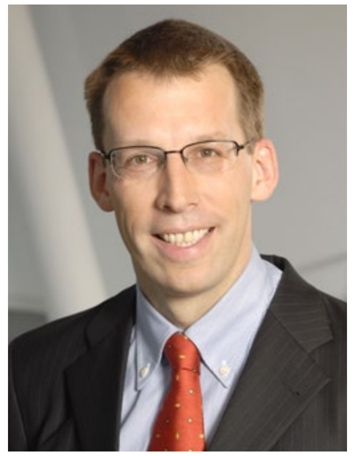
KAZAKHSTAN RAILWAYS

ANNUAL REPORT '18

Connecting Kazakhstan.
Uniting the world.

CONTENTS

ADDRESS BY THE CHAIRMAN OF THE BOARD OF DIRECTORS



CHRISTIAN KUHN
Chairman of the Board of Directors
of NC KTZ JSC

Dear shareholder, partners, investors and readers of the annual Report,

In 2018, the National Company Kazakhstan Temir Zholy Joint-Stock Company ensured the growth of the total freight traffic by 6.6% compared to 2017 and continued to develop the transit potential of Kazakhstan. In particular, container transit increased by 55% by 2017. Alongside with that, the Company did not reach the planned volume of passenger traffic mainly due to the reduction in suburban traffic and increased competition from road transport.

Despite sustainable growth in freight traffic, NC KTZ JSC completed 2018 with a loss of 86.5 billion tenge. These losses are mainly associated with the high level of foreign currency debt and weakening of the national currency during 2018, as well as with a very low level of tariffs for domestic freight traffic and the need to cross-subsidize passenger traffic.

In accordance with the goals set by the Government and the Sole Shareholder, NC KTZ JSC continued privatization of non-core assets, development of its corporate governance and business transformation program, and also started the first analysis of the prerequisites for IPO.

In 2018, NC KTZ JSC further increased performance of its assets, the average use of trains and the level of energy saving. Efficiency increase will continue in 2019 and in the medium term, which will become the basis for obtaining a sustainable profit from operating activities.

The Company pays special attention to safety issues in railway transport. Compared to other CIS railway operators, the level of security of NC KTZ JSC is one of the best. With that, in 2018, NC KTZ JSC also began to analyze its reputation in terms of safety using international indicators, such as the "General Safety Indicators" developed by the European Railway Agency, and indicators used by the US Federal Railways Administration, which allow conducting international comparative analysis (benchmarking). In 2019, NC KTZ JSC will continue its efforts to improve the safety of rail transportation and the safety of workers, using advanced international experience in both railway and other industries.

NC KTZ JSC is the largest employer in Kazakhstan. Therefore, the Company also pays special attention to its social obligations, and, despite the difficult financial situation, we have not cut our budget for social expenditure for 2019.

NC KTZ JSC continues to implement the principles of sustainable development and in 2018 for the second time prepared a Sustainable Development Report.

Following the policy of gender equality, we provide equal career opportunities for men and women. Today, a quarter of the Company's employees are women, which is higher than the average per comparable companies in Russia, Europe and North America.

In the short term, the key task is to maintain the financial stability of NC KTZ JSC by reducing exposure to exchange rate fluctuations and debt level, as well as by ensuring an appropriate level of tariffs for all of NC KTZ JSC activities.

In 2018, we began to work on updating our Strategy. We expect to complete consideration of the Strategy by summer 2019 identifying priorities and key initiatives for the future development of NC KTZ JSC.

We will make every effort to ensure further development of rail transport in Kazakhstan and to meet the needs of stakeholders.

Taking this opportunity, I would like to thank our customers and employees, the Sole Shareholder and other stakeholders for their fruitful cooperation in 2018. I look forward to continuing our successful work in 2019.

More details on the results of the activities of NC KTZ JSC for 2018 can be found in annual Report, which reflects the relevant figures and facts.

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

ADDRESS BY THE CHAIRMAN OF THE MANAGEMENT BOARD

SAUAT MYNBAYEV
Chairman of the Management Board of NC KTZ JSC

Dear readers of the annual Report, colleagues, partners,

In 2018 the Company completed the planned production program. Volumetric and qualitative performance indicators have been improved.

Positive results were achieved in particular in the segment of cargo transportation. Freight traffic amounted to 220 billion ton-kilometers, exceeding the 2017 level by 6.6%.

In general, freight traffic in transit traffic grew by 22% and amounted to 31.5 billion tons-km. The Company successfully proceeds with the development of container transit traffic. In 2018, 537.4 thousand containers were transported via Kazakhstan, which is higher than in 2017 for 55%.

Positive dynamics of the transit multimodal transportation segment is supported by favorable tariff conditions, improvement of institutional environment, and introduction of electronic document management. Thus, agreements on electronic data exchange operate with the Azerbaijan, Kyrgyz and Russian railways, are being worked out with the Chinese railways.

Security is our top priority. In 2018, NC KTZ JSC reduced the number of traffic safety violations by 29% due to implementation of systemic measures, including network modernization. Specifically, overhaul of 867 kilometers of track was carried out, more than 4.6 thousand turnouts were updated, and works were carried out using heavy-track machines covering more than 9.6 thousand kilometers of track.

Along with that a negative dynamics was observed in the segment of passenger transportation. In 2018, as a result of a reduction in traffic volumes in the segment of suburban and international traffic, passenger traffic decreased by 1.3% compared to 2017 and amounted to 14.9 billion passenger-kilometers. This reduction is the result of increased competition from road and air transport. Seeing such trends, the Company concentrates on development of competitive advantages of railway passenger transportation through increasing the level of service, affordability, safety and intermodality.

Despite the decline in passenger traffic volume, revenues from it increased by 2.8%, which, together with the growth in income from freight traffic by 16.9%, ensured a 20% increase in operating profit to 122.2 billion tenge. As a result the company demonstrates growth of money flow on an operating activity.

However, high debt burden and prevalence of borrowings nominated in other currency led to the negative financial result of the Company in 2018 in the amount of 86.5 billion tenge. Excluding the effect of exchange rate differences, the financial result amounted to 17.9 billion tenge.

The debt burden situation is largely due to the large-scale investment program of recent years, under which the Company financed 65% of the total cost of non-core and low-profitable projects on behalf of the state; as well as tariff policy.

To improve financial results, an action plan approved by the Board of Directors to move NC KTZ JSC to the green zone of credit risk is being implemented, providing for a set of measures to increase EBITDA, debt management and investment projects, as well as developing mechanisms and proposals for tariff regulation. These issues are being worked out as part of the update of the Company's Development Strategy.

In accordance with state privatization program and instructions of the Sole Shareholder, in 2018, work on the alienation of non-core assets of the NC KTZ JSC group of companies was continued.

The Company successfully conducts the Business Transformation Program. And in 2018, a benefit of 15.8 billion tenge was obtained from implementation of the projects of the Program.

The main and most valuable resource of NC KTZ JSC is the Company's employees. In 2018, the Company fulfilled all obligations in the social sphere, continued implementation of all adopted policies, training and development programs, increased employees' salaries. In general, the budget of the Company's social expenses in 2018 exceeded the level of 2017 by 10.2% and amounted to 8.2 billion tenge.

Thanks to the well-coordinated work of many thousands of staff of NC KTZ JSC we fulfilled all our obligations to the Sole Shareholder and all stakeholders in 2018.

I express gratitude to our partners and customers for successful joint activities. I am confident that our further cooperation will stay effective and fruitful.

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

NC KTZ JSC TODAY

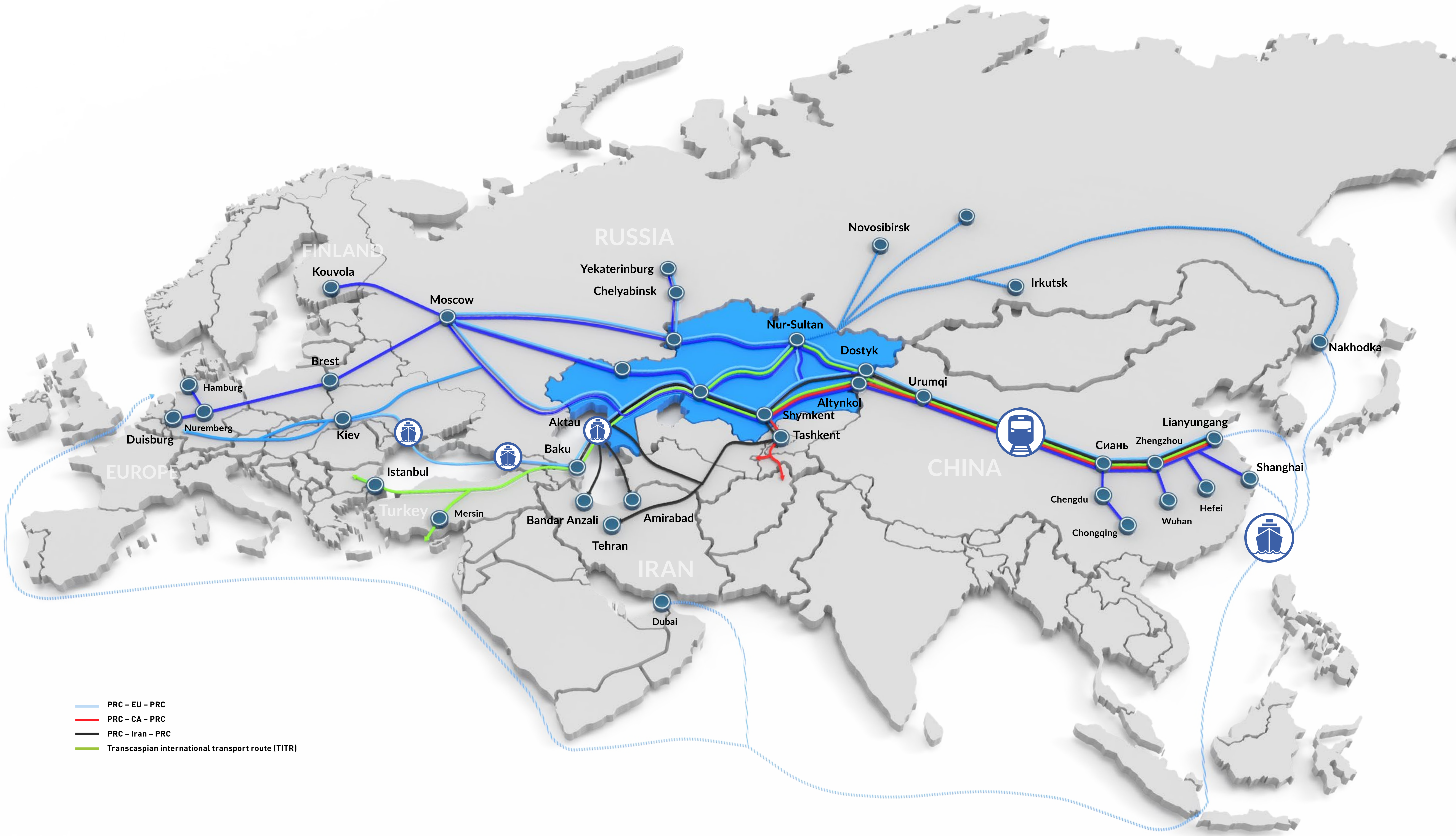
NC KTZ JSC – is the operator of the backbone railway network of the Republic of Kazakhstan, the National Railway Freight and Passenger Carrier.

In terms of freight traffic and revenues, NC KTZ JSC is among the **15 largest** railway companies in the world.

The transportation activity of NC KTZ JSC provides economic interconnection with **14 regions** of the Republic of Kazakhstan and three cities of republican significance, and through 16 division points with five neighboring countries: **Russia, China, Uzbekistan, Kyrgyzstan and Turkmenistan**.

By the length of railways, Kazakhstan ranks third among the CIS and Baltic countries with a gauge width of 1,520 mm.

CONTENTS
Chairman's letter/ CEO's statement
NC KTZ JSC Today
Assets Structure
Performance results
Risk Management
Key Events of 2018
Development Strategy
Corporate Governance
Financial Statements



LENGTH OF THE RAILWAYS OF KAZAKHSTAN

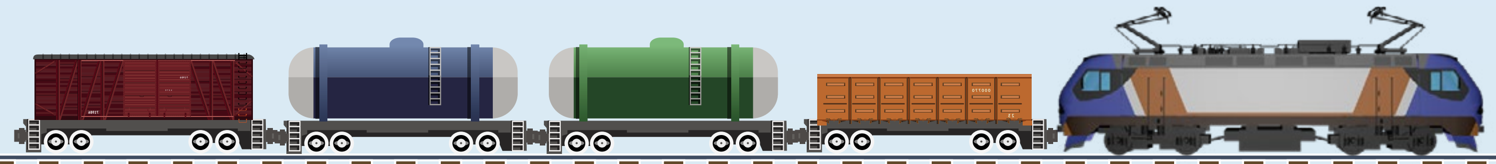
21 THOUSAND KM
THE TOTAL LENGTH OF RUNNING TRACKS

16 THOUSAND KM
LENGTH OF TRACK IN USE

9.8 THOUSAND KM
SINGLE-TRACK

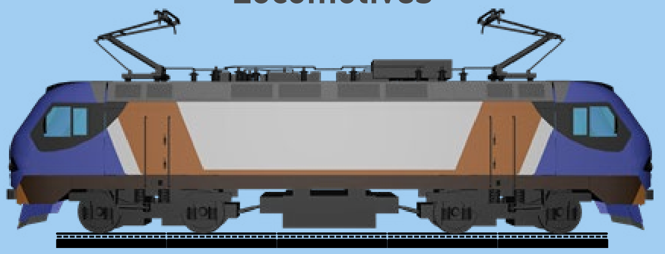
4.9 THOUSAND KM
DOUBLE-TRACK

4.2 THOUSAND KM
ELECTRIFIED



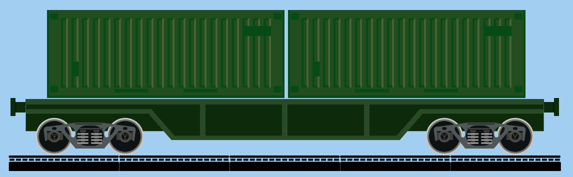
RESOURCES AND ASSETS

Locomotives



+ **1.7** THOUS.

Freight cars



+ **53** THOUS.

Passenger cars

+ **2** THOUS.

Employees

136 THOUS.

History of creation of NC KTZ JSC

The Republican State Enterprise "Kazakhstan Temir Zholy" was established by Decree of the Government of the Republic of Kazakhstan dated January 31, 1997 No. 129 "On reorganization of railway enterprises of the Republic of Kazakhstan" by merging the republican state enterprises: Almaty Railway Administration, Tselinniy Railway Administration and West Kazakhstan Railway Administration. The purpose of merger was to optimize the structure of transportation process management and eliminate unnecessary links, financial and economic rehabilitation of the railway industry.

By the Decree of the Government of the Republic of Kazakhstan dated March 15, 2002 No. 310 "On establishment of the Closed Joint-Stock Company "National Company" Kazakhstan Temir Zholy", the Closed Joint-Stock Company "National Company" Kazakhstan Temir Zholy" was established through merger of the Republican State Enterprise "Kazakhstan Temir Zholy" 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", NC KTZ CJSC was re-registered into NC KTZ JSC.

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

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

An ordinary share grants the Sole Shareholder the right to make decisions submitted for consideration by the Sole Shareholder, the right to receive dividends if NC KTZ JSC has net income based on the relevant decision of the Sole Shareholder, as well as part of the property of NC KTZ JSC in case of its liquidation, in accordance with the legislation of the Republic of Kazakhstan.

As of December 31, 2018:

- number of authorized shares – 502,040,458 ordinary shares;
- number of placed shares – 496,157,572 ordinary shares.

Nominal value of one ordinary share is 1,000 tenge.

In accordance with the decision of the Sole Shareholder of NC KTZ JSC Minutes of the Management Board of Samruk-Kazyna JSC No. 16/18 dated 31.05.18), on September 5, 2018, dividends for 2017 were paid in the amount of 1,709,910,150 tenge. Thus, the amount of dividends per one ordinary share of NC KTZ JSC is 3 tenge 45 tiyn.

In accordance with the instructions of the First President of the Republic of Kazakhstan – Yelbasy – N.A. Nazarbayev and the Government of the Republic of Kazakhstan the Company is a key provider of development of the Transport and Logistics system and the country's transit potential.

In order to increase transit flows of NC KTZ JSC from a classical railway company, it was transformed into a transportation and logistics holding.

Today NC KTZ JSC provides rail and sea transportation, provides services to transportation and logistics centers, as well as sea port and airport infrastructure.

NC KTZ JSC is the largest employer and taxpayer in Kazakhstan.

The management system of NC KTZ JSC is certified for compliance with the requirements of international standards: ISO 9001:2015 Quality Management System, ISO 14001:2015 Environmental Management System, ISO 50001:2011 Energy Management System, OHSAS 18001:2007 Health and Labor Safety Management System, ISO/IEC 27001:2013 Information Security Management System.

By implementing a system development strategy, the Company provides the transport and infrastructure basis for the development of Kazakhstan.

Regulatory Environment

In accordance with the Law of the Republic of Kazakhstan "On Natural Monopolies" and the Entrepreneurial Code of the Republic of Kazakhstan, the Company's activities as a subject of natural monopoly and a socially significant market are regulated by the Committee on Regulation of Natural Monopolies, Protection of Competition and Consumer Rights of the Ministry of National Economy of the Republic of Kazakhstan.

Tariffs for services of the backbone railway network, which are determined by the Committee for the Regulation of Natural Monopolies, Protection of Competition and Consumer Rights of the Ministry of National Economy of the Republic of Kazakhstan, are subject to regulation.

In accordance with the Entrepreneurial Code of the Republic of Kazakhstan, prices for services for the carriage of goods by rail and locomotive traction are regulated by the state until 2020.

Currently, as part of the work on liberalization of the industry the following services are removed from state price regulation:

- services for the lease of railway freight wagons and the services of wagon (container) operators;
- services for the carriage of goods by rail in transit through the territory of the Republic of Kazakhstan;
- services of the backbone railway network for the carriage of goods in containers and empty containers;
- services for the carriage of goods in containers, piggyback, empty containers and empty fitting platforms by rail.

In addition, since January 1, 2017, a new model of subsidizing rail passenger traffic has been implemented, which covers:

- long-term contracts (20 years) with establishment of requirements for carriers on investment, rolling stock upgrades and quality standards;
- transition from the principle of covering carrier losses to subsidizing costs;
- state subsidization of interest rates when borrowing funds for rolling stock renewal.

The NC KTZ JSC group of companies includes 64 organizations.

The corporate portfolio of the Company can be structured into five blocks:

- backbone railway network – branch of NC KTZ JSC – Backbone railway network

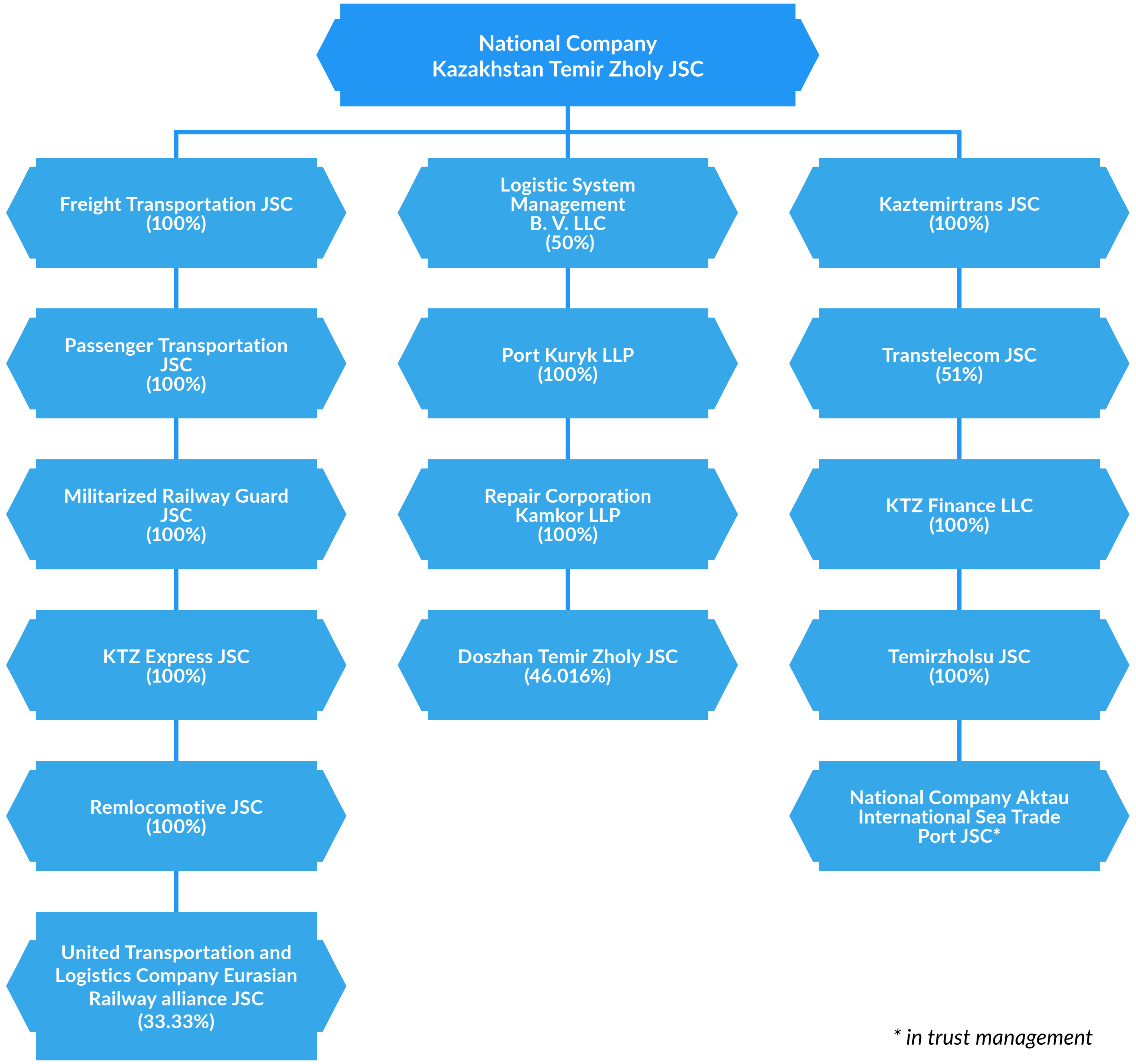
ASSETS STRUCTURE

- freight transportation – Freight Transportation JSC, Kaztemirtrans JSC and others;
- multimodal transportation – KTZ Express JSC group of companies, UTLC-ERA, Port Kuryk and others;
- passenger transportation – Passenger Transportation JSC group of companies;
- profile auxiliary unit – Transtelecom JSC, Militarized Railway Guard JSC, Temirzholsu JSC and others.

Structure of the NC KTZ JSC Group of Companies

as of 01.01.2019

In accordance with the state privatization program and instructions of the Sole Shareholder, work continues on the alienation of non-core assets of the NC KTZ JSC group of companies.



** in trust management*

In 2016–2018, 21 assets were implemented, 2 companies were reorganized, 9 companies were liquidated.

The company is also working on the transfer of assets held in trust management to the state. In 2018, NC KazAvtoZhol JSC was transferred to the Ministry of Industry and Infrastructure Development of the Republic of Kazakhstan.

