under the loans restructuring agreement with EBRD dated 22 December 2016, the Group converted portion of the debt of 170,000,000 US Dollars into tenge. As a result of conversion, debt amounted to 54,983,100 thousand tenge and 10,913,719 US Dollars. Interest is paid on a semi-annual basis at 6 months LIBOR + 4.35% for US Dollar tranche and all-in-cost + 2.95% for tenge tranche (Note 17).

Loans given

In January-February 2017, the Group, represented by its subsidiary Airport Management Group LLP, provided financial aid of 10,500,000 thousand tenge to Astana International Airport LLP, which is under trust management.

Dividends

In January 2017, the Group received cash dividends of 1,663,776 thousand tenge (4,721,003 EUR) from its joint venture Logistic System Management B.V. for 2015.

Approval of financial statements

The consolidated financial statements were authorized for issue by management on 13 March 2017.

⁶ 'all-in-cost' means the all-in costs to EBRD (expressed as a rate per annum) from any source EBRD selects in its sole discretion and includes all fees, interest, charges, commissions and expenses, provided that if any such amounts are incurred in other than KZT, such amounts shall be redenominated into KZT at the foreign exchange rate available to EBRD for the redenomination of the relevant amounts on the relevant date, or such other rate as determined by EBRD acting reasonably.

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