Business Model

KAZAKHSTAN RAILWAYS

NC KTZ JSC BUSINESS MODEL

PARTNERS

- Suppliers
- Railway Administrations
- Transportation and Logistics companies

STAKEHOLDERS

- Shareholder
- Customers
- Employees
- Government Agencies
- Investors and Lenders
- Partners
- Mass Media
- Labor Unions

KEY ACTIVITY

- Construction, Maintenance and Modernization, Provision of Services of Backbone Railway Network
- Traffic Process Management
- Railway Passenger and Cargo Transportation in All Types of Communications

ADVANTAGES

- Economy of Scale
- National Carrier
- Medium Traffic Safety
- Solid Shareholder
- Freight Market Experience and Knowledge
- Availability of required capacities
- Streamlined Processes

CUSTOMER RELATIONS

- Online Resources
- Train Stations
- Trains
- Ticket Offices

RESOURCES

- BRN
- Locomotives
- Freight cars
- Passenger cars

SEGMENTS

- Socially Significant and Commercial Passenger Traffic
- Freight Traffic
- Special and Military Traffic
- BRN Maintenance and Modernization
- Repair, Maintenance, Equipping with Water, Fuel of Rolling Stock Services
- Providing Wagons for Rent

EXPENDITURE PATTERN

- Energy Carriers Costs
- Rolling Stock Acquisition and Maintenance Costs
- BRN Facilities Servicing Costs
- Payroll

INCOME FLOW

- Passenger Traffic Revenues
- Freight Traffic Revenues
- Provision of Backbone Railway Network Services Revenues
- Freight Wagons Operating Revenues

PERFORMANCE RESULTS

4.1. MARKET OVERVIEW

The main commercial products offered for carriage by rail are bulk and liquid bulk cargoes, such as coal, grain, ore, mineral fertilizers, etc. Transportation of these cargoes by other types of transport in the conditions of geographical and economic features of Kazakhstan (lack of direct access to the sea, vastness of the territory, raw structure of production and distribution of productive forces) is inefficient.

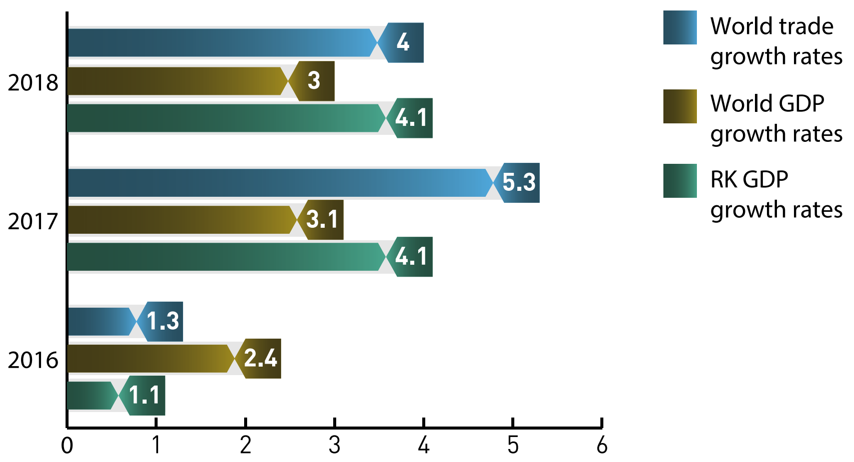
Accordingly, Kazakhstani rail freight market is dependent on internal / external demand for the traditional range of goods transported.

Since 2010, a system strategy for development of transit traffic has been implemented. This market segment involves transportation of goods with high added value in containers.

The geographically favorable position of the country and the five formed international transport corridors (Trans-Asian Railway (TAR) Northern corridor, TAR Southern corridor, TRACECA, North-South, TAR Central corridor) allows increasing the share of transit traffic in the total freight traffic of the Company.

Integration into global supply chains necessitates taking into account the impact of structural and conjunctural changes in commodity markets in the context of economic, political and technological changes (including sanctions, protectionist policies, trade unions, etc.).

Growth rates of world GDP, world trade and GDP of the RK, %



After a slowdown in the global economy growth in 2016, in 2017–2018, the positive dynamics recovered. The revival of world trade and the economy of Kazakhstan ensured growth in the freight traffic market in Kazakhstan.

More than 4 percent growth in Kazakhstan's GDP in 2018 was supported by positive dynamics in all sectors of the economy: mining (+ 4.6%), manufacturing (+ 4%), trade (+ 7.6%), transport and warehousing (+ 4.6%), etc.

At the same time, foreign trade traffic increased by 19.7%, including exports increased by 25.7%, imports – by 9.9%.

CONTENTS

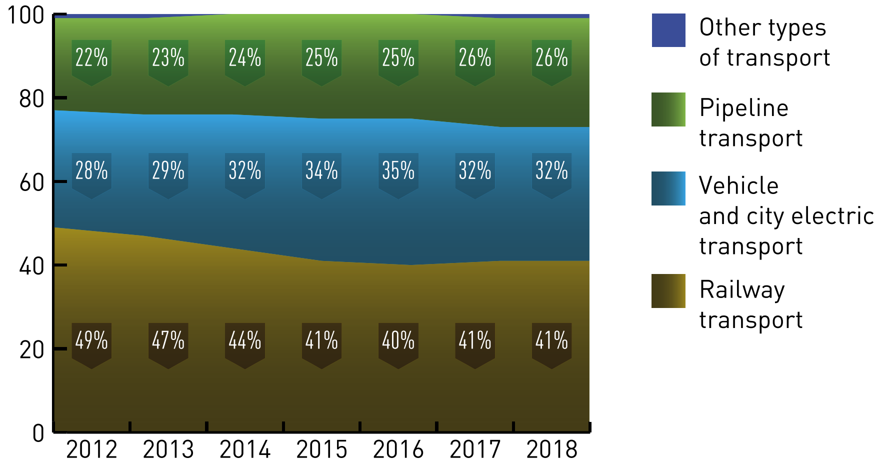
According to the Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan, the total freight traffic in the country in 2018 increased by 7.3% compared to the previous year and amounted to 596 billion t-km.

The market share of the railway transport in the total freight traffic has decreased since 2013. The last four years, the share market of the railway transport has remained at the level of 41%.

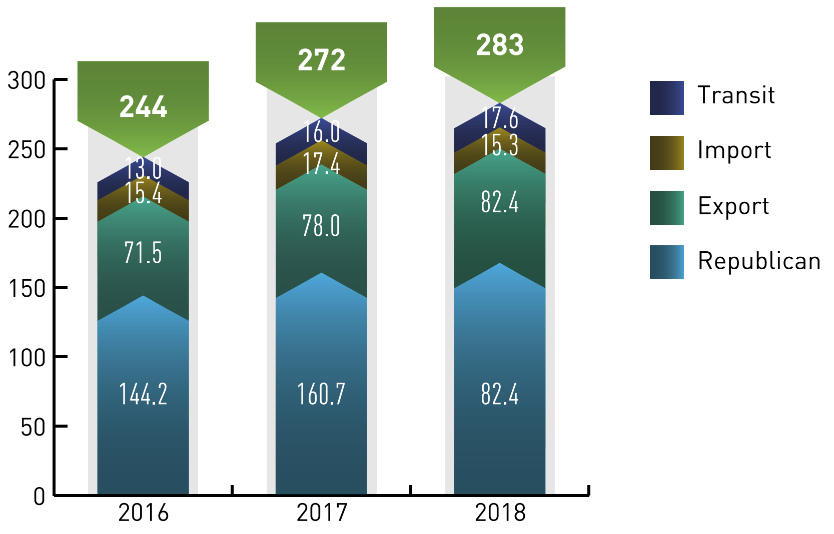
More than 70% of exports accounts for mineral products (in particular, fuel and energy products), exports of which grew by 38.2%.

The main export destinations are the EU countries (55.7%), China (10.3%), the CIS countries (15.5%) and the EAEU (9.9%).

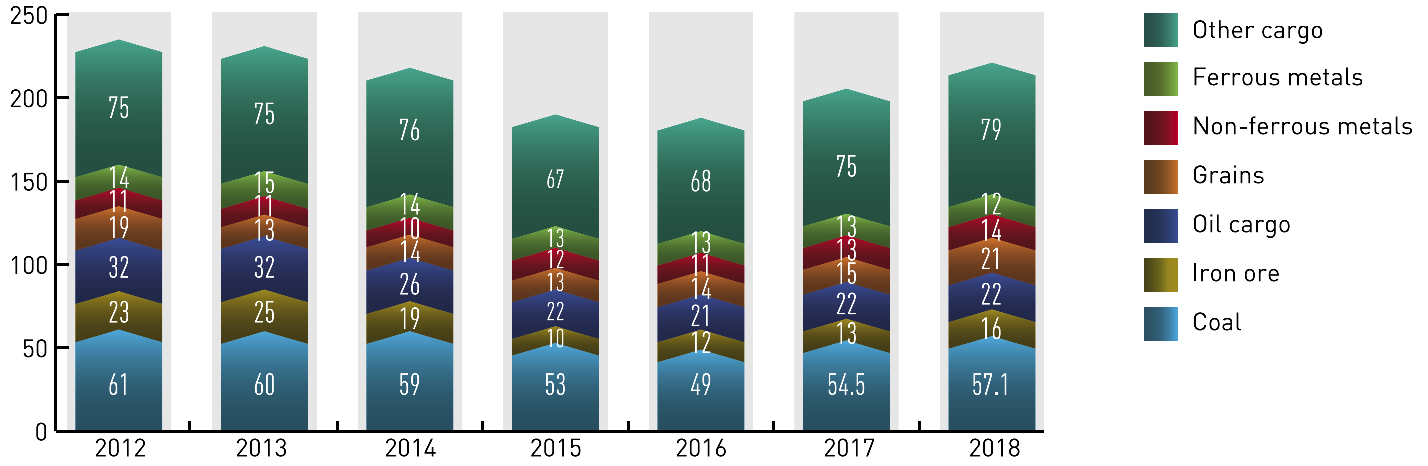
Dynamics of freight traffic in the context of transport, billion t-km



Dynamics of freight transportation in the context of communications, million tons

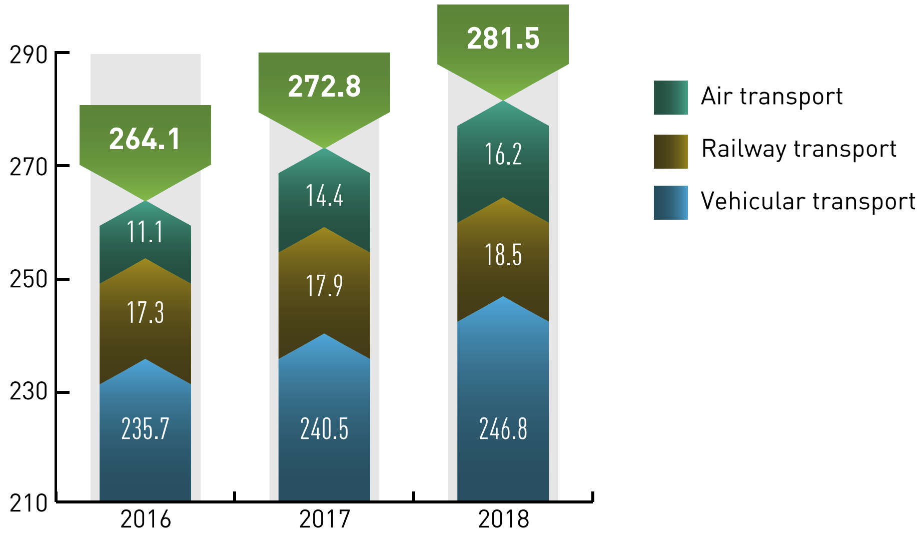


Dynamics of rail transport freight traffic in terms of cargo nomenclature, billion t-km



PASSENGER TRANSPORTATION MARKET

Dynamics of passenger traffic by type of transport, billion p-km



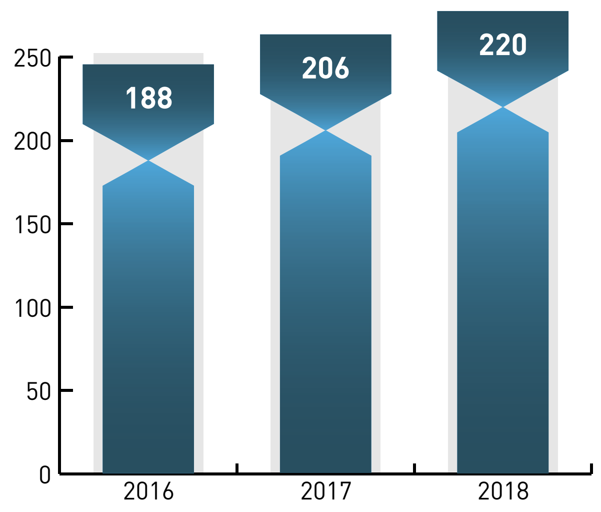
At the end of 2018, passenger traffic increased by 3.2%, to 281.5 billion p-km.

At the same time, the largest growth rate was demonstrated by air transport, having increased over three years by 46%. Passenger traffic by rail in 2018 increased by 3.4% compared to 2017 and amounted to 18.5 billion p-km. The share of private rail passenger carriers increased from 16 to 19%.

4.2. MAIN PRODUCTION AND FINANCIAL INDICATORS OF JSC NC KTZ GROUP OF COMPANIES

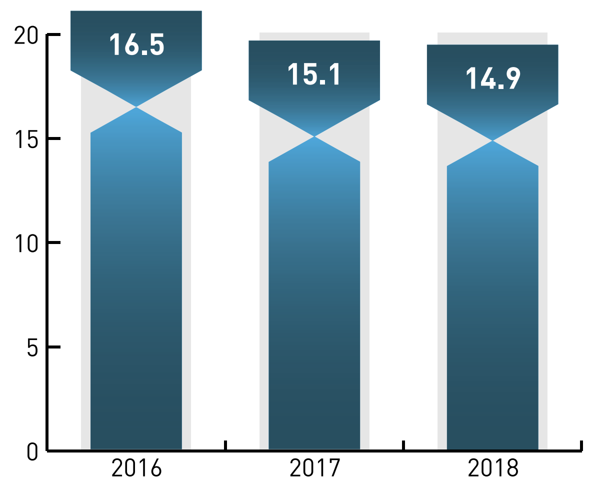
In 2018, the tariff freight traffic amounted to 220 billion t-km, exceeding the result of 2017 by 6.6%. The growth is due to an increase in freight transportation in the republican (coal, ferrous and nonferrous ore, construction materials, oil products), export (grain, ferrous and nonferrous ore, chemicals, cement) and transit (ferrous ore, fertilizers, chemicals, grain, other cargoes) communications.

Freight traffic, billion t-km



At the end of 2018, passenger traffic decreased by 1.3% compared to 2017 and amounted to 14.9 billion p-km. The decrease was due to reduction in the volume of suburban transportation, as well as trains of adjacent railway administrations.

Passenger traffic, billion p-km

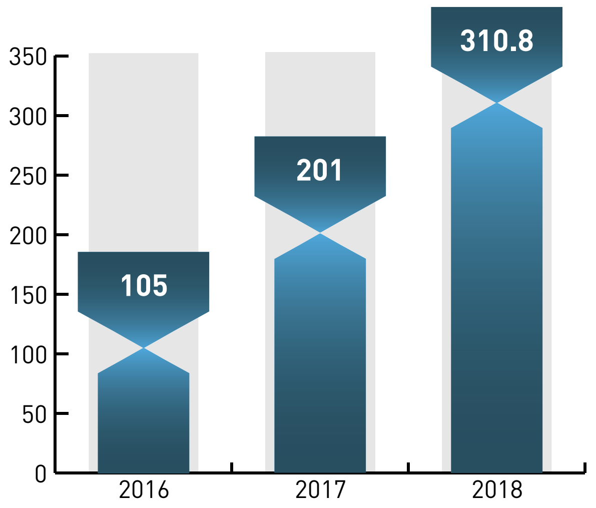


Transit transportation

The key source of income for the Company is the income from freight transportation. At the same time, their main part is generated by revenues from the transport of bulk general cargo. A promising high-yield segment is transit multimodal transportation.

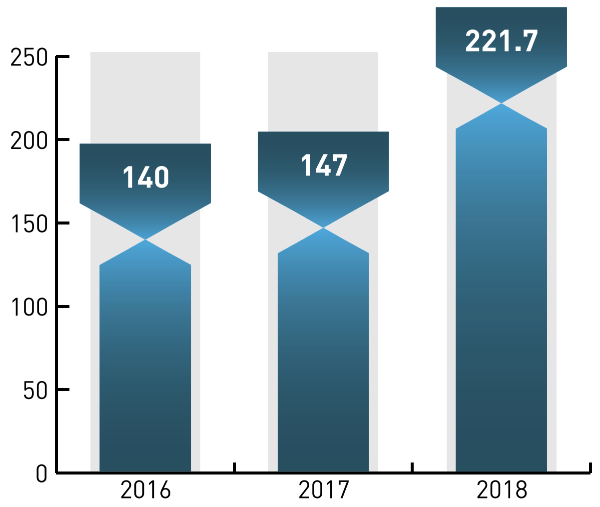
In 2018, the volume of transportation only in the direction of the PRC – EU was 282 times higher than the 2011 level (starting point) and amounted to 310.8 thousand TEUs, while in general the volume of container transportation amounted to 537.4 thousand TEUs, which is 55% more than the 2017 level. In this case, the return load from Europe in the direction of China is provided at the level of 76%.

PRC – EU – PRC, thous. TEU



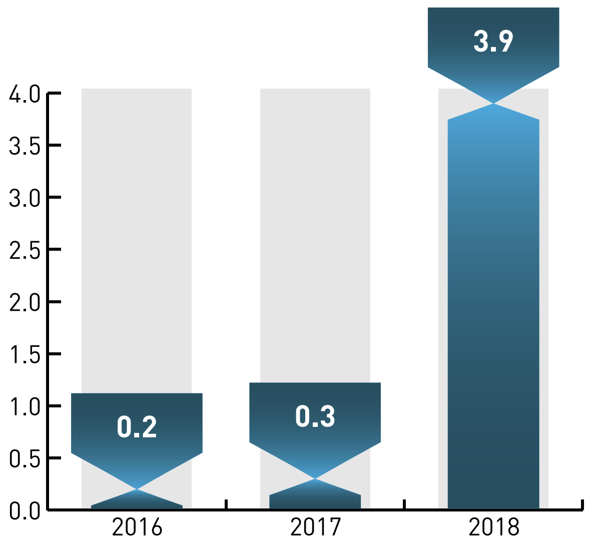
In the direction China – Europe – China, 310.8 thousand TEUs were transported, which is 54% more than in 2017.

Russia, China – CA other destinations, thous. TEU



In the direction of Russia, China – Central Asia and other directions, the volume of transit container transportation amounted to 221.7 thousand TEUs, which is 52% more than in 2017.

Trans-Caspian international transport route, thousand TEUs Trans-Caspian international transport route, thous. TEU

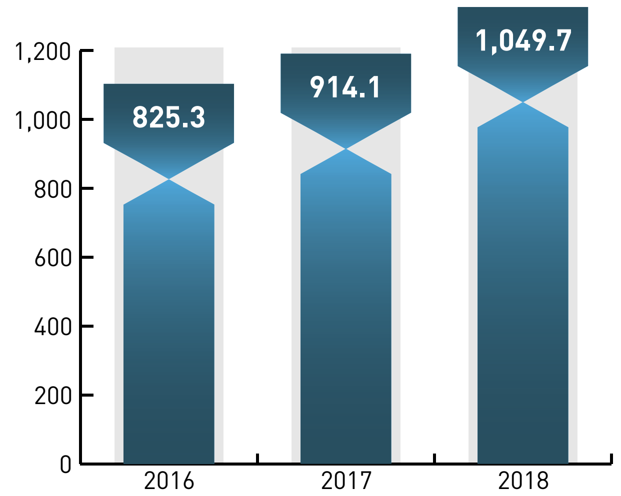


3.9 thousand TEUs were transported in transit communication on the Trans-Caspian international transport route, which is 12 times higher than the 2017 level.

FINANCIAL INDICATORS

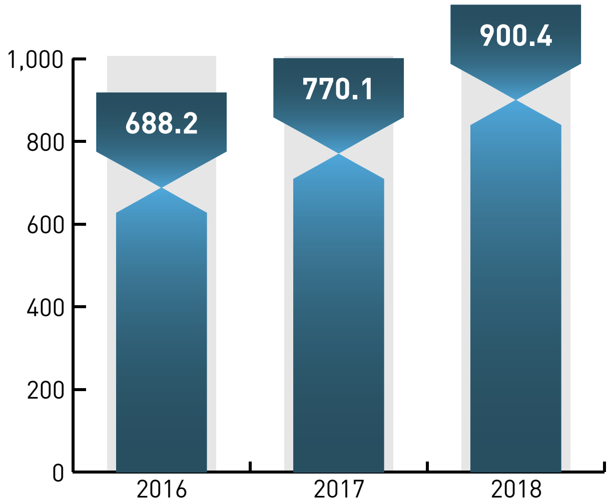
Income from key activities, billion tenge

Income from the key activities for 2018 amounted to 1,049.7 billion tenge, which is higher than 2017 by 14.8%, mainly due to the growth of income from freight traffic by 16.9% and passenger traffic by 2.8%.



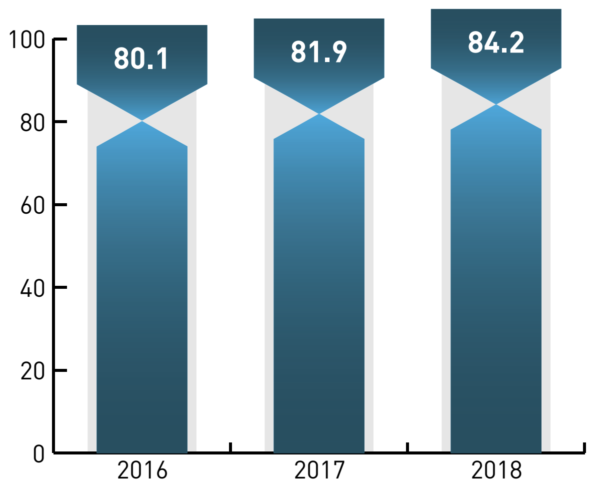
Income from freight traffic, billion tenge

Income from freight traffic increased by 16.9% due to the growth in freight traffic and income from changes in the average level of tariff increase; from provision of freight wagons lease and freight forwarding services; changes in the exchange rate (Swiss franc) for calculation of income from transit traffic; increase in income from the operating freight wagon fleet, etc.

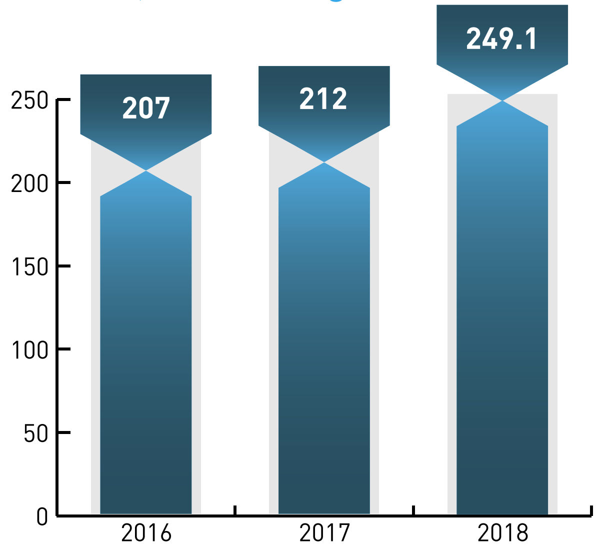


Income from passenger traffic, billion tenge

Income from passenger traffic increased by 2.8%, mainly due to changes in the income rate in the inter-republican communication by 7.3%.

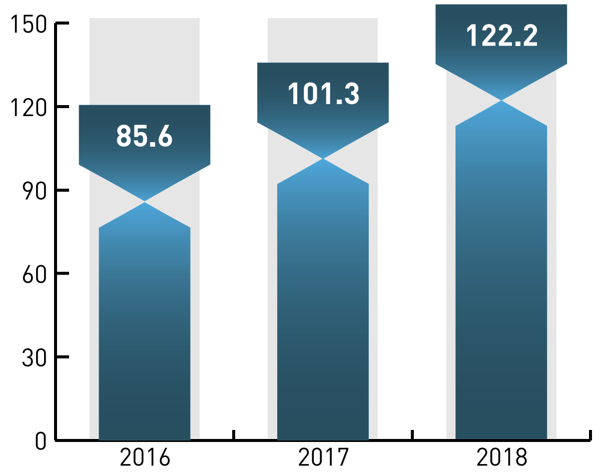


EBITDA, billion tenge



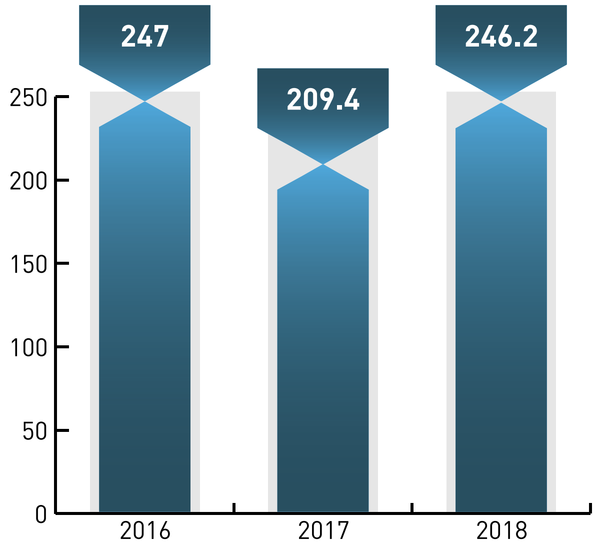
For 2018 EBITDA amounted to 249.1 billion tenge, which is higher than the fact of 2017 by 17.5%.

Operating profit, billion tenge



Operating profit for 2018 amounted to 122.2 billion tenge, which is higher than the fact of 2017 by 20.6%.

Income from ransit traffic, billion tenge



At the end of 2018, income from transit traffic amounted to 246.2 billion tenge, which is 16.2% higher than the level of 2017. As a result, the income from transit traffic increased to 27.4% in the overall structure of the Company's income, while occupying 14.4% in the total freight traffic.

CONTENTS

The company completed 2018 with a negative financial result in the amount of 86.5 billion tenge, which is lower than 2017 level by 98.6 billion tenge, mainly due to an increase in the negative exchange rate difference of 105.1 billion tenge. Excluding the impact of exchange rate differences, the financial result for the same period in 2017 increased by 6.5 billion tenge from 11.4 to 17.9 billion tenge.

4.3. DEBT BURDEN

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

For many years, the average annual increase in tariffs was lower than the rate of inflation and the rise in prices of the industry of Kazakhstan. Rail transport actually subsidized other sectors of the economy. This has led to a high degree of depreciation of production assets. In order to break the trend of wear and retirement of assets of the railway industry, NC KTZ JSC was forced to launch a large-scale asset modernization program, including by raising borrowed funds.

In addition, on the instructions of the state, the Company financed 65% of the total cost of a number of low-profit social projects.

Devaluation of the national currency in 2014–2015 caused a one-time growth in the debt portfolio of the NC KTZ JSC group. This was due to the fact that most of the debts of the NC KTZ JSC group, due to the most favorable cost, were attracted in US dollars and euros. As a result of devaluation, the effective value of these loans increased from 5–6% to 15–16%.

This, as well as a differentiated approach to formation of tariffs for freight transportation and cross-subsidization of passenger transportation aggravated the Company's debt situation.

To remedy the situation, work is currently underway to update the corporate development strategy, as well as a dialogue with the state on the need to change the tariff policy and reimburse part of the funds.

In addition, in 2017, the Board of Directors approved the Action Plan for the transfer of NC KTZ JSC to the green zone of credit risk, providing for a system of measures in the following areas:

- increasing EBITDA;
- development of mechanisms and proposals for tariff regulation;
- investment project management;
- NC KTZ JSC group of companies' debt management.

Events are assigned to executives in the form of corporate and functional KPIs (key performance indicators).

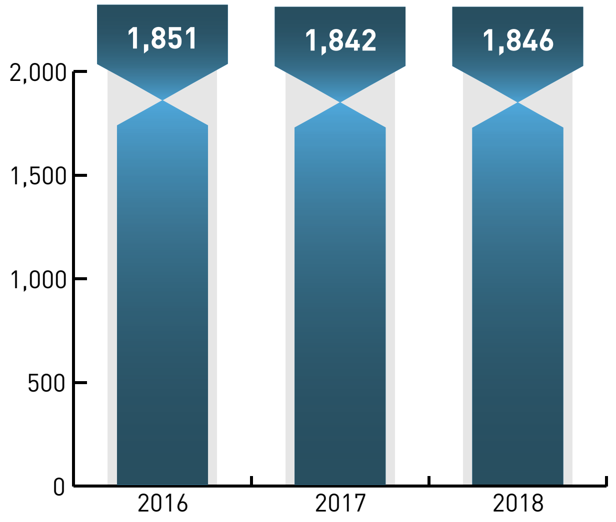
In 2018, the following activities of the above Plan were implemented:

- jointly with the state bodies involved, the development of a new tariff-making methodology for the services of the backbone railway network (BRN) has begun;
- since January 1, 2018, the TRF (temporary reduction factor) for BRN services for transportation of passengers according along socially significant communications was canceled;
- a ban has been imposed on implementation of new large capital projects without obtaining the relevant recommendation of the Investment and Strategic Committee of Samruk-Kazyna JSC until the Company enters the green credit risk zone;
- the level of foreign exchange liabilities in relation to all attracted loans decreased by 4.4% and amounted to about 46% (excluding debt in Swiss francs, which is hedged from income from transit traffic);
- work on refinancing currency liabilities of the NC KTZ JSC group of companies continues;
- tariffs for BRN and locomotive connection rod services increased by 4% and 10% respectively;
- revenue plan for operating the car fleet exceeded by 2%;
- operating rate was increased by 4%, taking into account the empty run;
- implementation of the planned indicators for cost of engine and overhaul of passenger wagons; for servicing locomotives; etc. ensured.

4.4. IMPROVING OPERATIONAL EFFICIENCY

The company on a constant basis conducts comprehensive work to improve the efficiency of its activities, including measures to improve the efficiency of production processes, modernize and develop the means of production, increase labor productivity, automate process management, optimize the structure of production assets, energy and resource saving.

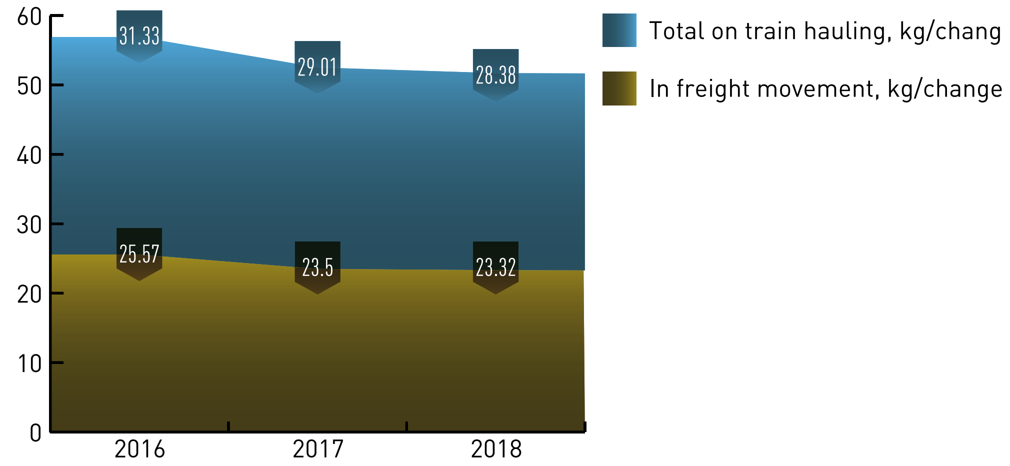
Average daily perfomance of the locomotive, thousand gross tons-km



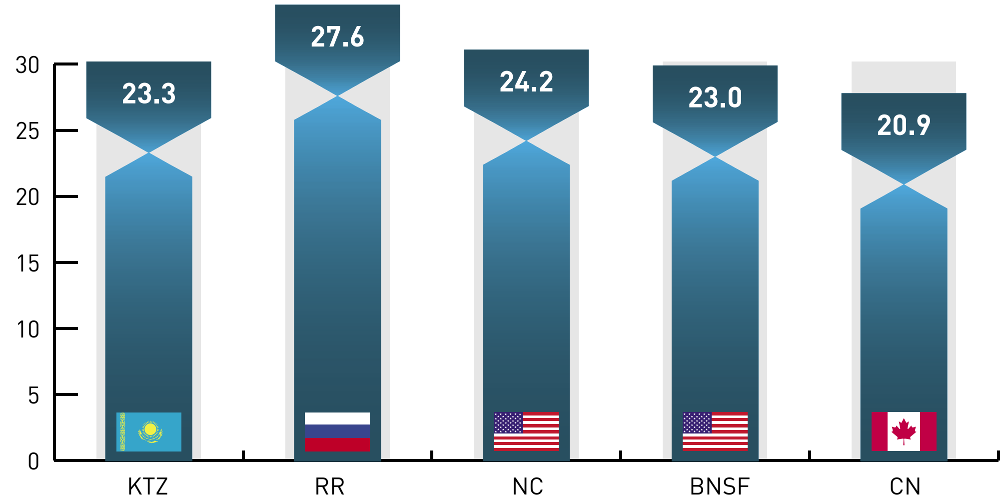
Increase in the rate by 2017 is due to growth in the average daily mileage of the locomotive, including due to an increase in the useful work of locomotives, saving the fleet of locomotives to the volume of work performed, and increase in the percentage of scheduled and container trains.

Dynamics of changes in the specific consumption of diesel fuel for train hauling, kg/change

In 2018, a reduction in specific consumption for train hauling was ensured, both as a result of train hauling and cargo type of movement, through the use of an automated control system "Hauling energy dispatch" and implementation of other energy-saving measures.

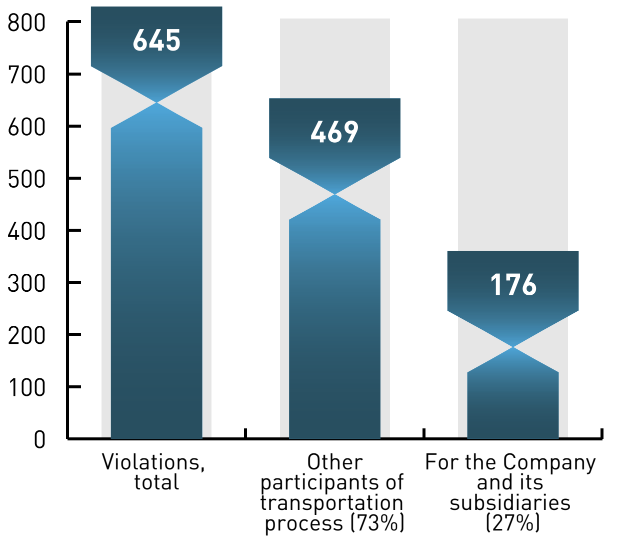


Benchmarking of diesel fuel costs by railway companies for 2018 showed that the specific consumption of NC KTZ JSC approached CN *(Canadian National Railway Company)* and BNSF *(the second largest transcontinental railway of North America after Union Pacific)* companies.

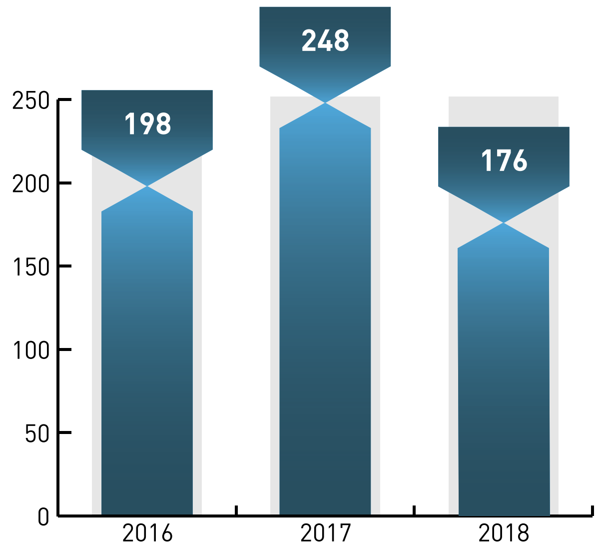


Train Traffic Safety

In 2018, all participants in the transportation process committed 645 violations of traffic safety, including the structural divisions and subsidiaries of the Company – 176 violations, or 27% of the total number of violations.



Violations

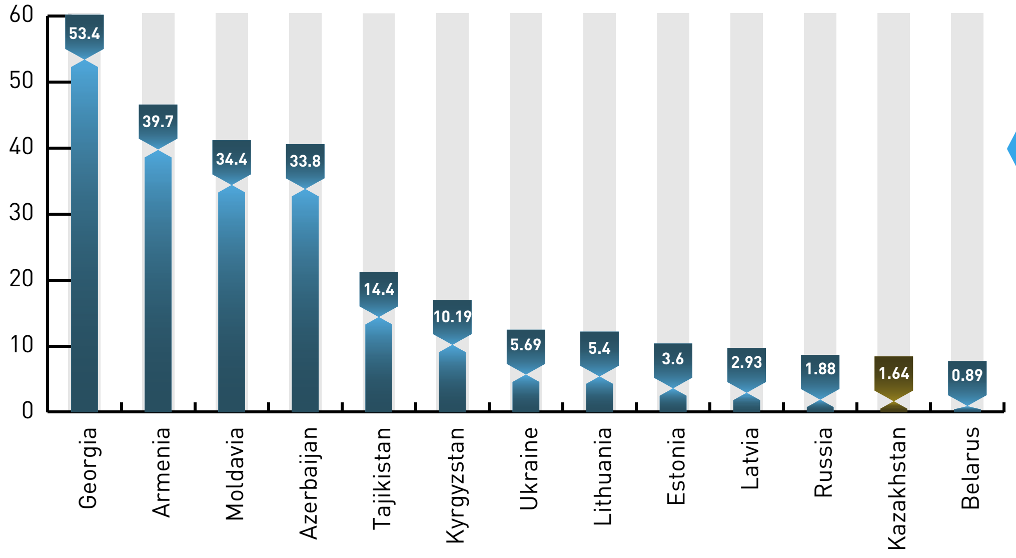


Thanks to the systemic measures taken and preventive work to ensure traffic safety in 2018, the number of violations amounted to 176, which is 29% less than the result of 2017.

Reducing traffic safety violations was achieved through the implementation of the following measures:

- identification and management of risks according to the prerequisites for traffic safety violations;
- setting targets for all levels of management;
- 876 km of track overhauled;
- 29 locomotives purchased, 46 locomotives overhauled;
- 3,390 freight wagons, 170 passenger wagons overhauled;
- monitoring the state of rolling stock and infrastructure items.

Benchmarking, the number of violations of traffic safety per million train-km



Comparative analysis of the safety indicators of railway administrations in the international communication of the Commonwealth states following the results of 2018 showed that the number of traffic safety violations per million train-km of the Company is significantly lower than the indicators of railway administrations under consideration, except for Belarus.

CONTENTS

4.5. MAJOR INVESTMENT PROJECTS

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

In 2018, 225 billion tenge were invested in development of the railway infrastructure and renewal of rolling stock.

The following major events were implemented with these funds:

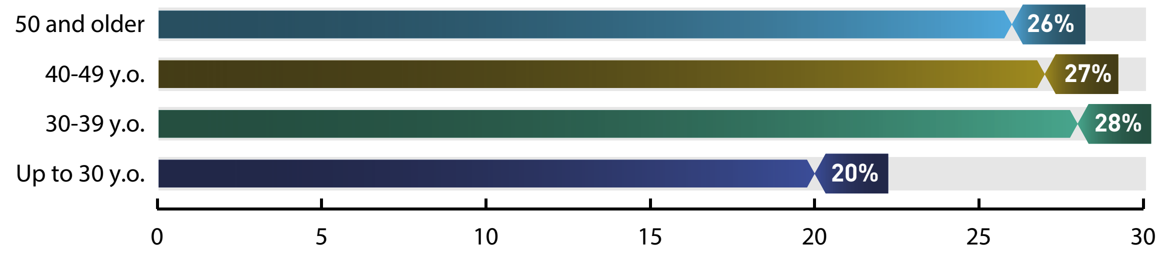
- as part of "Nurly Zhol" state program of infrastructural development:
  - construction was completed on December 29, 2018 and the second tracks were put into operation on the Almaty – Shu section;
  - on August 11, 2018, a solemn event was held on the occasion of presentation of multimodal transport hub of the Kuryk ferry complex with the participation of the First President of the Republic of Kazakhstan – Yelbasy – N.A. Nazarbayev;
  - implementation of the project for creation and integrated development of the SEZ "Khorgos – Eastern Gate" was completed;
  - work on development of the railway junction and station complex at the Astana station continued;
  - works on the modernization and repair of the upper structure of 963 km of the track completed.
- as part of rolling stock renewal:
  - 29 locomotives purchased and 46 locomotives overhauled;
  - 753 freight wagons purchased and 5,290 freight wagons overhauled;
  - 2 passenger wagons overhauled;
  - measures aimed at updating and rehabilitating the railway infrastructure, developing transport logistics and improving traffic safety were implemented.

4.6. SOCIAL AND LABOR RELATIONS

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

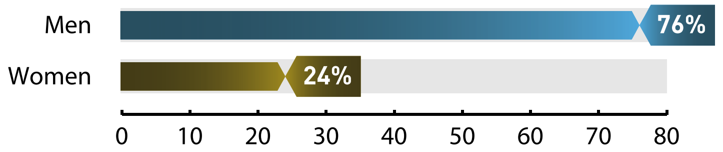
The number of employees of the Company is 135.9 thousand people.

Age categories of personnel structure

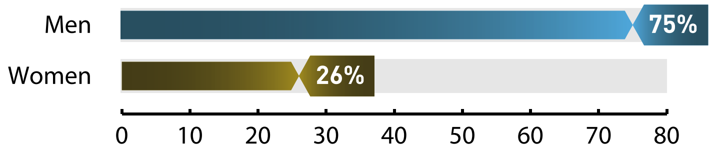


Genders of personnel structure among the group of Companies

Employees, total



Managerial personnel



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

The company provides its employees with one of the best social packages in the country, including a wide range of benefits, creates all conditions for professional and personal development, pays special attention to youth policy, promotes a healthy lifestyle, and conducts a large-scale charity campaign. Considerable support is provided to retirees and families of employees.

Social guarantees for protection of labor rights, remuneration, labor protection, recuperation and rest of workers and their children, as well as additional standards to improve the social status of employees are reflected in the Sectoral Agreement on Social and Labor Matters and the Collective Agreement for 2018–2020.

In 2018, the Company's social expenditures exceeded the level of 2017 by 10.2% and amounted to 8.2 billion tenge.

Financial incentive

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

Starting January 1, 2018, employee wages were increased by 10% and starting January 1, 2019 – by another 5%.

As part of the task set by the First President of the Republic of Kazakhstan – Yelbasy – N.A. Nazarbayev, starting January 1, 2019, the minimum wage in NC KTZ JSC has been increased to the level of 42,500 tenge.

The practice of encouraging employees of regional branches of NC KTZ JSC and its subsidiaries, who showed the best results according to the rating based on the principle of industry competition continues.

Thus, for 2018, a premium was paid to employees of line branches and subsidiaries of NC KTZ JSC for a total amount of 1.16 billion tenge.

In addition, in 2018, a premium was paid to employees of line branches of the Backbone railway network, which prevented cases of violation of train traffic safety, in the amount of 7 million tenge. Awarding of masters of industrial training for high-quality training of workers, ensuring train traffic safety, was made in the total amount of 12 million tenge.

Also in 2018, one-time bonuses were paid to employees of NC KTZ JSC group of companies for their professional holiday – the Day of Transport Workers and Independence Day of the Republic of Kazakhstan.

Increasing the level of professional knowledge of employees

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

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

In 2018, 34,100 employees of the NC KTZ JSC group of companies were trained, including:

- 17,430 employees got advanced training in third-party organizations;
- 8 employees received educational grants (master's /doctoral degree);
- 329 employees were trained in the state language;
- 820 employees were trained in the English language;
- 15,513 employees completed vocational training at the Company's training centers.

The costs of training the personnel of the NC KTZ JSC group of companies in 2018 amounted to more than 2.1 billion tenge.

RISK MANAGEMENT

NC KTZ JSC realizes the importance of risk management as a key component of the corporate governance system of the Company and its subsidiaries, aimed at timely identification and adoption of measures to reduce the level of risks that may adversely affect its value and good standing.

Implementation of the corporate risk management system in the Company is being carried out within the framework of implementation of recommendations of Samruk-Kazyna JSC in accordance with the COSO model.

The level of effectiveness of the risk management system according to the results of an assessment conducted by the Company's Internal Audit Service in 2018 was "BBB". This means that the risk management system meets most of the established criteria and works effectively in all essential aspects.

The level of efficiency of the internal control system, based on the results of the assessment carried out by the Company's Internal Audit Service, was "BB" in 2018, that is, the Company's internal control system meets most of the established criteria in all essential aspects, however, there is insufficient evidence that the system works effectively.

In 2018, the work of the Risk Committee, the Management Board and the Board of Directors of the Company was aimed at further improving the corporate risk management system and bringing it in line with the best international practices.

In the context of enhancement of the efficiency of the corporate system of risk management, a number of the following key activities were carried out in 2018.

- Rules of Company risk identification and assessment were approved.
- A Plan of measures on improvement of the Company internal control system for 2018 was approved.
- Limits on on-balance and off-balance sheet liabilities for counterparty banks of the Company were set (on a consolidated basis).
- Quarterly reports on Company risk management were taken into account.
- A report on execution of the Plan of measures on improvement of the Company internal control system for 2017 was taken into account.
- A report on execution of the Plan of measures on improvement of the Company corporate risk management system for 2017 was taken into account.

- A risk appetite of NC KTZ JSC for 2018, risk register of NC KTZ JSC, risk map of NC KTZ JSC and key risk indicators and tolerance levels to key risks of NC KTZ JSC were approved.

The Company uncovers the note "Financial instruments, purposes and policy of financial risk management" in the format of the audited annual consolidated and separate financial statements of NC KTZ JSC.

The Company may be subject to the following key risks that may adversely affect its operations and achievement of strategic goals:

Reduction of freight traffic (market risk) due to resumption of crisis of the global economy and lower prices for raw materials

Deterioration of economic conditions can lead to a decrease in the volume of services provided for transportation of goods by rail, to a decrease in labor productivity, an increase in the cost of goods sold and services provided and negatively affect performance of planned indicators. The Company takes measures to improve the efficiency of its activities, increase transit traffic, and implement anti-crisis measures (additional cost reductions).

Operational risks (risks of traffic safety, labor protection and ecology)

The Company is the owner and operator of the railway infrastructure of Kazakhstan, as well as the largest owner and operator of passenger and freight rolling stock, locomotives in Kazakhstan. In this regard, the Company may be exposed to traffic safety risks, including collisions, derailment of rolling stock in freight and / or passenger trains on backbone, station and access roads and / or during shunting operations with rolling stock at stations and natural disasters. To manage this risk, the Company implements measures to strengthen the preventive work of organizing and ensuring safety of train traffic associated with train traffic. As part of risk management of industrial injuries, the Company implements measures to ensure occupational safety and health, prevent occupational injuries and improve working conditions, provides compulsory insurance of employees against accidents during performance of their labor (official) duties.

Currency risk

The Company is mainly exposed to the risk associated with a change in the US dollar exchange rate, due to the fact that the Company attracts borrowings mainly in US dollars and the weakening (devaluation) of the tenge against the US dollar means an increase in foreign exchange costs. As part of managing this risk, the Company monitors on a daily basis the changes in the USD / KZT exchange rates, as well as other indicators affecting the change in the exchange rate: USD / RUR, USD / EUR, oil and raw materials prices. In order to reduce the impact of currency risk on the financial result of the Company, monitoring of the financial market conditions, management of the currency distribution of the CSR, as well as measures to refinance loans in foreign currency are being carried out.

Due to increase in currency risk factors associated with decline in world oil prices, volatility of the Russian ruble exchange rate, volatility of world currencies, by the decision of the Risk Committee of the Company dated August 7, 2015, the Company switched to special accounting for hedging cash flows in order to reduce the risk of a change in tenge sales revenue expressed in Swiss francs when forming separate and consolidated financial statements of the Company.

Information technology risks

The Company uses telecommunications networks and computer systems to coordinate timetables and other aspects of its railway operations, as well as to maintain accounting records, sell tickets for passenger trains, track cargo delivery, and perform many other functions. Equipment and software used by the Company may be potentially damaged as a result of operator error, natural disasters, power outages, sabotage, computer viruses and other circumstances. In order to reduce the risk of information technology failure and breach of information security, to comply with requirements of local acts and corporate policy in the field of information security and protection of official, commercial and other secrets protected by the legislation of the Republic of Kazakhstan, audits are carried out on an annual basis in the Company's structural units.

KEY EVENTS IN 2018

JANUARY

On **January 16**, in Washington, NC KTZ JSC and companies DHL Global Forwarding Co., Ltd and John Deere signed Agreement on cooperation in transport and logistics sector.

On **January 17**, NC KTZ JSC and GE Transportation signed agreements on the supply of shunting diesel locomotives and servicing backbone diesel locomotives of the TEP33A series.

FEBRUARY

On **February 16**, the delegation of NC KTZ JSC took part in the meeting of the General Meeting of the ALE "MA "Trans-Caspian International Transport Route" in Ankara (Republic of Turkey).

MARCH

On **March 24**, the Framework Agreement was signed on the basic principles of the participation of DP World in the capital of Management Company of the special economic zone Khorgos – Eastern Gates JSC.

APRIL

On **April 4**, for the first time, a container train followed the route Lodz (Republic of Poland) –Chengdu (People's Republic of China) passed through the Kazakhstan border station Altynkol.

From **16 to 20 April** 2018 in the city of Danang (Socialist Republic of Vietnam), the delegation of NC KTZ JSC took part in the XXXIII meeting of the Conference of General Directors of Railways of the Organization for Cooperation of Railways.

APRIL

On **April 10**, for the first time, containers were transported from Aktau sea port by a feeder ship to the port of Baku (Republic of Azerbaijan).

MAY

On **May 5**, a heavy-weight freight train weighing 12 thousand tons was dispatched from Ekibastuz station.

On **May 17–18**, the delegation of NC KTZ JSC took part in the work of the 68th meeting of the Council on railway transport of the Commonwealth states-participants in Bishkek (Kyrgyz Republic).

MAY

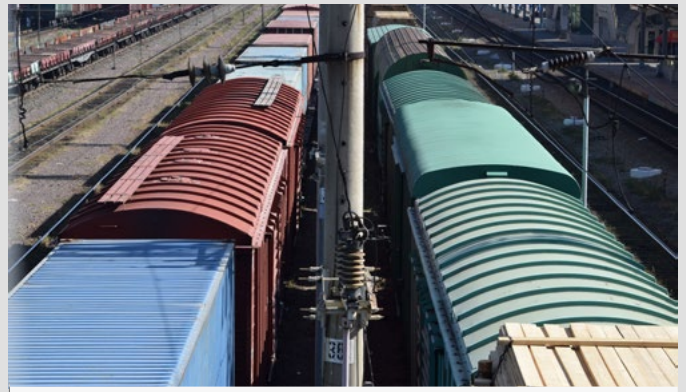
On **May 25**, the delegation of NC KTZ JSC took part in the international transport and logistics exhibition "Transport Logistics China" in Shanghai (People's Republic of China).

JUNE

From **5 to 8 June** in Bishkek (Kyrgyz Republic), the delegation of NC KTZ JSC took part in the XLVI session of the Ministerial Meeting of the Organization for Cooperation of Railways.

On **June 21**, a new suburban train, Ust-Kamenogorsk – Zhalanashkol – Dostyk, was launched.

On **June 25**, a social railway route was opened from Semey station to Zhalanashkol station.



JULY

On **July 18**, a train loaded with flour was sent from Kostanay station along a route through the territories of Kazakhstan and Turkmenistan to Afghanistan.

AUGUST

On **August 11**, a multimodal transport hub - the ferry complex of the port of Kuryk was presented to the Head of State.

On **August 16**, for the first time, a container train with a batch of non-ferrous metals set off for the Turkish port of Derince from Novoustkamenogorsk station.

SEPTEMBER

On **September 12**, Strategic cooperation agreement was signed between NC KTZ JSC and TCDD Tasimacilik A.S. JSC.

On **September 19**, the delegation of NC KTZ JSC took part in the first meeting of the heads of railway administrations of the member states of the Shanghai Cooperation Organization in Tashkent (Republic of Uzbekistan).

On **September 21**, NC KTZ JSC and Transmashholding JSC signed Agreement on the acquisition of the "Tulpar-Talgo" plant.

On **September 25**, KTZ Express JSC and Huawei international Co., Ltd., Ili Baitexing Commercial Trading Co., Ltd. signed the Framework Agreement on strategic cooperation in the development of cross-border e-commerce.

OCTOBER

On **October 3-4**, in the city of Sochi (Russian Federation), representatives of NC KTZ JSC took part in the work of the 27th Plenary meeting of the International Association "Coordination Council on Transsiberian Transportation".

On **October 16**, within the framework of the visit of the Head of State Nazarbayev N.A. to Finland, NC KTZ JSC and the companies Koulova Innovation Oy and Nurminen Logistics Serveces signed Agreements on the development of container traffic.

On **October 18**, the delegation of NC KTZ JSC took part in the work of the 69th meeting of the Council on Railway Transport of the Commonwealth Member States in Moscow (Russian Federation).

NOVEMBER

On **November 16**, the delegation of NC KTZ JSC took part in the 26th meeting of the Asia-Pacific Regional Assembly of the International Union of Railways in Bangkok (Kingdom of Thailand).

From **November 19 to 23**, the international certification body SGS company conducted an inspection audit of the integrated management system of NC KTZ JSC for compliance with requirements of international standards ISO 9001:2015, ISO 14001:2015, OHSAS 18001:2007, ISO 50001:2011. An external audit confirmed compliance of the Company's activities with the requirements of these standards.

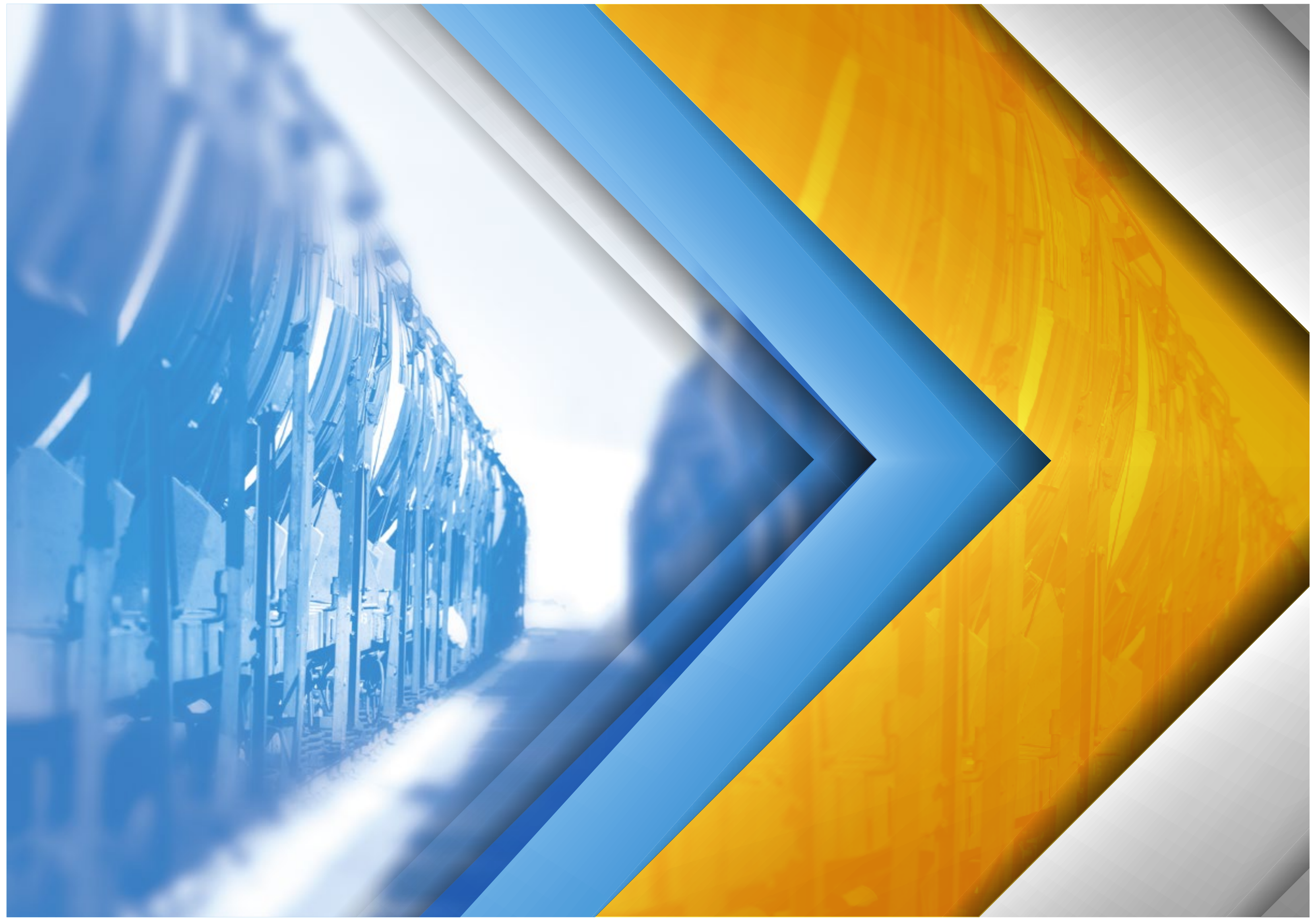
DECEMBER

On **December 5**, NC KTZ JSC placed five-year Eurobonds in the amount of 170 million Swiss francs with a yield to maturity and a coupon of 3.25% per annum.

On **December 20**, the first container train was launched with cargoes of the Japanese company Nippon Express consolidated in China.

CONTENTS

DEVELOPMENT STRATEGY



Development Strategy up to 2025 was approved by the Board of Directors of NC KTZ JSC on November 26, 2015, followed by amendments and additions on February 11, 2016.

In 2018, in connection with the approval by the Sole Shareholder of the Fund's new development strategy and changes in macro parameters, work on updating the strategy of NC KTZ JSC has begun.

KAZAKHSTAN RAILWAYS

MISSION, VISION AND STRATEGIC GOALS

MISSION

"AS A BACKBONE INFRASTRUCTURE COMPANY, WE PROVIDE A HIGH-QUALITY TRANSPORT BASE FOR SUSTAINABLE GROWTH OF THE ECONOMY OF REPUBLIC OF KAZAKHSTAN, CREATE VALUE FOR THE SHAREHOLDER, AND BENEFIT CONSUMERS AND SOCIETY AS A WHOLE BY OFFERING DEMANDED AND COMPETITIVE TRANSPORTATION AND LOGISTICS SERVICES."

VISION

"WE AIM TO BECOME HIGHLY EFFECTIVE TRANSPORTATION AND LOGISTICS COMPANY OPERATING IN ACCORDANCE WITH BEST BUSINESS PRACTICES.

WE ARE A RELIABLE PROVIDER OF TRANSPORT INFRASTRUCTURE SERVICES, INCLUDING FREIGHT AND PASSENGER TRAFFIC, AS WELL AS MULTI-MODAL TRANSIT TRAFFIC IN THE EAST-WEST AND NORTH-SOUTH DIRECTION.

KTZ AIMS TO TAKE A LEADER POSITION AMONG SIMILAR COMPANIES BOTH IN QUALITY AND ECONOMIC EFFICIENCY OF SERVICES THROUGH IMPROVEMENT OF MANAGEMENT AND PRODUCTION."

STRATEGIC GOALS

- ENSURING FINANCIAL SUSTAINABILITY
- INCREASING PROFITABILITY AND BUSINESS EFFICIENCY
- ENHANCING LEVEL OF SECURITY
- SUSTAINABLE DEVELOPMENT

CONTENTS
Chairman's letter/ CEO's statement
NC KTZ JSC Today
Assets Structure
Performance results
Risk Management
Key Events of 2018
Development Strategy
Corporate Governance
Financial Statements

In accordance with elaborating project of the NC KTZ JSC Development Strategy, achievement of the mission and vision will be done through implementation of the following strategic goals:

1. Pulling the Company out of the financial risk zone.

Solving this task depends not only on the Company's efforts, but also on the tariff policy. Therefore, a system of measures to ensure the financial sustainability of the Company is planned, as well as joint work with relevant government agencies to improve the tariff policy.

2. Enhancement of the Company efficiency level up to indicators of the leading world analogue companies.

Improving operational efficiency, increasing efficiency of using production assets, implementing the Transformation and Digitalization Program, developing transit and domestic transportation will be top priorities for the implementation of this strategic goal.

3. Guaranteeing safety of train movements up to levels of the leading world railway companies.

Ensuring traffic safety remains one of the most important tasks of the Company, the solution of which is defined as an unconditional priority in the Development Strategy. The Company will take all necessary measures to ensure the necessary level of security through the use of modern management methods and tools.

4. Ensuring sustainable development of the Company.

One of the main tasks of the Company is to ensure that its activities comply with the principles of sustainable development, consistency of their economic, environmental and social goals for sustainable development and creation of economic value in the long term.

Within the framework of this strategic goal, the Company plans to continue to achieve a high level in the field of corporate governance, to increase personnel potential, to ensure implementation of fundamental principles of meritocracy, to improve social stability and staff involvement.

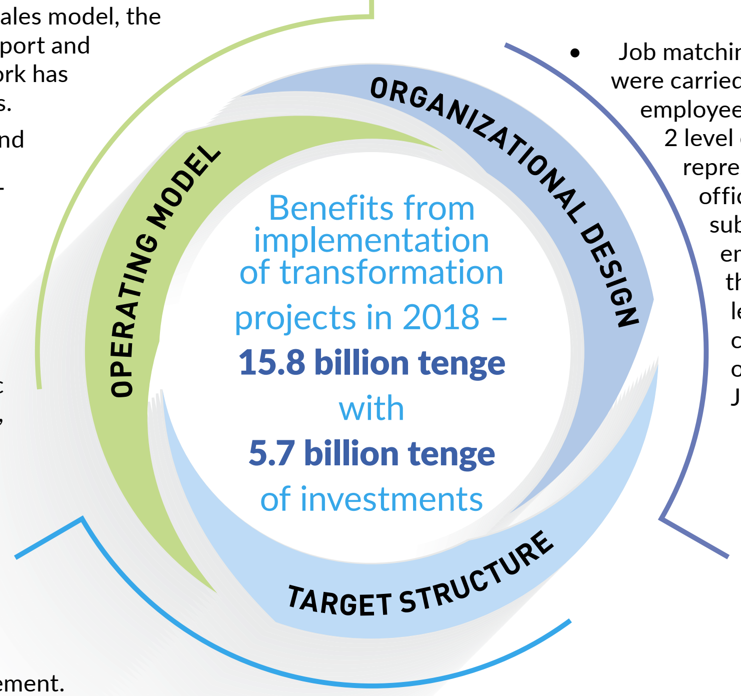
5. Provision of labor safety and health protection of employees, as well as achievement of zero accident conditions.

Implementation of the NC KTZ JSC Business Transformation Program

The NC KTZ JSC Business Transformation Program aggregates a block of directions for restructuring the asset portfolio, introducing a new operating model and organizational structure.

KEY RESULTS

- As regards the implementation of asset management processes: assets optimization, transfer of premises for rent, transition to a new service model SLA of KTZ-Freight Transportation JSC were effectively implemented.
- As part of transition to a new marketing and sales model, the processes of participation in tenders for transport and logistics services have been improved, and work has continued on developing shuttle train services.
- As part of the transition to a new marketing and sales model, SAP CRM was launched at KTZ Express JSC; CRM is integrated with EDM, KT Cloud Lab LLP based contact center has been introduced.
- As per category procurement management: 17 category procurement strategies were developed and are implemented.
- According to the "Implementation of the basic processes of enterprise management" project, the methodology of management.



- Job matching procedures were carried out for employees of the CEO-2 level of branches, representative offices and subsidiaries and employees of the CEO-3, 4 levels of the central office of NC KTZ JSC.

- Reduced levels of management.
- Reduced the number of subsidiaries.
- 12 regional service centers for accounting and tax accounting have been established, where 47 settlements of the country are geographically involved.

Further focus of the Transformation Program is on the implementation of the following 5 directions:

1) reengineering and digitization of business processes;
2) simplification of ownership structure and legal forms at NC KTZ JSC;
3) IPO of portfolio companies;
4) transformation of people;
5) implementation of change management and project approach.

CORPORATE GOVERNANCE

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

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

The corporate governance of NC KTZ JSC is annually evaluated for compliance with the best practice in accordance with the Methodology of diagnostics of corporate governance in the companies of Samruk-Kazyna JSC group.

The rating indicator is the corporate governance rating.

In 2018, Samruk-Kazyna JSC attracted consultants of PricewaterhouseCoopers LLP to conduct independent diagnostics of the level of corporate governance in six subsidiaries, including NC KTZ JSC.

According to the results of diagnostics, the corporate governance rating of NC KTZ JSC was set at the level "B", which, according to the indicated Methodology, corresponds to the average level of corporate governance.

The 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.

Corporate governance in the Company is based on the principle of protection and respect for the rights and legitimate interests of the Sole Shareholder. The sole shareholder has the rights provided by law and the Charter.

The exclusive competence of the Sole Shareholder includes the following:

- introduction of amendments and additions to the Charter of the Company or approval of its new edition;
- approval of the Corporate Governance Code, as well as amendments and additions thereto;
- voluntary reorganization or liquidation of the Company;
- approval of the annual financial statements of the Company;
- approving the procedure for distributing the Company's net income for the reporting fiscal year, making a decision on paying dividends on ordinary shares and approving the amount of dividends per one ordinary share of the Company;
- other issues, the decisions on which are referred by the legislation and (or) the Charter to the exclusive competence of the Sole Shareholder of the Company.

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

The Board of Directors

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

The Board of Directors determines the strategic goals, priority directions of development and sets the main guidelines for the Company's activities for the long term, ensures availability of necessary financial and human resources to implement the goals set. The Board of Directors oversees activities of the executive body of NC KTZ JSC.

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

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

When making decisions on the election (appointment) of members of the Board of Directors, the Sole Shareholder is guided by the following requirements for election of candidates to 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 impeccable reputation of a candidate in a business and industry environment;
- professional knowledge and qualifications of the candidate, allowing him/her to make informed decisions that best meet the interests of the Sole Shareholder and the Company. At the same time, an additional advantage of the candidate is the presence of a scientific degree in the field corresponding to the main activity of the Company;
- management experience of at least 3 (three) years, preferably in the area corresponding to the Company's core business;
- presence of a sufficient amount of time to effectively perform the functions assigned to him/her.

The Director is recognized as independent in cases where he/she:
- is not an affiliate of the Company and has not been one for 3 (three) years preceding his/her election to the Board of Directors (except for the case of his/her being the independent director of the Company);
- is not an affiliate of the Company's affiliates;
- is not affiliated with officials of the Company or organizations affiliated with the Company and was not connected with these persons during the 3 (three) years preceding his/her election to the Board of Directors;
- is not a government official;
- he/she is not a representative of a shareholder at meetings of the Company's bodies and has not been a member for 3 (three) years preceding his/her election to the Board of Directors;
- does not participate in audit of the Company as an auditor working as part of an audit organization, and did not participate in such an audit within 3 (three) years preceding his/her election to the Board of Directors.

Independent directors of NC KTZ JSC meet the specified requirements.

Members of the Management Board, with the exception of the Chairman of the Management Board of the Company, may not be elected to the Board of Directors. The Chairman of the Management Board of the Company may not be elected as the Chairman of the Board of Directors.

As of January 1, 2018 according to the decision of the Sole Shareholder, the Board of Directors of NC KTZ JSC was represented as follows:
- Mamin Askar Uzakpayevich – First Deputy Prime Minister of the Republic of Kazakhstan – Chairman of the Board of Directors;
- Alpysbayev Kanat Kalievich – Chairman of the Management Board of NC KTZ JSC – member of the Board of Directors;
- Ilkevicius Adamas – Managing Director for Transformation and Optimization of Assets of Samruk-Kazyna JSC (representative of the interests of the Sole Shareholder);
- Beisengaliyev Berik Tursynbekovich – Managing Director for Asset Optimization – Member of the Board of Samruk-Kazyna JSC (representative of the interests of the Sole Shareholder);
- Christian Kuhn – Independent Director;
- Wilhelm Bender – Independent Director;
- Syzdykov Tito Uakhapovich – Independent Director;
- Svyatov Serik Amanzholovich – Independent Director

A number of changes occurred in the composition of the Company's Board of Directors during the reporting year.

As of December 31, 2018, the Board of Directors of NC KTZ JSC consists of eight members, three of whom are independent directors:

- Christian Kuhn – Independent Director – Chairman of the Board of Directors;
- Mynbayev Sauat Mukhametbayevich – Chairman of the Management Board of NC KTZ JSC;
- Zhanadil Yernar Beisenuly – Co-Managing Director for Economics and Finance – Member of the Board of Samruk-Kazyna JSC (representing the interests of the Sole Shareholder);
- Kravchenko Andrey Nikolayevich – Managing Director for Legal Support and Risks – Member of the Board of Samruk-Kazyna JSC (representative of the interests of the Sole Shareholder);
- Satkaliyev Almasadam Maidanovich – Managing Director – Head of the Directorate of Samruk-Kazyna JSC (representative of the interests of the Sole Shareholder);
- Baydauletov Nurzhan Talipovich – representative of the interests of Samruk-Kazyna JSC (representative of the interests of the Sole Shareholder);
- Syzdykov Tito Uakhapovich – Independent Director;
- Svyatov Serik Amanzholovich – Independent Director.

CHRISTIAN KUHN

Chairman of the Board of Directors of NC KTZ JSC

Independent Director

Born in 1965.
Researchr, PhD at the University of Hannover. Worked at Deutsche Eisenbahn Gesellschaft GmbH (DEG), Connex (Veolia group).

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

2005–2011 – Managing Director, Member of the Management Board of Deutsche Bahn AG.

2005–2009 – Head of Steel-casting and Coal Division, Stinnes Freight Logistics / Railion Deutschland AG.

2009–2016 – he held various management positions in international logistics companies, and also worked as an independent consultant and independent director in railway and logistics companies.

German citizen.

Christian Kuhn does not own shares of the Company, suppliers and competitors of the Company.

First elected to the Board of Directors of NC KTZ JSC on August 1, 2014.

SAUAT MYNBAYEV

Chairman of the Management Board of NC KTZ JSC

Born in 1962.
Graduated from Lomonosov Moscow State University.

He began his career in 1989 as a lecturer at the Alma-Ata Institute of National Economy.

Held senior positions in commercial organizations, in the banking sector.

Over the years, he served as Minister of Finance, Agriculture, Energy and Mineral Resources, Oil and Gas, Industry and Trade of the Republic of Kazakhstan; Deputy Head of the Presidential Administration of the Republic of Kazakhstan, Deputy Prime Minister of the Republic of Kazakhstan; Chairman of the Management Board of Kazakhstan Holding for Management of State Assets Samruk JSC.

2013–2018 – Chairman of the Board of NC KazMunayGas JSC.

Starting November 20, 2018 – Chairman of the Management Board of NC Kazakhstan Temir Zholy JSC.

Citizen of the Republic of Kazakhstan.

Sauat Mukhametbayevich does not own shares of the Company, suppliers and competitors of the Company.

Starting November 30, 2018 elected as a member of the Board of Directors of NC KTZ JSC.

ZHANADIL YERNAR

Representative of the interests of the Sole Shareholder

Over the years, he worked for Philip Morris Kazakhstan, ElitStroy LLP, PricewaterhouseCoopers, Samruk-Kazyna JSC.

Since 2016 – Financial Controller, Managing Director for Finance and Operations of Samruk-Kazyna JSC.

Citizen of the Republic of Kazakhstan.

Yernar Beisenuly does not own shares of the Company, suppliers and competitors of the Company.

Starting April 23, 2018, he was elected a member of the Board of Directors of NC KTZ JSC as a representative of the interests of Samruk-Kazyna JSC.

ANDREY KRAVCHENKO

Representative of the interests of the Sole Shareholder

Born in 1966.
Graduated from S.M. Kirov Kazakh State University, Moscow Business School.

Has a degree of Master of Business Administration.

Over the years, he held positions of prosecutor, senior prosecutor of Taldykorgan region; Deputy Prosecutor General of the Republic of Kazakhstan.

2018 – present – Managing Director for Legal Support and Risks in Samruk-Kazyna JSC.

Citizen of the Republic of Kazakhstan.

Andrey Nikolayevich does not own shares of the Company, suppliers and competitors of the Company.

Starting December 4, 2018, he was elected a member of the Board of Directors of NC KTZ JSC as a representative of the interests of Samruk-Kazyna JSC.

ALMASADAM SATKALIYEV

Representative of the interests of the Sole Shareholder

Born in 1970.

Candidate of Economic Sciences, foreign member of the Russian Academy of Natural Sciences, Doctor of Economics, Academician of the Kazakhstan Academy of Natural Sciences.

Over the years, he held senior positions in the national companies KazTransOil, KEGOC, Samruk; as well as the post of Vice-Minister of Energy and Mineral Resources of the Republic of Kazakhstan.

Starting August 2018 – Managing Director – Head of Asset Management of Samruk-Kazyna JSC.

Citizen of the Republic of Kazakhstan.

Almasadam Maidanovich does not own shares of the Company, suppliers and competitors of the Company.

Starting September 24, 2018, he was elected a member of the Board of Directors of NC KTZ JSC as a representative of the interests of Samruk-Kazyna JSC.

NURZHAN BAYDAULETOV

Representative of the interests of the Sole Shareholder

Born in 1960.

Graduated from the Moscow Institute of Railway Transport.

Nurzhan Talipovich went the professional path from train maker to the senior positions of the Republican State Enterprise Kazakhstan Temir Zholy.

Over the years, he served as director of the railway transport department of the Ministry of Transport and Communications of the Republic of Kazakhstan; Vice-Minister of Transport and Communications of the Republic of Kazakhstan; Chairman of the Committee of Communications of the Ministry of Transport and Communications of the Republic of Kazakhstan; senior positions in Samruk-Kazyna JSC.

2016 – present – representative of Samruk-Kazyna JSC on the Board of Directors of Air Astana JSC, Kazakhtelecom JSC, Qazaq Air JSC.

Citizen of the Republic of Kazakhstan.

Nurzhan Talipovich does not own shares of the Company, suppliers and competitors of the Company.

Starting November 30, 2018, he was elected a member of the Board of Directors of National Company Kazakhstan Temir Zholy JSC.

TITO SYZDYKOV

Independent Director of the Board of Directors of NC KTZ JSC

Born in 1948.

He graduated from the Semipalatinsk Zootechnical Veterinary Institute, Pavlodar University. Master of Economics and Management. Candidate of Economics.

He worked in the farms of Pavlodar region for about a decade, was elected to responsible political positions.

Over the years, he served as the Akim of the city of Aksu, Pavlodar region; deputy of the Mazhilis of the Parliament of the Republic of Kazakhstan.

Since 2012 – Independent director, member of the Board of Directors of NC KTZ JSC.

Citizen of the Republic of Kazakhstan.

Tito Uakhapovich does not own shares of the Company, suppliers and competitors of the Company.

First elected to the Board of Directors of NC KTZ JSC on October 2, 2012.

SERIK SVYATOV

Independent Director of the Board of Directors of NC KTZ JSC

Born in 1954.

He graduated from Lomonosov Moscow State University.

Doctor of Economics, professor.

He began his career in 1976 with research and teaching activities. He was elected to responsible political positions.

Over the years, he held senior positions in commercial banks of Kazakhstan, was Chairman of the Board of Directors of T. Ryskulov Kazakh Economic University JSC.

From 2015 to March 2018 – Chairman of the Board of Directors of ForteBank JSC.

Since 2015 to the present – Chairman of the Board of Directors of Narkhoz University JSC.

Citizen of the Republic of Kazakhstan.

Serik Amanzholovich does not own shares of the Company, suppliers and competitors of the Company.

First elected to the Board of Directors of NC KTZ JSC on July 5, 2016.

8.1. INFORMATION ON THE WORK OF THE BOARD OF DIRECTORS, THE MANAGEMENT BOARD AND THE INTERNAL AUDIT SERVICE

Information on the Work of the Board of Directors of NC KTZ JSC

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

In 2018, the Board of Directors of NC KTZ JSC held 7 in-person and 2 absentee meetings, at which 143 issues were considered, including:

- Board of Directors of NC KTZ JSC – 19;
- Transformation – 4;
- Management Board – 6;
- Corporate Governance – 6;
- Transactions concluded – 2;
- Employees and organizational structure – 12;
- Production-economy issues – 26;
- Reports on NC KTZ JSC activity – 35;
- Other – 33.

Execution of decisions taken by the Board of Directors of NC KTZ JSC

On 143 issues reviewed, 100 instructions were given, of which:

- 91 instructions – executed (91%);
- 9 instructions – being executed (9%).

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

The Board of Directors of NC KTZ JSC has 4 committees:

1) The Audit Committee of the Board of Directors of NC KTZ JSC.

The Audit Committee acts in the interests of the shareholder of the Company and its work is aimed at establishing personal awareness of the members of the Board of Directors regarding establishment of an effective system of control over completeness, accuracy and reliability of the Company's financial statements and provision of financial and other reporting, ensuring independence and objectivity of external audit, control over reliability and efficiency of risk management and internal control systems, ensuring development of the corporate governance system, ensuring independence and objectivity of the internal audit function, control over the practice of compliance function.

From the beginning of the year to April 23, 2018, it consisted of three members of the Board of Directors who were independent:

Svyatov S.A.	Independent Director, Chairman of the Committee
Syzdykov T.U.	Independent Director, Member of the Committee
Bender V.	Independent Director, Member of the Committee

Due to the early termination of powers of Bender, V. the Audit Committee of the Board of Directors of NC KTZ JSC as of December 31, 2018 is represented as follows:

Svyatov S.A.	Independent Director, Chairman of the Committee
Syzdykov T.U.	Independent Director, Member of the Committee

In 2018, the Audit Committee held 9 in-person meetings, at which 77 issues were reviewed.

2) The Personnel and Remuneration Committee of the Board of Directors of NC KTZ JSC.

The Personnel and Remuneration Committee was established to develop and submit recommendations to the Board of Directors on election or appointment of candidates for independent directors, composition of the Board, the Corporate Secretary, taking into account the provisions of the Company's internal documents; appropriate remuneration of directors, members of the Board, the Corporate Secretary, the Office of the Corporate Secretary in accordance with the goals, objectives and current position of the Company and the level of remuneration in companies of the same type and scale; introducing a structured and open remuneration system for directors, members of the Management Board and the Corporate Secretary.

From the beginning of the year to May 3, 2018, it consisted of three members of the Board of Directors, two of whom were independent:

Syzdykov T.U.	Independent Director, Chairman of the Committee
Svyatov S.A.	Independent Director, Member of the Committee
Beysengaliyev B.T.	Representative of the Sole Shareholder, Member of the Committee

In connection with early termination of powers of Beysengaliyev B.T., Tagashev I.Ye. was elected a member of the Personnel and Remuneration Committee.

In connection with early termination of powers of Tagashev I.Ye., Satkaliyev A.M. was elected a member of the Personnel and Remuneration Committee.

As of December 31, 2018, the Personnel and Remuneration:

Syzdykov T.U.	Independent Director, Chairman of the Committee
Svyatov S.A.	Independent Director, Member of the Committee
Satkaliyev A.M.	Representative of the Sole Shareholder, Member of the Committee

In 2018, the Personnel and Remuneration Committee held 11 in-person meetings, at which 67 issues were reviewed.

3) The Strategic Planning and Innovations Committee of the Board of Directors of NC KTZ JSC.

Competence of the Strategic Planning and Innovation Committee: developing strategic and innovation policy; preparation of recommendations for reforming the Company's activities; preparation of recommendations to improve competitiveness and stimulate innovation based on an analysis of the state of the Company's scientific, technical and innovation areas; preliminary review and monitoring of implementation of investment projects.

From the beginning of the year to May 3, 2018, it consisted of four members of the Board of Directors, three of whom were independent:

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

In connection with early termination of the powers of Bender V. and Ilkevicius A., Zhanadil Ye.B. was elected to the Committee.

As of December 31, 2018, the Strategic Planning and Innovations Committee of the Board of Directors of NC KTZ JSC is represented as follows:

Kuhn C.	Independent Director, Chairman of the Committee
Svyatov S.A.	Independent Director, Member of the Committee
Zhanadil Ye.B.	Representative of the Sole Shareholder, Member of the Committee

In 2018, the Committee held 9 in-person meetings, at which 76 issues were reviewed.

4) The Safety and Environment Protection Committee of the Board of Directors of NC KTZ JSC

Competence of the Safety and Environmental Protection Committee: analysis of the state of affairs, risks, preparation of recommendations for improving safety, prevention of occurrence and liquidation of consequences of emergency situations and disasters related to railway transport; development of the Company's environmental policy, optimal use of resources, use of environmentally friendly, energy- and material-saving technologies, creation of environmentally acceptable products, minimization, processing and disposal of waste.

From the beginning of the year to April 23, 2018, it consisted of three members of the Board of Directors, three of whom were independent:

Bender V.	Independent Director, Chairman of the Committee
Kuhn C.	Independent Director, Member of the Committee
Syzdykov T.U.	Independent Director, Member of the Committee

In connection with early termination of the powers of Bender V., the Safety and Environmental Protection Committee of the Board of Directors of NC KTZ JSC as of December 31, 2018 is represented as follows:

Kuhn C.	Independent Director, Chairman of the Committee
Syzdykov T.U.	Independent Director, Member of the Committee

In 2018, the Committee held 5 in-person meetings, at which 22 issues were reviewed.

A total of 34 meetings of committees of the Board of Directors of NC KTZ JSC were held in 2018, at which 242 issues were reviewed, including those submitted to meetings of the Board of Directors, and for which recommendations were made.

Interaction of members of the Board of Directors with the Company

In 2018, members of the Board of Directors took part in the activities of NC KTZ JSC:

- "Job matching" based on evaluation of compliance of employees with the position of CEO-1 and CEO-2;
- Visit to Vostokmashzavod JSC (Ust-Kamenogorsk) in order to familiarize with the activities of the enterprise;
- Meetings and discussions on the Plan for Improving the Corporate Governance of NC KTZ JSC based on the results of independent diagnostics by PricewaterhouseCoopers. LLP.

Attraction of Independent Directors

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

Decision on the appointment of independent directors is made by the Sole Shareholder – Samruk-Kazyna JSC.

In accordance with the Corporate Governance Code of the Company, the Board of Directors has established that the directors are independent and believes that the three members of the Board of Directors are independent in nature and in making decisions. The Board of Directors has determined that there are no relations or circumstances that have or can have a significant impact on the independent decisions of these directors.

Management of Conflict of Interest

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

The goal of policies is to prevent, timely disclose and resolve conflicts of interest.

The Company has no actual or potential conflicts of interest between the obligations that members of the Board of Directors or the Management Board have before the Company, and private interests or other duties of such a member.

Combating Corruption

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

In 2018, the Compliance Service developed and the Company's management approved the following documents:

- Detailed plan for development of anti-corruption measures in the NC KTZ JSC group of companies;
- Work plan of the Compliance Service for 2019, taking into account the requirements of the Reference Model for compliance function in the portfolio companies of Samruk-Kazyna JSC;
- Preventive measures to combat corruption in NC KTZ JSC and its subsidiaries in the organization and conduct of the procurement of GWS;
- Anti-Corruption Standard of NC KTZ JSC and its subsidiaries in the field of procurement.

The following measures were taken to form anti-corruption culture:

- round table on implementation of preventive measures in the fight against corruption with invitation of representatives of the authorized state bodies;
- meetings with labor collectives of the group of companies to explain the Address of the First President of the Republic of Kazakhstan – Yelbasy – N.A. Nazarbayev to the people of Kazakhstan dated October 5, 2018. One of the main issues discussed during the meetings was the issue of ensuring compliance by the employees of the group of companies with requirements of the legislation of the Republic of Kazakhstan on combating corruption;
- within the framework of prevention of corruption offenses, the "Adal Zhol" Project Office was established on a pilot basis in the passenger transportation sector in conjunction with the National Bureau of Anti-Corruption, the goal of which is to eliminate problems hampering proper functioning of railway passenger traffic in the Republic of Kazakhstan and accessibility of individuals and legal entities to services on railway passenger transport;
- employees were certified for their knowledge of the provisions of the Company's Code of Business Ethics.

The Company analyzes information received through the hotline on an ongoing basis, followed by reporting to Samruk-Kazyna JSC Compliance Service.

Activity of the Corporate Secretary Office

In accordance with corporate documents, the Corporate Secretary ensures that the bodies and officials of NC KTZ JSC comply with the rules and procedures of corporate governance that guarantee exercise of the rights and interests of the Sole Shareholder of the Company.

The Corporate Secretary is accountable in its activities to the Board of Directors and is independent of the executive body of NC KTZ JSC.

In order to ensure fulfillment of Corporate Secretary's functions, the Company has created the Corporate Secretary Office. The Office is a structural unit of the Company.

In 2018, the Corporate Secretary Office conducted organizational preparation of 7 in-person meetings of the Board of Directors and 34 meetings of the BD committees.

During the reporting period, the Corporate Secretary Office provided an analysis of the materials submitted for consideration to the Board of Directors / Committees by the Company's structural divisions for compliance with the legislation of the Republic of Kazakhstan on corporate governance and the Company's internal documents regulating corporate governance.

Also in 2018, the Corporate Secretary and employees of the Corporate Secretary Office participated in meetings held by Samruk-Kazyna JSC on corporate management, transformation programs and management meetings of NC KTZ JSC.

In general, during the reporting period, the Corporate Secretary and the employees of the Corporate Secretary Office ensured implementation of a wide range of tasks and functions stipulated by the internal documents of NC KTZ JSC, including tasks to ensure efficient operation of the Board of Directors, as well as clear and effective interaction between the Board of Directors, Sole Shareholder and management of NC KTZ JSC.

Management Board

The Management Board is a collegial executive body of NC KTZ JSC, the competence of which includes resolution of all issues of the Company's activities not covered by the Law "On Joint-Stock Companies", other legislative acts of the Republic of Kazakhstan and the Charter within the competence of other bodies and officials of the Company.

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

Composition of the Management Board of NC KTZ JSC as of December 31, 2018:

1. Mynbayev Sauat Mukhametbayevich – Chairman of the Board.
2. Almagambetov Kanat Yesmukhanovich
3. Abdenov Serik Sakbaldiyevich
4. Kusherov Dair Adilbekovich
5. Orazkhanov Aydin Beysmoldanovich
6. Mukushov Ardak Zhumagulovich
7. Yelyubayev Sanzhar Bakhytovich

Information on the Work of the Management Board

In 2018, 47 meetings of the Board of NC KTZ JSC were held, at which 387 issues were reviewed.

Information on the Work of the Internal Audit Service

The Internal Audit Service is the body of NC KTZ JSC which oversees the financial and economic activities of the group of companies of NC KTZ JSC, an assessment in the field of internal control, risk management, execution of documents in the field of corporate management and consulting in order to improve the activities of the NC KTZ JSC.

The service conforms to the Board of Directors of NC KTZ JSC and reports to it on its work. The activity of the Service is supervised by the Audit Committee.

In 2018, the Internal Audit Service carried out all 17 audit assignments, conducted 19 audits, as provided for in the Annual Audit Plan for 2018.

The audit covered the following business processes: investment activities, preservation of fixed assets, receivables management, information technology and information security. Analysis of financial sustainability of NC KTZ JSC, assessment of effectiveness of the corporate risk management system and internal control system, audit of business transformation of NC KTZ JSC were carried out.

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

Following the audit assignments, the Internal Audit Service issued 271 recommendations and ensured that audit subjects take corrective action plans, which are monitored by the Internal Audit Service on a quarterly basis.

The Internal Audit Service regularly conducts methodological work on further improvement of its activities, including, Regulations on the Internal Audit Service of NC KTZ JSC (new edition) was developed and approved by the Board of Directors of NC KTZ JSC with inclusion of requirements on the implementation by the Internal Audit Service of its activities in compliance with the International Fundamentals of the Professional Practice of Internal Audit mandatory for application. The functions of auditing information technology and information security, provision of consulting services, and interaction with the external auditor of NC KTZ JSC and other internal and external parties providing guarantees and consulting services have also been expanded.

In the reporting year, employees of the Internal Audit Service completed advanced training and certification courses in the areas of internal audit and control, accounting, IFRS, management fundamentals and information technologies. In particular, one employee passed the exam in the first part to obtain an international qualification "Certified Internal Auditor (CIA)".

Performance of the Internal Audit Service is submitted for consideration by the Board of Directors of NC KTZ JSC on a quarterly basis.

In accordance with recommendations of PricewaterhouseCoopers company, following the results of diagnosis of the corporate governance system of NC KTZ JSC in 2017, the Internal Audit Service is working on improvement of its activities.

Remuneration of Company Officials

Payment of remuneration to executives and managerial employees of NC KTZ JSC at the end of the year's work is carried out in accordance with the Rules of remuneration and bonuses payment for executives, Employees of the Corporate Ombudsman Office, employees of the Corporate Secretary Office, Internal Audit and Compliance Services approved by the decision of the Board of Directors of NC KTZ JSC dated July 12, 2017 (Minutes No. 5), the Rules of Remuneration and Bonuses Payment of Administrative and Management Employees of NC KTZ JSC, approved by decision of the Board of NC KTZ JSC dated October 5, 2017 (Minutes No. 02/24).

The abovementioned Rules are based on the following principles:

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

The main condition for payment of remuneration is the presence of a consolidated total profit for reporting period, calculated with taking into account the planned amount for the payment of remuneration.

Decision on payment of remuneration to executives is taken by the Board of Directors of NC KTZ JSC, management employees – by the Management Board of NC KTZ JSC.

When calculating remuneration, the performance of the plan for corporate and individual key performance indicators for each position is taken into account and is charged in proportion to the time actually worked for the relevant position.

The Chairman and members of the executive body based on the results of performance evaluation with the aim of material incentives for achieved success and improving efficiency of work may be paid remuneration based on the results of the work for the reporting period.

By the decision of the Board of Directors of NC KTZ JSC dated September 17, 2018 (Minutes No. 6), it was decided not to pay remuneration to executives based on the results of work for 2017.

Information on Compliance of Corporate Governance Practices with the Principles of the Corporate Governance Code

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

The Code was developed in accordance with the legislation of the Republic of Kazakhstan, internal documents of Samruk-Kazyna JSC, taking into account the corporate governance practice developing in Kazakhstan and the world, the Samruk-Kazyna JSC Transformation Program, approved by the decision of Samruk-Kazyna JSC Board of Directors dated September 17, 2014 (Minutes No. 113). The provisions of this Code are applied subject to the specifics provided for by the legislation of the Republic of Kazakhstan.

Objectives of the Code are to improve corporate governance in Samruk-Kazyna JSC and its organizations, ensure transparency of management, and confirm commitment of Samruk-Kazyna JSC and its organizations to follow the standards of good corporate governance.

In accordance with the Code, control over implementation of provisions of the Code is vested in the Board of Directors of NC KTZ JSC. Also, in accordance with provisions of the Code, the Corporate Secretary monitors and advises the Board of Directors on issues of proper compliance with the Code, and also annually prepares a report on compliance with its principles and provisions.

Samruk-Kazyna JSC and organizations must comply with provisions of the Code, in case of non-compliance must specify an explanation of the reasons for non-compliance with each of the provisions in the annual report. The Board of Directors may, for certain reasons, conclude that the individual provisions of the Code are not applicable or impossible to comply with.

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

In accordance with the provisions of the Code, the Corporate Secretary Office of NC KTZ JSC has prepared a Report on compliance / non-compliance with the principles and provisions of the Corporate Governance Code.

The above report was approved by the decision of the Board of Directors of NC KTZ JSC dated April 18, 2019 (Minutes No. 5).

The format of this report has the same structure and level of detail as the Code. Due to the fact that the first two chapters of the Code are specific and describe features of Samruk-Kazyna JSC management, interaction between the Fund and the Government of the Republic of Kazakhstan is not reflected in the report, since it does not apply to NC KTZ JSC. In this regard, the report is based on five fundamental principles, such as:

- shareholder rights and fair treatment of shareholders;
- effectiveness of the Board of Directors;
- sustainable development;
- risk management, internal control and audit;
- transparency.

Each section has the following structure:

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

According to the results of analysis carried out in practice, the Company complies with 71% of the provisions of the Code, another 16% of the provisions of the Code are partially complied with (with reasons explained) and 5% of provisions are not currently complied with, 8% of the provisions of the Code are not applicable to the Company.

The content and structure of the report are presented in such a way as to provide interested users with the most accurate, complete and understandable information on compliance with the principles and provisions of the NC KTZ JSC Corporate Governance Code for 2018.

8.2. INFORMATION ON FOLLOWING THE REQUIREMENTS OF THE CODE OF CONDUCT

The Code of Business Ethics of NC KTZ JSC was approved by the decision of the Board of Directors of NC KTZ JSC dated March 19, 2013 (Minutes No. 2).

The purpose of this Code is to develop and improve the corporate culture, to promote effective interaction of officials / employees of the Company with stakeholders through the application of business practices.

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

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

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

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

Officials and employees of the Company, interested persons have the right to contact the following bodies and employees for clarification of the requirements of the Code or ethical issues that have arisen, for violations of the requirements of the Code:

- immediate supervisors of their structural divisions or managers of a higher level;
- Corporate Secretary;
- head of Internal Audit Service;
- Chairman of the Board;
- Board of Directors.

In accordance with the Action Plan for implementation of the Company's Code of Business Ethics for 2016–2018, a survey was conducted to determine the moral and psychological climate in the work teams of the Company's branches.

134 managers (29.5%) and 321 specialists (70.5%) from 8 branches of the Company took part in the study.

This study was conducted to determine the following:

1) main indicators that determine the socio-psychological climate of the team (responsibility, collectivism, cohesion, contact, openness, organized nature, awareness);

2) degree and nature of the value-orientation unity of the collective (attitude to work, production and organizational skills, general style of behavior and activity, attitude towards colleagues, corporate values);

3) relations between immediate supervisor and subordinates (competence of the supervisor, his/her professional skill, ability to show sensitivity, attention and humanity, exactingness, ability to interact with subordinates).

In general, according to results of the study, the average score of the main indicators of the moral and psychological climate in the work teams of the Company's branches amounted to 7.6 points, which corresponds to the optimal level of development of the team.

8.3. SUSTAINABLE DEVELOPMENT

See the Sustainable Development Report 2018 posted on the Company's corporate website in the Sustainable Development section.

CONTENTS

Chairman's letter/ CEO's statement

NC KTZ JSC Today

Assets Structure

Performance results

Risk Management

Key Events of 2018

Development Strategy

Corporate Governance

Financial Statements

FINANCIAL STATEMENTS

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRSs").

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

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

Management is also responsible for:

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

The consolidated financial statements were authorised for issue by management on 13 March 2019, and subject to approval by the Audit Committee of the Board of Directors of the Company and approval by the Board of Directors and the Shareholder.

On behalf of the Group:

S.M. Mynbayev **Chairman of the Management Board**	**D.A. Kusherov** **Deputy Chairman of the Management Board for Finance**	**N.K. Abilova** **Chief Accountant**
13 March 2019	13 March 2019	13 March 2019

Deloitte.

Branch of Deloitte LLP
Astana Tower Business Center
12 Samal Microdistrict, 11th floor
Astana, 010000,
Republic of Kazakhstan

Tel.: +7 (717) 258 04 80
deloitte.kz

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Kazakhstan Temir Zholy National Company JSC (the "Company") and its subsidiaries (together - the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRSs").

Basis for Opinion

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

Key Audit Matters

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

Why the matter was treated as a key audit matter	How the matter was addressed during the audit
Assessment of potential impairment of property, plant and equipment	
The Group's property, plant and equipment, which is mainly represented by infrastructure and rolling stock, comprises 86% of the Group's total assets. Due to the existence of impairment indicators, in particular, slower growth rate in transit freight transportation compared to the Group's Development Plan, the Group performed an impairment assessment for its property, plant and equipment. In addition, the Group identified one cash-generating unit to which assets relate, which requires significant management judgement. The recoverable amount of the property, plant and equipment was determined through calculating its value in use based on the Group's 2019-2023 Development Plan. Calculation of the value in use reflects management's estimations of the future cash flows derived from the assets, the expectations about the amount or timing of those future cash flows, and other factors. The value in use is sensitive to the small changes in key assumptions. Based on the above we determined the impairment of property, plant and equipment to be a key audit matter. Please refer to Note 4.	We performed the following procedures: > evaluating whether the methodology applied and the model used to calculate the value in use are in line with the requirements of IAS 36 *Impairment of Assets*, > evaluating appropriateness of the managements identification of the cash-generating unit, > analysing assumptions used in the determining the discount rate and recalculating it with the assistance of our valuation specialists, > running a range of sensitivity tests to confirm that no impairment was required if less optimistic assumptions within the reasonably possible range had been applied with respect to the discount rate, projected foreign exchange rates, freight tariffs growth, freight turnover growth in transit transportation, as well as volume of capital expenditures, > challenging projected cash flows, including revenue and operating profit growth assumptions, based on historical data, market forecasts and the Group's 2019-2023 Development Plan. We analysed accuracy of the management's preceding forecasts, appropriateness of the assumptions used in the forecasts, and their consistency with the plans approved by the Board of Directors, and > assessing the completeness and adequacy of disclosures in the consolidated financial statements.
Liquidity and the going concern principle	
As at 31 December 2018, the Group's current liabilities exceeded its current assets by 251,239 million tenge. Current liabilities include borrowings of 175,164 million tenge payable within 12 months from the date of these consolidated financial statements, including HSBC loan of 46,238 million tenge reclassified as current. Also, for the year ended 31 December 2018, the Group incurred losses of 86,455 million tenge, which is primarily attributed to foreign exchange losses of 112,798 million tenge arising from borrowings in foreign currencies. In addition, as disclosed in Note 17, the loans received from EBRD and HSBC France with a carrying value of 23,320 million tenge and 58,808 million tenge include certain financial covenants, whereby non-compliance may result in the loans becoming payable on demand. Management had prepared forecasts of the expected financial position and financial results for 2018 and concluded that the Group would	Our going concern audit procedures were mainly focused on a critical evaluation of the key assumptions made and conclusions reached by management and included the following: > examining the correctness of assets and liabilities classification, > analysing management's evaluation of the principles of going concern and their plans to settle current liabilities, > analysing current and expected events and conditions, including financial and operating items, which could cast doubts on the Group's ability to continue as a going concern, > examining the reliability and reasonableness of data and assumptions applied in preparing cash flow forecasts, including the consistency of input data to other tests, such as impairment, the actuarial valuation and hedge effectiveness testing, > analysing downside scenarios affecting the Group's liquidity and its ability to settle obligations, including the ability to generate a sufficient level of cash flows from operating activities to serve and settle its borrowings, as well as the impact of possible

Why the matter was treated as a key audit matter	How the matter was addressed during the audit
not be able to meet certain financial covenants, so that, prior to 31 December 2018, management had requested and received waivers from its creditors regarding non-application and reset of the financial covenants. As at 31 December 2018, the Group had failed to meet one of the reset financial covenants related to the HSBC France loan and, accordingly, reclassified a long-term portion of the loan of 46,238 million tenge as a current liability. Subsequent to the reporting date, the Group had received an updated waiver letter from HSBC France. Due to the above matters, critical judgements are required by management in respect of the sufficiency of the Group's liquid assets and its ability to settle the current obligations in a due course. Management's plans in respect of this matter are discussed in Notes 2 and 34. Given the pervasiveness of the effect of the going concern conclusion to the financial statements, this is considered to be a key audit matter.	exchange rate fluctuations on liabilities and revenue amounts, > examining the documents supporting the availability of financing sources, including credit agreements, negotiations with financial institutions, and Board of Director minutes, > analysing the terms of the loan agreements and related covenants, > recalculating financial covenants for mathematical accuracy, > examining waivers received from creditors with respect to non-application and reset of financial covenants as at 31 December 2018, including examining the compliance with those reset covenants, > evaluating external matters that could be an indicator of adverse conditions and events, and > assessing the completeness and adequacy of information disclosed in the consolidated financial statements.

Other Information Included in the Annual Report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

13 March 2019

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

(in millions of Tenge)

	Notes	31 December 2018	31 December 2017 (restated)[1]	1 January 2017 (restated)[1]
ASSETS				
Non-current assets				
Property, plant and equipment	7	2,741,395	2,664,406	2,531,256
Intangible assets		11,874	14,255	11,799
Investments in joint ventures	8	15,493	15,866	11,720
Investments in associates	8	16,866	11,538	11,358
Deferred tax assets	20	6,424	5,953	8,632
Other non-current financial assets	9	-	2,326	2,333
Other non-current assets	11	102,800	89,426	92,559
Total non-current assets		**2,894,852**	**2,803,770**	**2,669,657**
Current assets				
Cash and cash equivalents	12	66,606	81,169	53,478
VAT recoverable		18,274	30,353	57,253
Other current financial assets	9	287	37,129	16,187
Inventories	13	35,162	30,317	28,847
Trade accounts receivable	10	21,639	22,340	15,562
Prepaid income tax		2,311	1,849	1,908
Contract assets		3,076	-	-
Other current assets	14	56,890	51,215	39,214
		204,245	**254,372**	**212,449**
Assets held for sale and for distribution to the Shareholder	15	99,336	92,642	153,242
Total current assets		**303,581**	**347,014**	**365,691**
Total assets		**3,198,433**	**3,150,784**	**3,035,348**
EQUITY AND LIABILITIES				
Equity				
Share capital	16	1,062,635	1,062,635	993,460
Additional paid-in capital	16	290	-	-
Hedging reserve	16	(56,579)	(42,553)	(39,074)
Foreign currency translation reserve	16	5,892	4,843	4,110
Retained earnings		102,243	206,602	198,398
Equity attributable to the Shareholder		1,114,481	1,231,527	1,156,894
Non-controlling interests	16	26,354	26,955	11,035
Total equity		**1,140,835**	**1,258,482**	**1,167,929**

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018 (CONTINUED)

(in millions of Tenge)

	Notes	31 December 2018	31 December 2017 (restated)[1]	1 January 2017 (restated)[1]
Non-current liabilities				
Borrowings	17	1,207,113	1,170,969	1,098,118
Deferred tax liabilities	20	226,338	227,598	224,676
Employee benefit obligations	19	31,948	28,383	26,170
Finance lease liabilities	18	16,395	13,750	-
Other non-current liabilities	23	20,984	4,447	5,398
Total non-current liabilities		**1,502,778**	**1,445,147**	**1,354,362**
Current liabilities				
Borrowings	17	175,164	93,751	141,562
Trade accounts payable	21	140,222	117,624	127,236
Other taxes payable		9,738	10,896	10,557
Employee benefit obligations	19	2,797	2,858	2,961
Finance lease liabilities	18	1,677	1,135	-
Contract liabilities	22	69,010	-	-
Constructive obligation for the benefit of the Shareholder		5,582	290	48,068
Other current liabilities	23	68,418	158,163	105,163
		472,608	**384,717**	**435,547**
Liabilities associated with assets classified as held for sale	15	82,212	62,438	77,510
Total current liabilities		**554,820**	**447,155**	**513,057**
Total liabilities		**2,057,598**	**1,892,302**	**1,867,419**
Total equity and liabilities		**3,198,433**	**3,150,784**	**3,035,348**

On behalf of the Group:

S.M. Mynbayev **Chairman of the Management Board**	**D.A. Kusherov** **Deputy Chairman of the Management Board for Finance**	**N.K. Abilova** **Chief Accountant**
13 March 2019	13 March 2019	13 March 2019

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

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of Tenge)

	Notes	2018	2017 (restated)[2]
Continuing operations			
Revenue			
Freight transportation	24	849,036	749,571
Passenger transportation	24	84,219	81,886
Government grants		20,751	20,460
Other revenue	25	90,168	61,196
Total revenue		**1,044,174**	**913,113**
Cost of sales	26	(818,448)	(721,330)
Gross profit		**225,726**	**191,783**
General and administrative expenses	27	(97,554)	(86,681)
Finance income		8,215	7,886
Finance costs	28	(103,534)	(97,714)
Foreign exchange loss	34	(112,515)	(7,408)
Share of the profit of associates and joint ventures	8	3,481	2,138
Gain from the disposal of shares in associates, joint ventures and subsidiaries not qualifying as discontinued operations	15,29	8,333	8,396
Assets impairment		(6,009)	(3,752)
Other profit or losses, net		2,595	3,631
(Loss)/profit before income tax		**(71,262)**	**18,279**
Income tax expense	20	(2,314)	(6,144)
(Loss)/profit for the year from continuing operations		**(73,576)**	**12,135**
Discontinued operations			
(Loss)/profit for the year from discontinued operations	15	(12,879)	776
(Loss)/profit for the year		**(86,455)**	**12,911**
Other comprehensive (loss)/income net of tax:			
Items that will not be subsequently reclassified to profit or loss:			
Remeasurement of employee benefit obligations		(1,167)	(1,554)
Items that may be reclassified to profit or loss in subsequent periods:			
Net fair value loss on cash flow hedging instruments	16	(14,026)	(3,479)
Foreign exchange difference on the translation of foreign operations		1,049	841
Other comprehensive loss for the year		**(14,144)**	**(4,192)**
Total comprehensive (loss)/income for the year		**(100,599)**	**8,719**
(Loss)/profit for the year attributable to:			
The Shareholder		(87,219)	11,355
Non-controlling interests		764	1,556
		(86,455)	**12,911**
Comprehensive (loss)/income attributable to:			
The Shareholder		(101,363)	7,163
Non-controlling interests		764	1,556
		(100,599)	**8,719**
(Loss)/earnings per share from continuing and discontinued operations, in tenge	30	(176)	23
(Loss)/earnings per share from continuing operations, in tenge	30	(150)	21

On behalf of the Group:

S.M. Mynbayev **Chairman of the Management Board**	**D.A. Kusherov** **Deputy Chairman of the Management Board for Finance**	**N.K. Abilova** **Chief Accountant**
13 March 2019	13 March 2019	13 March 2019

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

[2] The comparative information has been restated as a result of change in classification of assets held for sale (discontinued operation) and other reclassifications as discussed in Note 5.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
(in millions of Tenge)

	Notes	2018	2017 (restated)[3]
Cash flows from operating activities:			
(Loss)/profit for the year		(86,455)	12,911
Income tax expenses recognised in profit or loss, including discontinued operations	15,20	3,602	7,642
Adjustments for:			
Depreciation and amortisation		121,065	106,915
Finance costs	15,28	109,367	103,703
Asset impairment		6,302	3,774
Finance income		(8,701)	(8,143)
Employee benefit costs and other long-term employee benefits		5,743	4,127
Share of the profit of associates and joint ventures	8	(3,481)	(2,138)
Allowance for impairment of accounts receivable		8,084	1,872
Foreign exchange loss		112,417	7,683
Profit from the sale of interests in associates, joint ventures and subsidiaries not qualifying as discontinued operations		(8,333)	(8,396)
Other		12,429	4,686
Operating income before changes in working capital and other balances		**272,039**	**234,636**
Change in trade accounts receivable		(16,424)	564
Change in inventories		(4,573)	(4,890)
Change in other current and non-current assets (including long-term VAT recoverable)		(725)	(11,677)
Change in trade accounts payable		22,209	(13,305)
Change in other taxes payable		(4,501)	22,092
Change in other liabilities		(7,172)	37,565
Change in employee benefit obligations		(3,277)	(3,549)
Cash generated from operations		**257,576**	**261,436**
Interest paid		(101,246)	(78,787)
Interest received		1,782	3,653
Income tax paid		(2,484)	(4,192)
Net cash flows from operating activities		**155,628**	**182,110**
Cash flows from investing activities:			
Purchase of property, plant and equipment, including changes in advances paid for property, plant and equipment		(193,612)	(233,577)
Purchase of intangible assets		(2,066)	(180)
Purchase of investment property		(9,063)	-
Proceeds from the sale of interests in joint ventures		-	19,575
Proceeds from the sale of other non-current assets		1,402	1,202
Investments in associates	8	(2,611)	(1,358)
Investments in other financial assets		(86,570)	(79,483)
Proceeds from the disposal of other financial assets		127,765	53,577
Dividends received from associates and joint ventures	8	2,248	1,664
Net cash proceeds from the sale of subsidiaries and discontinued operations		9,396	1,440
Return of advance payment in connection with the termination of the subsidiary sale transaction	5	(8,958)	-
Other		287	2,923
Net cash flows from investing activities		**(161,782)**	**(234,217)**

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge)

	Notes	2018	2017 (restated)[3]
Cash flows from financing activities:			
Share capital contribution	16	-	66,852
Proceeds from borrowing		289,776	422,633
Repayment of borrowings		(295,910)	(441,130)
Proceeds from the sale of non-controlling interests in subsidiaries	16	-	24,063
Dividends and distributions paid		(2,709)	(1,388)
Other		(1,263)	(951)
Net cash flows from financing activities		**(10,106)**	**70,079**
Net (decrease)/increase in cash and cash equivalents		**(16,260)**	**17,972**
Cash and cash equivalents at the beginning of the year	12	84,384	67,085
Effect of changes in foreign exchange rates on cash balances held in foreign currency		122	(673)
Effect of changes in allowance for expected credit losses		(23)	-
Cash and cash equivalents at the end of the year	12	**68,223**	**84,384**
Non-cash transactions:			
Purchase of property, plant and equipment from borrowed funds by direct bank transfer to the supplier		1,054	11,127
Railway administrations receivables and payables offset		7,971	8,342
Settlement of borrowings by non-current assets		556	776

On behalf of the Group:

S.M. Mynbayev	**D.A. Kusherov**	**N.K. Abilova**
Chairman of the Management Board	**Deputy Chairman of the Management Board for Finance**	**Chief Accountant**
13 March 2019	13 March 2019	13 March 2019

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

[3] The comparative information has been restated as a result of change in classification of assets held for sale (discontinued operation) and other reclassifications as discussed in Note 5.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
(in millions of Tenge)

	Share capital	Additional paid-in capital	Hedging reserve	Foreign currency translation reserve	Retained earnings	Equity attributable to the Shareholder	Non-controlling interests	Total equity
As at 1 January 2017 (restated)[4]	**993,460**	**-**	**(39,074)**	**4,110**	**198,398**	**1,156,894**	**11,035**	**1,167,929**
Profit for the year	-	-	-	-	11,355	11,355	1,556	12,911
Other comprehensive (loss)/income for the year	-	-	(3,479)	841	(1,554)	(4,192)	-	(4,192)
Total comprehensive (loss)/income for the year	-	-	(3,479)	841	9,801	7,163	1,556	8,719
Shares issue (Note 16)	69,175	-	-	-	-	69,175	-	69,175
Dividends declared	-	-	-	-	-	-	(2,143)	(2,143)
Other distributions (Note 16)	-	-	-	-	(9,144)	(9,144)	-	(9,144)
Disposal of subsidiaries (Note 29)	-	-	-	(108)	-	(108)	(9)	(117)
Change in ownership share in subsidiaries without loss of control (Note 16)	-	-	-	-	7,547	7,547	16,516	24,063
As at 31 December 2017 (restated)[4]	**1,062,635**	**-**	**(42,553)**	**4,843**	**206,602**	**1,231,527**	**26,955**	**1,258,482**
As at 1 January 2018 (restated)[4]	**1,062,635**	**-**	**(42,553)**	**4,843**	**206,602**	**1,231,527**	**26,955**	**1,258,482**
Effect of the application of IFRS 9, less the effect of deferred tax of 834 million tenge (Note 3)	-	-	-	-	(8,962)	(8,962)	(131)	(9,093)
As at 1 January 2018 (restated)	**1,062,635**	**-**	**(42,553)**	**4,843**	**197,640**	**1,222,565**	**26,824**	**1,249,389**
(Loss)/profit for the year	-	-	-	-	(87,219)	(87,219)	764	(86,455)
Other comprehensive (loss)/income for the year	-	-	(14,026)	1,049	(1,167)	(14,144)	-	(14,144)
Total comprehensive (loss)/income for the year	-	-	(14,026)	1,049	(88,386)	(101,363)	764	(100,599)
Dividends declared (Note 16)	-	-	-	-	(1,710)	(1,710)	(1,176)	(2,886)
Other distributions (Note 16)	-	-	-	-	(5,301)	(5,301)	-	(5,301)
Shares issue (Note 16)	-	290	-	-	-	290	-	290
Purchase of subsidiary	-	-	-	-	-	-	(58)	(58)
As at 31 December 2018	**1,062,635**	**290**	**(56,579)**	**5,892**	**102,243**	**1,114,481**	**26,354**	**1,140,835**

On behalf of the Group:

S.M. Mynbayev
Chairman of the Management Board
13 March 2019

D.A. Kusherov
Deputy Chairman of the Management Board for Finance
13 March 2019

N.K. Abilova
Chief Accountant
13 March 2019

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

[4]The comparative information has been restated as a result of change in classification of assets held for sale (discontinued operation) and other reclassifications as discussed in Note 5.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(in millions of Tenge, unless stated otherwise)

1. GENERAL INFORMATION

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

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

The Group operates a government regulated nationwide railway system providing freight and passenger transportation, mainline railway services, providing operation, maintenance and modernisation of railway infrastructure in Kazakhstan. As part of rail industry regulation in Kazakhstan, the Government sets the tariffs the Group charges for its railway network services, its freight customers (according to the Kazakhstan Entrepreneurial Code, this is a temporary measure until 2020) and passenger customers, and partially subsidises specific passenger transportation activities through government grants. These regulated tariffs differ based on the type of transportation provided. The Government does not regulate international and container freight transportation tariffs.

The Committee for the Regulation of Natural Monopolies, protecting Competition and Consumer Rights of the Ministry of the National Economy of the Republic of Kazakhstan ("CRNM") has approved railway network tariffs for 2016-2020 with annual average growth of 4%.
On 1 April 2018, the CRNM agreed 10% increase of tariff for locomotive haulage services (2017: 7%). As a result, an average freight transportation tariff increase in 2018 was 6.8% (2017: 5%).

Starting from 1 January 2018, the regulator, represented by the Ministry of Investments and Development of Kazakhstan, approved a 7% increase in passenger transportation tariffs for a number of interdistrict routes (2017: 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 government's fiscal and monetary policies, together with developments in the legal, regulatory and political environment.

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

The State controls Group structure and is responsible for long-term railway industry strategy in Kazakhstan. Since 1997, the Kazakhstan national railway industry has been undergoing restructuring, which includes segregating freight transportation and infrastructure, change of regulatory environment and establishing investment-friendly environment. Under the Group's Development Strategy until 2025, work was continued in 2018 to improve performance, develop transit traffic and optimise corporate portfolio structure in accordance with the state privatisation programme.

CONTENTS
Chairman's letter/ CEO's statement
NC KTZ JSC Today
Assets Structure
Performance results
Risk Management
Key Events of 2018
Development Strategy
Corporate Governance
Financial Statements

2. BASIS FOR THE PREPARATION OF FINANCIAL STATEMENTS

Statement of compliance

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

Going concern

The Group's consolidated financial statements have been prepared on a going concern basis. This assumes the sale of assets and settlement of liabilities in the normal course of business for the foreseeable future. As at 31 December 2018, current liabilities exceeded its current assets by 251,239 million tenge (31 December 2017: 100,141 million tenge). Moreover, loss for the year ended 31 December 2018 amounted to 86,455 million tenge, which is primarily attributed to foreign exchange losses of 112,798 million tenge arising from borrowings in foreign currencies (2017: profit for the year 12,911 million tenge). As at 31 December 2018, the Group reclassified a long-term borrowing of 46,238 million tenge as a current liability due to its failure to meet one of the financial covenants stipulated under the loan agreements with HSBC France (debt to equity ratio). After the reporting date, the Group received a waiver letter to change the ratio threshold value to 1.53 as at 31 December 2018, although this was not reflected in the year-end position as it was received after year-end. The Group is in compliance with the reset ratio threshold value as at 31 December 2018. Historically, the Group financed major investment projects using funds from the government and through borrowings, in addition to cash from operating activities. For the year ended 31 December 2018, cash flows from operating activities amounted to 155,626 million tenge (2017: 182,110 million tenge). As at 31 December 2018, the Group's borrowings of 175,164 million tenge are payable within 12 months of the reporting date, including HSBC France loan of 46,238 million tenge reclassified as current. Group management has assessed its needs for cash, including its scheduled debt repayments and development plans. In assessing its going concern basis, management also considered the Group's financial position, expected future performance and cash flows from operations, its borrowings, available credit facilities, its capital expenditure commitments, expected tariffs growth, currency exchange rates and other risks facing it. After completing the relevant analysis, management concluded that the Group has adequate resources to continue in operational existence and settle its liabilities (Note 34) and that the going concern basis is appropriate in preparing these consolidated financial statements.

Basis for measurement

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and entities controlled by it and the subsidiaries listed in Note 32. The Group's investments in which it has significant influence are accounted for using the equity method. All intragroup transactions, balances, and unrealised gains and losses are eliminated on consolidation.

Functional and presentation currency

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

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

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

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

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

	31 December 2018	31 December 2017
US$	384.20	332.33
Euros	439.37	398.23
Swiss Francs	390.41	340.61
Russian Roubles	5.52	5.77

3. SIGNIFICANT ACCOUNTING POLICIES

New and revised International Financial Reporting Standards

Standards impacting consolidated financial statements

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transitional provisions of IFRS 9 allow an entity not to restate comparatives.

Additionally, the Group adopted related amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2018 and to the comparative period.

IFRS 9 introduced new requirements for:

- The classification and measurement of financial assets and financial liabilities;
- Impairment of financial assets;
- General hedge accounting.

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied IFRS 9 in accordance with the abovementioned transitional provisions.

Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. The Group has opted for the modified retrospective application at the date of initial application of this Standard. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that continued to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. Comparative amounts for 2017 have not been restated, and the aggregate accumulated effect was recognised through the opening balance of retained earnings at 1 January 2018.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Wherein:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI); and
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the aforegoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Group has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. See below.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

Management of the Group reviewed and measured the Group's financial assets that existed at 1 January 2018, based on the facts and circumstances that occurred on that date, and concluded that the initial application of IFRS 9 had the following impact on the financial assets of the Group from the point of view of their classification and measurement. The table below presents a reconciliation of the classification of financial assets and financial liabilities between the previously applied valuation categories in accordance with IAS 39 and their new valuation categories adopted upon the transition to IFRS 9 as of 1 January 2018. The table does not include line items not affected by the changes. Therefore, the subtotals and totals cannot be calculated based on the amounts presented below:

	IAS 39		IFRS 9		Effect of the application of IFRS 9
	Accounting method	Amount	Accounting method	Amount	Amount
Financial assets					
Other financial assets (including cash in financial institutions and loans given)	Amortised cost (loans and accounts receivable)	39,455	Amortised cost	39,052	(403)
Other non-current assets (including loans to employees, non-current accounts receivable)	Amortised cost (loans and accounts receivable)	89,426	Amortised cost	88,827	(599)
Cash and cash equivalents	Amortised cost (loans and accounts receivable)	81,169	Amortised cost	81,138	(31)
Trade accounts receivable	Amortised cost (loans and accounts receivable)	22,340[5]	Amortised cost	22,335	(5)
Assets held for sale and for distribution to the Shareholder[6]	-	92,642	-	92,614	(28)
Financial liabilities					
Borrowings	Amortised cost	(1,264,720)	Amortised cost	(1,269,225)	(4,505)
Financial guarantee contract liabilities net of deferred tax effect of 834 million tenge	Higher of amortized cost under IAS 39 and provision under IAS 37	(4,194)	Higher of expected credit losses and fair value less any cumulative amount of income	(8,366)	(4,172)
Liabilities attributable to assets classified as held for sale (loans)[6]	Amortised cost	(62,438)	Amortised cost	(62,622)	(184)
Total effect from the application of IFRS 9					(9,927)

Impairment of financial assets

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 the Group 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 of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

[5] As required by IFRS 9, Group directly reduced the gross carrying amount of financial assets (i.e. has written-off the gross value of receivables against previously created allowance) for which there is no reasonable expectations of recovering a financial asset of 7,931 million tenge (Note 10).
[6] Amounts relate to expected credit losses accrued on financial assets and debt modification adjustments of Transtelecom, a subsidiary, which was classified as held for sale as of 1 January 2018. The accounting method reflects the application of the Group's accounting policy over IFRS 9 on the subsidiary.

Specifically, IFRS 9 requires the Group to recognize a loss allowance for expected credit losses on:

- Debt investments measured subsequently at amortized cost or at FVTOCI;
- Lease receivables;
- Trade receivables and contract assets; and
- Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months expected credit losses. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime expected credit losses for trade receivables, contract assets and lease receivables in certain circumstances.

The Group's portfolio of financial instruments includes the following 5 types of financial assets, in respect of which the Group recognises expected credit losses, as provided for by IFRS 9:

- trade accounts receivable;
- amounts in credit institutions;
- loans issued;
- other accounts receivable; and
- loans to employees.

The Group has revised its methodology for calculating impairment losses in accordance with IFRS 9 for each class of asset mentioned above. The overall effect of changes in the methodology for calculating impairment losses is presented in the table above. The overall effect of impairment of loans to employees is immaterial.

The purpose of IFRS 9 is to ensure the organization uses a multi-factor and unified approach to credit risk analysis, so that a potential deterioration in a credit risk can be detected at a relatively early stage. At each reporting date, the Group allocates financial instruments at a stage in the following order, and estimates expected credit losses (with the exception of losses on created or acquired credit-impaired financial assets) using an estimated allowance equal to:

- 12-month expected credit losses, i.e. lifetime expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1);
- Full lifetime expected credit losses, i.e. lifetime expected credit losses that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

Trade accounts receivable

The Group applies the simplified approach to recognise lifetime expected credit losses for its trade receivables. A default is determined based on the number of days overdue.

The Group reduces the gross carrying amount of accounts receivable if it does not expect to recover them in full or in part. Write-off is an event that leads to derecognition.

Amounts in credit institutions

Amounts in credit institutions include such assets as cash and cash equivalents, short- and long-term financial investments, and restricted cash. Financial assets in the form of amounts in credit institutions fall under the definition of default when they are more than 90 days overdue or due to a credit institution's failure to fulfil its obligations as a result of financial difficulties.

The probability of default of a credit institution is determined based on external ratings.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

Loans issued and other accounts receivable

The probability of default on loans issued is determined based on internal ratings, unless external ratings are available. Loans issued fall under the definition of default when they are more than 90 days overdue or due to a counterparty's failure to fulfil its obligations as a result of financial difficulties.

An allowance for expected credit losses on other account receivable is measured similarly to the way it is measured for loans issued.

Financial guarantees

The Group recognizes expected credit losses allowance under financial guarantee agreement for 12 months or over period, depending on the change in credit risk since initial recognition. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The consequential amendments to IFRS 7 have also resulted in more extensive disclosures about the Group's exposure to credit risk in the consolidated financial statements (see Note 34 for details).

Critical accounting judgements and estimates used in financial assets impairment

The allowances for expected credit losses are measured based on probability of default and loss given default. The Group uses its judgment concerning these assumptions and inputs used in impairment computation based on the Group's experience, current market conditions and forecast estimates at the end of each reporting period. For the purpose of calculating the expected credit losses, the probability of default of a counterparty is adjusted for the expected future macroeconomic indicators.

Accounting for modifications or exchanges of debt liabilities that do not result in derecognition

Gains or losses on modification of financial liabilities at amortized cost are recognized in profit or loss. A gain or loss is determined as the difference between the original cash flows and the present value of the estimated future cash flows discounted using an initial effective interest rate of the financial instrument.

Hedge accounting

The Group will continue to apply IAS 39 for hedge accounting with respect to cash flows from transit freight transportation services, as permitted by transitional provisions in IFRS 9.

Impact of application of IFRS 15 Revenue from Contracts with Customers

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. Based on the analysis of the Group's regular revenue streams for the year ended 31 December 2017, the terms of individual contracts and based on the facts and circumstances existing at that date, the application of the new standard starting from 1 January 2018 did not have a material impact on the consolidated financial statements, except for the requirement for more detailed disclosure (Notes 24 and 25). Accordingly, comparative amounts for 2017 and the opening balance as at 1 January 2018 were not restated.

The Group recognises revenue to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue is recognised less VAT and rebates.

As a result of the application of IFRS 15, the Group recognised a contract liability initially attributed to a preliminary consideration received from customers, in the *Contracts Liabilities* of the consolidated statement of financial position as at 31 December 2018. As at 31 December 2017, contract liabilities related to a consideration from customers is recognised in the *Other Current Liabilities* as advances received and deferred income (Note 23).

Revenue from freight transportation services

Domestic, international import, international export and international transit freight transportation services.

Revenue from freight transportation services is recognized over the time. The extent of completion of the freight transportation process is calculated as the ratio of transportation volumes provided as at the reporting date to the total transportation volumes.

The Group provides services on monthly 100% prepayment terms, as agreed in contracts with carriers. Prepayments received from customers for transportation services not yet rendered are typically short-term and recognised as advances at the date of receipt.

Advances received from customers for domestic, international import, international export and international transit freight transportation services are recognised as deferred income once transportation has started. Deferred income is credited to revenue of the reporting period as the services are provided.

Pursuant to the CRNM Order *On the Approval Of a Temporary Decreasing Coefficient For Railway Freight Transportation Tariffs*, certain contracts envisage discounts dependent on the volumes of services consumed. Revenue from these services is recognised based on contractual prices less estimated discounts. The Group uses the expected value method to estimate the discount amount.

As at 31 December 2018, total liability to customers on discounts was estimated at 1,070 million tenge.

Handling rolling stock

The Group recognises revenue from handling services by the extent of completion of the services at the reporting date, as the performance obligation is satisfied over time and the customer simultaneously receives and consumes the benefits of the Group's performance. The extent of completion of the services is calculated as the ratio of transportation volume, provided as at the reporting date to the total transportation volumes.

Rolling stock handling services are provided based on prepayments, which are recognised as advances.

Revenue recognition from passenger transportation services

Revenue from passenger transportation services is recognised by the extent of completion of transportation at the reporting date. Proceeds from ticket sales are recognised as deferred income, which is transferred to revenue from the time of departure of a passenger. Prepayments received from customers for transportation services not yet rendered are recorded within advances at the time of their receipt. Upon receipt of applications for passenger transportation and issuing tickets, advances approximating the expected estimated revenue from the services are transferred to deferred income. Deferred income is similarly transferred to revenue as passengers depart.

Passenger transportation services are generally completed within several hours/days. An analysis of past experience has shown that passenger transportation in progress at the reporting date is insignificant.

Other revenue

Other revenue includes penalties received, revenues from the sale of goods, materials, scrap metal, loading and unloading services and vehicle servicing.

Other revenue from the provision of services is recognised over time as the services are provided. When a performance obligation is satisfied at a certain period of time (sale of goods, materials and scrap metals), revenue is recognised when 'control' of the goods underlying the particular performance obligation is transferred to the customer.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

The Group when accounting for significant contracts under which the period between the transfer of the promised goods or services to the customer and the respective payment exceeds one year, adjusts the transaction price for the time value of money.

New or revised standards issued but not yet effective

A number of new standards, interpretations and amendments to standards enter into force in relation to annual periods beginning from 1 January 2019 or after that date. Specifically, the Group did not apply early the following standards, interpretations and amendments to the standards:

- IFRS 16 *Leases*
- Amendments to IFRS 9 *Prepayment Conditions with Potential Negative Consideration*
- Amendments to IAS 28 *Long-term Investment in Associates and Joint Ventures*
- Annual Improvements to IFRS Standards 2015–2017 Cycle: Amendments to IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*
- Amendments to IAS 19 Employee Benefits: *Plan Amendment, Curtailment or Settlement*
- IFRS 10 *Consolidated Financial Statements and* IAS 28 (amendments) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- IFRIC 23 *Uncertainty Over Income Tax Treatments*

IFRS 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. Operating lease (off-balance sheet) and finance lease (on-balance sheet) differences are removed for lessee accounting, and replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

A 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 a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

Group management expects that the application of IFRS 16 in the future may significantly affect assets and liabilities because it recognised assets as a form of right to use and lease liabilities in relation to agreement in which the Group, except those that meet the criteria of short-term lease or the lease of low-value assets in accordance with IFRS 16.

Preliminary estimated effect of the application of IFRS 16 when using the modified retrospective approach as at 1 January 2019 amounted to 14,758 million tenge for assets and 14,758 million tenge for liabilities.

Group management expects that the application of other standards, amendments and interpretations entering into force from 1 January 2019 and after that date will not have a significant effect on the consolidated financial statements during the period of their application.

Significant accounting policies

Property, plant and equipment

Property, plant and equipment is stated at historical cost less subsequent accumulated depreciation and impairment losses. Depreciation is charged once the asset becomes available for its intended use.

Subsequent costs

The costs of the day-to-day servicing incurred during an asset's useful life (regular maintenance to ensure the asset remains in a working condition) and repair expenses (technical inspections, maintenance contracts, etc.) are recorded in profit or loss when incurred.

Costs are capitalised only if those costs qualify for recognition as assets in accordance with provisions of IAS 16 *Property, Plant and Equipment*.

Construction-in-progress

Construction-in-progress comprises costs directly related to the acquisition and construction of property, plant and equipment, including the appropriate allocation of directly attributable variable overheads incurred during construction. The carrying value of construction-in-progress is regularly reviewed for impairment.

Borrowing costs

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets as part of the cost of that asset.

The Group capitalises borrowing costs on general purpose borrowings to the extent they are used to obtain a qualifying asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the Group's borrowings that are outstanding during the period and used to construct and produce a qualifying asset, other than borrowings received specifically for the purpose of obtaining a qualifying asset.

Investment income generated on a temporary investment of specific borrowings pending their use on qualifying assets is deducted from borrowing costs eligible for capitalisation.

Borrowing costs also include exchange differences arising from foreign currency loans to the extent they are considered to be an interest expense adjustment. An exchange difference amount capitalised as an interest expense adjustment should not exceed the interest expense amount the Group would capitalise if the loan had been received in the local currency. Any exchange difference is recognised in profit or loss.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Inventories

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

Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

When the non-current asset ceased to be classified as held for sale, the Group includes any required adjustment to the carrying amount of the asset in profit or loss from continuing operations in the period in which the classification criteria are no longer met. If the disposal group or non-current asset that ceases to be classified as held for sale is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate, the Group amends retrospectively the financial statements for the periods since classification as held for sale.

Equity

Share capital

Common shares are classified as equity. Costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from equity proceeds. All non-cash contributions to share capital are assessed at fair value as at the date of the contribution by an independent appraiser.

Consideration received for common shares yet to be legally registered is recognised as additional paid-in capital until they are registered, when any proceeds are transferred to share capital.

Other contributions

The Group enters into equity transactions with the Shareholder, such as asset transfers, adjustments for below market interest loans and others that would not relate to the acquisition of additional equity interest in the Group. The Group recognises such transactions in retained earnings.

Other distributions

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

Hedge accounting

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

At the inception of a hedge relationship, an entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Cash flow hedges

The effective portion of changes in the fair value of financial instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. A gain or loss relating to the ineffective portion is recognised immediately in profit or loss for the reporting period, and is included in the 'finance costs' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item.

Hedge accounting is discontinued when:

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

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

Government grants

The government authorises the Group to receive subsidies in the form of government grants to partially cover the cost of transporting passengers on socially important routes in Kazakhstan. Government grants are recognised at their fair value when there is reasonable assurance that the subsidy will be received, and all corresponding conditions will be met. Government grants are recognised regularly during reporting periods as the subsidies are used to cover carrier costs to transport passengers on socially significant routes.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the consolidated financial statements in compliance with IFRS requires Group management to make judgements and use estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on historical experience and other factors that are considered to be relevant, events or actions may mean that actual results ultimately differ from those estimates.

Critical judgements in applying accounting policies

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

Control assessment

Subsidiaries are those entities controlled by the Group. The Group controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. Losses are attributed to non-controlling interests in full, even if this results in a debit balance ("deficit") (Note 32).

The Group and State Property and Privatisation Committee of the Ministry of Finance of the Republic of Kazakhstan entered into trust management agreements for Khorgos International Border Cooperation Centre JSC and a number of Kazakhstan airports. The Group did not recognise the above entities as subsidiaries and did not consolidate them because it is an agent and does not control them, exercising the right delegated to it to make decisions in the Committee's interests, and is not entitled to residual returns of those entities. Under the trust management agreement with the Shareholder, the Company recognised Aktau Sea Commercial Port National Company JSC as a subsidiary because of the extensive authority given to the Group by the Shareholder. The agreement gives it the practical ability to manage the relevant activities of the entity unilaterally. The Company is also entitled to receive residual returns in the entity.

The Group also transferred Kazakhstan Wagon Construction Company LLP, a subsidiary, to the trust management of ZIKSTO LLP, at the same time retaining control over it.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

Loans at a rate below the market interest rate

The Group receives loans from the Shareholder/Ultimate Shareholder at a rate below the market rate for similar loans in arm's length transactions. These loans are initially recognised at the fair value of the consideration received less directly attributable transaction costs. The Group calculates the fair value (amortised cost) of these loans using market rates on governmental long-term treasury bonds with comparable maturities and recognises an adjustment to the loan value (less the related deferred tax) within equity. When no comparable maturities exist, the Group extrapolates the most comparable market rates to the life of the loan received by the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Assets classified as held for sale

In December 2015, the Kazakhstan Government approved the '*Comprehensive Privatisation Plan for 2016-2020*' (the "Plan"), whereby Group management approved a list of subsidiaries, associates and joint ventures to be sold. IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations* requires management to apply judgements regarding the high probability of an asset's sale. As at the reporting date, Group management assessed the status of the Plan and classified assets/liabilities as disposal groups held for sale as those meeting IFRS 5 criteria (Note 15).

Cash-generating unit identification

Group management considered all segments as a single cash-generating unit (CGU) for impairment testing purposes as under the Group's current operating model cash flows for each segment are not considered to be sufficiently independent. Railway infrastructure is integral and is not differentiated for freight and passenger transportation lines. Accordingly, there is no objective allocation of infrastructure assets for cash flows from freight and passenger transportation. Due to the specifics of tariff regulation for freight transportation and the need to cross-subsidise passenger transportation, railway infrastructure cannot generate independent cash flows. Accordingly, the Group is treated as one cash-generating unit in impairment testing.

The Kazakhstan Government, as the Company's Ultimate Shareholder, has approved a privatisation plan for certain Group entities, which, if implemented, would result in a new interaction mechanism among its various business units. As the Group's restructuring processes have not been completed, these possible developments were not taken into account for current year impairment testing purposes. Subsequent changes in the identification of CGUs may affect the carrying value of the Group's assets.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period for which there is a significant risk they may cause a material adjustment to the carrying amounts of assets and liabilities during the next financial year.

Impairment of property, plant and equipment and intangible assets

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

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

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

Due to existing impairment indicators, the Group performed an impairment test as at 31 December 2018.

A number of subjective factors, both operational and financial, using the best evidence available, had been used to estimate cash flows.

The operational assumptions used in the test reflect expected volumes of transportation services, including transit volumes, based on projected demand and historical dynamic of transit freight transportations volumes.

Financial assumptions include significant estimates associated with tariff forecasts and growth rates, discounts, and projected tenge to Swiss Franc exchange rates. The key long-term assumptions used in the calculation were annual growth rate of 4% and discount rate of 11.8%. These assumptions are presented in real terms.

As at 31 December 2018, no impairment has been identified based on the estimated value in use of the Group's property, plant and equipment. However, the value in use estimate is sensitive particularly to the following assumptions:

- transit freight transportation volumes;
- revenue rate on freight transit transportation;
- capital costs for replacement and maintenance of the assets; and
- the discount rate (WACC).

Adverse changes to planned freight and passenger traffic growth rates due to general economic trends, tariffs not being sufficiently indexed to inflation, the tenge's continuing volatility against foreign currencies, government support levels, and other future adverse changes may lead to significant impairment losses in the period in which they occur.

Recoverability of VAT

As at each reporting date, the Group assesses the recoverability of VAT arising on international transportation sales. The Group cannot charge VAT onwards to these customers, and accordingly can only receive these amounts through recovery from the tax authorities. To assess VAT recoverability, the Group considers information from its internal tax department regarding projected VAT collection, correspondence with government tax authorities, and historical recovery experience. The actual amount of VAT recovered could differ materially from the Group's estimate and this could materially affect future operating results.

Depreciation of property, plant and equipment and amortisation of intangible assets

Property, plant and equipment and intangible assets are depreciated and amortised using the straight-line method over estimated useful lives. The estimates of useful lives, residual values and depreciation methods are reviewed at each reporting date, and adjusted if appropriate. Any changes are accounted for prospectively as a change in accounting estimates. Estimates of the useful lives and residual value of these assets are based on expected economic use, repair and maintenance programmes, and activity levels, technological advancements and other business conditions. A change in these assumptions could result in significantly different depreciation amounts than those previously recognised.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

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

Buildings and structures	10-140
Railway track infrastructure	5-100
Machinery and equipment	3-35
Vehicles	4-40
Other	2-50
Intangible assets	1-10

Taxation

Kazakhstan legislative acts and regulations are not always clearly written. Instances of inconsistent opinions between local, regional and national tax authorities are possible. Where additional taxes are imposed by the tax authorities, penalties and interest applied are significant; penalties are generally assessed at 50% of the additional taxes accrued, and interest is assessed at 11.25%-12.81% of additional accruals or overdue taxes. As a result, penalties and interest can exceed the amount of additional accrued taxes.

Because of the uncertainties disclosed above, the ultimate amount of taxes, penalties and interest, if any, imposed may be in excess of the amount expensed to date and accrued as at 31 December 2018. Any difference between the estimated amount and the actual amount paid, if any, could have a significant impact on future operating results.

Business model assessment

Classification and measurement of financial assets depends on whether the contract cash flows are used for repayment of the principal amount of debt and interest for unpaid principal amount, and reasons consistent with the objective of the business model.

Significant increase in credit risk

As explained above, the Group recognizes allowance for expected credit losses for financial instruments in the amount equal to 12-month expected credit losses for stage 1 assets, or lifetime expected credit losses for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

5. CHANGES IN CLASSIFICATION AFFECTING COMPARATIVE INFORMATION

As a result of negotiations held in April-May 2018, the Group and Patentes Talgo S.L.U. failed to reach a mutual agreement on the additional terms of the purchase/sale transaction proposed by Patentes Talgo S.L.U., and Patentes Talgo S.L.U. refused to purchase the share. On 14 May 2018, the Group returned the previously received advance payment to Talgo Kazajstan S.L.U. of 8,958 million tenge (23,000,000 Euros) as part of the proposed transaction in May 2015. The purchase/sale agreement for the interest in Tulpar-Talgo LLP was terminated on 13 July 2018.

In September 2018, Remlocomotiv JSC, a subsidiary, and Transmasholding JSC signed an agreement to sell Tulpar-Talgo LLP to Transmasholding JSC. However, as at 31 December 2018, Tulpar-Talgo LLP ceased to meet the criteria of IFRS 5, as the parties did not agree on certain conditions of the purchase/sale agreement for a 99.99926% interest in Tulpar-Talgo LLP and agreed to cancel the agreement. As a result, the Group ceased classification of Tulpar-Talgo LLP as held for sale and reclassified results of operations from discontinued operations to continuing operations.

Consequently, comparative information for 2017 and as at 31 December 2017 and 1 January 2017 was restated.

Additionally, the Group revised the prior year classification of current assets recognised for distribution to the Shareholder from *Assets for the Benefit of the Shareholder* to *Assets Classified as Held for Sale and for Distribution to the Shareholder* within the consolidated statement of financial position, since the assets initially constructed for the benefit of the Shareholder and the assets held for distribution are of the same nature and, respectively, were included in this line item; and revenue from the lease of wagons, the provision of mainline railway services and locomotive haulages, and freight forwarding services from *Freight Transportation* line to *Other Revenue* line within the consolidated statement of profit or loss and other comprehensive income, since these types of revenue are transportation related, but do not represent transportation itself, and respectively, were excluded from freight transportation line item. Accordingly, comparative amounts for 2017 and as at 31 December 2017 and 1 January 2017 have been restated to bring in line with current year presentation.

The restatement has not resulted in a material impact on the consolidated statement of cash flows. However, *Profit for the Year* and *Adjustments for Depreciation and amortisation* line items have been adjusted by 45 million tenge, which relates to depreciation adjustment for 2017 as a result of application of IFRS 5 requirements for the assets ceased to be classified as held for sale.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

The items of the statement of financial position and statement of profit or loss and other comprehensive income not affected by the changes were not included in the table. Consequently, subtotals and totals cannot be summed up based on the amounts presented below:

Effect on a consolidated statement of financial position:

As at 31 December 2017	As previously reported	Tulpar-Talgo LLP reclassification	Reclassification of other assets for distribution to the Shareholder	As restated
ASSETS				
Non-current assets				
Property, plant and equipment	2,654,457	9,949	-	2,664,406
Intangible assets	14,177	78	-	14,255
Other non-current assets	89,137	289	-	89,426
Total non-current assets	**2,793,454**	**10,316**	**-**	**2,803,770**
Current assets				
Cash and cash equivalents	63,489	17,680	-	81,169
Trade accounts receivable	22,096	244	-	22,340
Assets held for the benefit of the Shareholder	290	-	(290)	-
Other current assets	51,088	127	-	51,215
	236,611	**18,051**	**(290)**	**254,372**
Assets classified as held for sale and for distribution to the Shareholder	120,866	(28,514)	290	92,642
Total current assets	**357,477**	**(10,463)**	**-**	**347,014**
Total assets	**3,150,931**	**(147)**	**-**	**3,150,784**
EQUITY AND LIABILITIES				
Equity				
Retained earnings	206,749	(147)	-	206,602
Equity attributable to the Shareholder	1,231,674	(147)	-	1,231,527
Total equity	**1,258,629**	**(147)**	**-**	**1,258,482**
Non-current liabilities				
Deferred tax liabilities	226,975	623	-	227,598
Employee benefit obligations	28,380	3	-	28,383
Other non-current liabilities	4,194	253	-	4,447
Total non-current liabilities	**1,444,268**	**879**	**-**	**1,445,147**
Current liabilities				
Trade accounts payable	113,564	4,060	-	117,624
Other taxes due	10,411	485	-	10,896
Other current liabilities	139,518	18,645	-	158,163
	361,527	**23,190**	**-**	**384,717**
Liabilities attributable to assets classified as held for sale	86,507	(24,069)	-	62,438
Total current liabilities	**448,034**	**(879)**	**-**	**447,155**
Total liabilities	**1,892,302**	**-**	**-**	**1,892,302**
Total equity and liabilities	**3,150,931**	**(147)**	**-**	**3,150,784**

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

As at 1 January 2017	As previously reported	Tulpar-Talgo LLP reclassification	Reclassification of other assets for distribution to the Shareholder	As restated
ASSETS				
Non-current assets				
Property, plant and equipment	2,521,329	9,927	-	2,531,256
Intangible assets	11,589	210	-	11,799
Other non-current assets	92,038	521	-	92,559
Total non-current assets	**2,658,999**	**10,658**	**-**	**2,669,657**
Current assets				
Cash and cash equivalents	48,978	4,500	-	53,478
Trade accounts receivable	15,417	145	-	15,562
Prepaid income tax	1,903	5	-	1,908
Assets held for the benefit of the Shareholder	48,068	-	(48,068)	-
Other current assets	39,174	40	-	39,214
	255,827	**4,690**	**(48,068)**	**212,449**
Assets classified for sale and distribution to the Shareholder	120,626	(15,452)	48,068	153,242
Total current assets	**376,453**	**(10,762)**	**-**	**365,691**
Total assets	**3,035,452**	**(104)**	**-**	**3,035,348**
EQUITY AND LIABILITIES				
Equity				
Retained earnings	198,502	(104)	-	198,398
Equity attributable to the Shareholder	1,156,998	(104)	-	1,156,894
Total equity	**1,168,033**	**(104)**	**-**	**1,167,929**
Non-current liabilities				
Deferred tax liabilities	224,358	318	-	224,676
Other non-current liabilities	4,399	999	-	5,398
Total non-current liabilities	**1,353,045**	**1,317**	**-**	**1,354,362**
Current liabilities				
Trade accounts payable	124,454	2,782	-	127,236
Other taxes due	8,246	2,311	-	10,557
Other current liabilities	92,266	12,897	-	105,163
	417,557	**17,990**	**-**	**435,547**
Liabilities attributable to assets classified as held for sale	96,817	(19,307)	-	77,510
Total current liabilities	**514,374**	**(1,317)**	**-**	**513,057**
Total liabilities	**1,867,419**	**-**	**-**	**1,867,419**
Total equity and liabilities	**3,035,452**	**(104)**	**-**	**3,035,348**

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

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

2017	Before adjustment	Tulpar-Talgo LLP recalculation	Income reclassification	Recalculated
Freight transportation	770,075	-	(20,504)	749,571
Other revenue	40,692	-	20,504	61,196
Total revenue	**913,113**	**-**	**-**	**913,113**
Gross profit	**191,783**	**-**	**-**	**191,783**
General and administrative expenses	(86,205)	(476)	-	(86,681)
Finance income	7,787	99	-	7,886
Finance costs	(97,565)	(149)	-	(97,714)
Foreign exchange loss	(7,625)	217	-	(7,408)
Assets impairment	(3,745)	(7)	-	(3,752)
Other profit or losses, net	3,561	70	-	3,631
Profit/(loss) before income tax	**18,525**	**(246)**	**-**	**18,279**
Income tax expenses	(5,835)	(309)	-	(6,144)
Profit/(loss) for the year from continuing operations	**12,690**	**(555)**	**-**	**12,135**
Profit for the year from discontinued operations	**266**	**510**	**-**	**776**
Profit/(loss) for the year	**12,956**	**(45)**	**-**	**12,911**

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

6. SEGMENT INFORMATION

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

Group management tracks a number of segment profitability elements, such as pre-tax profit, profit for the year from continuing operations and gross profit. However, profit for the year is the primary measure used by Group management to allocate resources and assess segment performance.

The Group does not have a specific pricing policy for inter-segmental sales.

	For the year ended 31 December 2018				
	Freight transportation	Passenger transportation	Total reporting segments	Other	Total
Key operating indices					
Revenue					
Transportation revenue from third parties	849,036	84,219	933,255	-	933,255
Transportation income from operations among segments	29,171	2,422	31,593	-	31,593
Government grants	-	20,751	20,751	-	20,751
Other revenue from third parties	70,699	4,341	75,040	15,128	90,168
Other income from operations among segments	7,918	272	8,190	5,672	13,862
Eliminations	(35,936)	(3,848)	(39,784)	(5,671)	(45,455)
Revenue	920,888	108,157	1,029,045	15,129	1,044,174
Cost of sales	(696,098)	(110,488)	(806,586)	(11,862)	(818,448)
General and administrative expenses	(85,680)	(6,951)	(92,631)	(4,923)	(97,554)
Assets impairment	(850)	(278)	(1,128)	(4,881)	(6,009)
Other profit or losses, net	1,912	478	2,390	205	2,595
Finance income	7,170	421	7,591	624	8,215
Finance costs	(99,485)	(453)	(99,938)	(3,596)	(103,534)
Foreign exchange loss	(111,178)	(122)	(111,300)	(1,215)	(112,515)
Share of the profit/(loss) of associates and joint ventures	4,466	-	4,466	(985)	3,481
Gain from the disposal of shares in associates, joint ventures and subsidiaries not qualifying as discontinued operations	32	-	32	8,301	8,333
Profit before income tax	**(58,823)**	**(9,236)**	**(68,059)**	**(3,203)**	**(71,262)**
Income tax (expense)/benefit	(2,630)	943	(1,687)	(627)	(2,314)
Loss for the year from continuing operations	**(61,453)**	**(8,293)**	**(69,746)**	**(3,830)**	**(73,576)**
Other key segment information					
Capital expenditures	195,784	751	196,535	9,846	206,381
Depreciation of property, plant and equipment	109,708	8,373	118,081	2,312	120,393

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

	For the year ended 31 December 2017 (restated)				
	Freight transportation	Passenger transportation	Total reporting segments	Other	Total
Key operating indices					
Revenue					
Transportation revenue from third parties	749,571	81,886	831,457	-	831,457
Transportation income from operations among segments	19,998	2,316	22,314	-	22,314
Government grants	-	20,460	20,460	-	20,460
Other revenue from third parties	45,905	3,750	49,655	11,541	61,196
Other income from operations among segments	4,354	801	5,155	5,325	10,480
Eliminations	(24,352)	(3,117)	(27,469)	(5,325)	(32,794)
Revenue	795,476	106,096	901,572	11,541	913,113
Cost of sales	(617,990)	(94,493)	(712,483)	(8,847)	(721,330)
General and administrative expenses	(76,811)	(5,618)	(82,429)	(4,252)	(86,681)
Assets impairment	(210)	(2,659)	(2,869)	(883)	(3,752)
Other profit or losses, net	2,762	750	3,512	119	3,631
Finance income	5,758	689	6,447	1,439	7,886
Finance costs	(96,266)	(201)	(96,467)	(1,247)	(97,714)
Foreign exchange (loss)/gain	(7,788)	73	(7,715)	307	(7,408)
Share of the profit/(loss) of associates and joint ventures	2,234	-	2,234	(96)	2,138
Gain from the disposal of shares in associates, joint ventures and subsidiaries not qualifying as discontinued operations	8,396	-	8,396	-	8,396
Profit/(loss) before income tax	**17,850**	**2,348**	**20,198**	**(1,919)**	**18,279**
Income tax expenses	(5,459)	(58)	(5,517)	(627)	(6,144)
Profit/(loss) for the year from continuing operations	**12,391**	**2,290**	**14,681**	**(2,546)**	**12,135**
Other key segment information					
Capital expenditures	220,908	19,212	240,120	1,884	242,004
Depreciation of property, plant and equipment	96,423	8,071	104,494	2,431	106,925

Geographical information for the Group

The Group generates its revenue from customers in multiple geographical regions. The table below shows revenue based on customer country of domicile for each of the years ended 31 December:

Customer location	2018	2017
Kazakhstan	1,006,155	893,305
Russia	28,886	12,442
Other	9,133	7,366
	1,044,174	**913,113**

Mainly, all of the Group's non-current assets are located in Kazakhstan.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

7. PROPERTY, PLANT AND EQUIPMENT

	Rail track infrastructure	Buildings and structures	Machinery and equipment	Vehicles	Land	Other	Construction in-progress	Total
Carrying amount as at 1 January 2017 (restated)	**959,909**	**178,301**	**252,799**	**832,023**	**3,646**	**13,329**	**291,249**	**2,531,256**
Additions	2,316	43	634	15,540	91	99	218,112	236,835
Finance lease additions	-	-	-	12,953	-	-	-	12,953
Disposals	(103)	(155)	(1,149)	(4,271)	(69)	(352)	-	(6,099)
Depreciation charge	(26,214)	(7,744)	(25,310)	(45,774)	-	(1,883)	-	(106,925)
Depreciation on disposal	91	140	1,106	3,435	-	363	-	5,135
(Impairment)/impairment reversal	(31)	19	14	65	-	(2)	(921)	(856)
Transfer to investment property	-	(2,671)	-	-	-	-	-	(2,671)
Transfer to assets classified as held for sale and for distribution to the Shareholder	-	(974)	(1,814)	(323)	-	(65)	-	(3,176)
Other movements and transfers	56,478	183,272	45,270	31,514	-	2,188	(320,768)	(2,046)
Carrying amount as at 31 December 2017 (restated)	**992,446**	**350,231**	**271,550**	**845,162**	**3,668**	**13,677**	**187,672**	**2,664,406**
Cost	1,182,494	400,348	418,959	1,221,591	3,668	24,682	197,140	3,448,882
Accumulated depreciation and impairment	(190,048)	(50,117)	(147,409)	(376,429)	-	(11,005)	(9,468)	(784,476)
Carrying amount as at 1 January 2018 (restated)	**992,446**	**350,231**	**271,550**	**845,162**	**3,668**	**13,677**	**187,672**	**2,664,406**
Additions	56	341	372	38,811	-	77	163,194	202,851
Finance lease additions	-	-	-	8,478	-	-	-	8,478
Disposals	(976)	(653)	(1,711)	(4,498)	(3)	(313)	-	(8,154)
Depreciation charge	(34,568)	(5,042)	(27,286)	(51,521)	-	(1,976)	-	(120,393)
Depreciation on disposal	666	238	1,487	4,478	-	306	-	7,175
Impairment reversal/(impairment)	14	(9)	(21)	(472)	-	(7)	43	(452)
Transfer to investment property	-	(250)	(253)	(1,040)	(68)	(6)	-	(1,617)
Transfer to assets classified as held for sale and for distribution to the Shareholder	-	(8,198)	(401)	(9)	(1,781)	(182)	(10)	(10,581)
Other movements and transfers	139,724	(15,187)	18,408	42,016	4	753	(186,036)	(318)
Carrying amount as at 31 December 2018	**1,097,362**	**321,471**	**262,145**	**881,405**	**1,820**	**12,329**	**164,863**	**2,741,395**
Cost	1,319,489	371,125	434,593	1,302,088	1,820	24,827	174,288	3,628,230
Accumulated depreciation and impairment	(222,127)	(49,654)	(172,448)	(420,683)	-	(12,498)	(9,425)	(886,835)

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

In 2018, the Group received property, plant and equipment from the Shareholder of 290 million tenge (2017: 2,323 million tenge) and recognised it in a consolidated statement of changes in equity as an additional paid-in capital (Note 16).

As at 31 December 2018, construction-in-progress predominantly consisted of project costs to build the Zhezkazgan-Beineu, Arkalyk-Shubarkol and Almaty-Shu railways of 21,082 million tenge (2017: 70,830 million tenge), to build a ferry complex at the Kuryk port of 43,362 million tenge (2017: 35,294 million tenge) and to develop a railway junction at the Astana station, including the construction of station building facilities of 43,966 million tenge (2017: 31,286 million tenge).

As at 31 December 2018 and 2017, Group property, plant and equipment with a carrying amount of 130,129 million tenge and 134,091 million tenge, respectively, was used as collateral for specific borrowings.

For the years ended 31 December 2018 and 2017, capitalised borrowing costs amounted to 2,130 million tenge and 2,989 million tenge. The Group's average capitalisation rate varies between 3.2% and 8.55% (2017: between 2.59% and 10%).

As at 31 December 2018 and 2017, the cost of the Group's fully depreciated property, plant and equipment in use was 269,280 million tenge and 246,544 million tenge, respectively.

8. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

			31 December 2018		31 December 2017	
Name	**Core activity**	**Main country of operation/ incorporation**	**Carrying amount**	**Ownership interest**	**Carrying amount**	**Ownership interest**
Associates						
Chinese-Kazakhstan International Logistics Company in Lianyungang	International multimodal transportation	China	11,558	49%	10,552	49%
United Transport and Logistics Company - Eurasian Rail Alliance JSC	Domestic and international rail transportation and freight forwarding	Russia	5,308	33.33%	-	
Other			-	30-47%	986	25-47%
Total investment in associates			**16,866**		**11,538**	
Joint ventures						
Logistic System Management B.V.	Freight forwarding, rolling stock management and terminal management	Kazakhstan / Netherlands	15,493	50%	15,866	50%
Total investment in joint ventures			**15,493**		**15,866**	

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

All the above associates and joint ventures are strategic for the Group's business.

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

	2018	2017
Associates		
As at 1 January	11,538	11,358
Recalculation of foreign currencies	1,097	634
Charter capital contributions	2,611	1,358
Share of profit/(loss)	1,727	(2,008)
Fair value of guarantees provided	-	196
Dividends declared	(263)	-
Transfer from other non-current assets	156	-
As at 31 December	**16,866**	**11,538**
Joint ventures		
As at 1 January	15,866	11,720
Share of profit	1,754	4,146
Dividends declared	(2,127)	-
As at 31 December	**15,493**	**15,866**

In April 2018, United Transportation and Logistics Company JSC (UTLC) was reorganised, resulting in the spin-off of United Transportation and Logistics Company – Eurasian Railway Alliance JSC (UTLC ERA), whose share capital was distributed equally among the Group, Russian Railways OJSC and Belarussian Railways. Thus, a 0.08% interest in UTLC belonging to the Group was converted into a 33.33% interest in UTLC ERA and, as a result, the Group transferred investments from other non-current assets to associates. Share of profit in UTLC ERA recognised in 2018 since acquisition amounted to 5,309 million tenge.

In 2018, the Group, represented by subsidiary KTZ Express JSC, made additional cash contributions without change in ownership interest in the charter capital of the associate Continental Logistics LLP of 2,611 million tenge.

During 2018, dividends were received in cash for 2018 H1 from the associate UTLC ERA and for 2016 from the associate Logistic System Management B.V. of 237 million tenge and 2,011 million tenge, respectively (in 2017: for 2015 - 1,664 million tenge).

During 2018, the Group sold a 25% interest in the associate Elektrovoz Kurastyru Zauyty LLP for 8,301 million tenge.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

Summary financial information in relation to significant associates as at and for the years ended 31 December:

	2018					2017				
	Chinese-Kazakhstan International Logistics Company in Lianyungang	Aktobe Rail and Section Mill Plant LLP	Continental Logistics LLP	Aktau Marine North Terminal LLP	United Transportation and Logistics Company – Eurasian Railway Alliance JSC	Chinese-Kazakhstan International Logistics Company in Lianyungang	Aktobe Rail and Section Mill Plant LLP	Continental Logistics LLP	Aktau Marine North Terminal LLP	Electrovoz kurastyru zauyty LLP
Current assets	2,571	31,198	12,169	874	21,195	3,243	19,172	11,352	1,951	15,259
Non-current assets	22,497	69,796	31,805	43,742	3,409	21,203	75,504	31,037	42,451	21,516
Total assets	**25,068**	**100,994**	**43,974**	**44,616**	**24,604**	**24,446**	**94,676**	**42,389**	**44,402**	**36,775**
Current liabilities	1,264	24,460	22,136	3,390	5,804	2,716	20,678	18,576	1,844	31,959
Non-current liabilities	218	97,061	24,963	49,578	2,874	195	97,151	28,530	40,094	16,912
Total liabilities	**1,482**	**121,521**	**47,099**	**52,968**	**8,678**	**2,911**	**117,829**	**47,106**	**41,938**	**48,871**
Total net assets/ (liabilities)	**23,586**	**(20,527)**	**(3,125)**	**(8,352)**	**15,926**	**21,535**	**(23,153)**	**(4,717)**	**2,464**	**(12,096)**
Ownership interest	49%	30%	30%	40%	33.33%	49%	30%	30%	40%	25%
Net assets/(liabilities) attributable to the Group	11,557	(6,158)	(938)	(3,341)	5,308	10,552	(6,946)	(1,415)	986	(3,024)
Accumulate unrecognised loss	-	(9,706)	(938)	(3,341)	-	-	(6,946)	(1,415)	-	(3,024)
Adjustment to a carrying value of investment in the change of the investee's net assets (fair value adjustment of the concessional loan from another shareholder)	-	3,548	-	-	-	-	-	-	-	-
Investment carrying amount	**11,557**	**-**	**-**	**-**	**5,308**	**10,552**	**-**	**-**	**986**	**-**
Revenue	8,046	42,072	2,132	3,476	108,372	1,594	32,972	3,428	1,954	2,360
Profit/(loss) for the year and total comprehensive income/(loss)	31	(9,203)	(7,112)	(10,816)	15,929	24	(8,404)	(3,367)	(4,142)	(5,332)
Group's recognised share of comprehensive income/(loss)	**15**	**-**	**(2,611)**	**(986)**	**5,309**	**12**	**(97)**	**(99)**	**(1,657)**	**-**

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

Summary financial information in relation to the joint venture Logistic System Management B.V. as at and for the years ended 31 December:

	2018	2017
Current assets, including:	14,152	18,964
Cash and cash equivalents	*7,120*	*6,297*
Non-current assets	18,357	14,968
Total assets	**32,509**	**33,932**
Current liabilities, including	4,006	4,529
Current financial liabilities (except for trade and other accounts payable and allowances)	*113*	*113*
Non-current liabilities, including	864	1,019
Non-current financial liabilities (except for trade and other accounts payable and allowances)	*113*	*225*
Total liabilities	**4,870**	**5,548**
Net assets	**27,639**	**28,384**
Ownership interest		50%
Net assets of joint ventures attributable to the Group	13,819	14,192
Goodwill	1,674	1,674
Carrying amount of investments	**15,493**	**15,866**
Revenue	58,549	53,093
Depreciation and amortisation	(986)	(990)
Finance income	64	159
Finance costs	(33)	(46)
Income tax expenses	(1,604)	(2,107)
Profit for the year and total comprehensive income	3,507	8,292
Group's recognised share of comprehensive income	**1,754**	**4,146**

9. OTHER FINANCIAL ASSETS

	31 December 2018	31 December 2017
Funds in credit institutions (short-term financial investments)	345	15,913
Loans provided	487	24,497
Less: allowance for impairment on loans provided and funds in credit institutions	(545)	(955)
	287	**39,455**
Current portion of other financial assets	287	37,129
Long-term portion of other financial assets	-	2,326
	287	**39,455**

During 2018, interest-free financial aid provided to an organisation under trust management, Astana International Airport JSC, a related party, was repaid in full to the amount of 24,000 million tenge.

As at 31 December 2018 and 2017, all loans provided were denominated in tenge.

As at 31 December 2018, the weighted average interest rate on funds in credit institutions was 1.87% in US$ and 10% in tenge (2017: 3.5% in US$ and 11.17% in tenge).

As at 31 December 2018, there were no funds in credit institutions used as collateral (2017: pledged as collateral – 2,376 million tenge). Ratings as at 31 December 2018 and 2017 ranged between B+(B1) and B-(B3).

As at 31 December, funds in credit institutions were denominated in the following currencies:

	31 December 2018	31 December 2017
US$	61	15,497
Tenge	226	416
	287	**15,913**

10. TRADE ACCOUNTS RECEIVABLE

	31 December 2018	31 December 2017 (restated)
Trade accounts receivable	23,191	30,931
Less: allowance for expected credit losses on accounts receivable	(1,520)	(8,549)
	21,671	**22,382**
Current portion of trade accounts receivable	21,639	22,340
Long-term portion of trade accounts receivable (Note 11)	32	42
	21,671	**22,382**

As at 31 December 2018, trade accounts receivable arising from the contracts with customers amounted to 18,437 million tenge, and expected credit losses on those trade accounts receivable for 2018 were 3,141 million tenge.

The average term of payment for services rendered is 30 days. During this period, interest on outstanding trade receivables is not charged.

31 December 2018	Total	Not overdue	Overdue up to 90 days	Overdue 90 - 120 days	Overdue over 120 days
Gross book value	23,191	16,297	4,428	1,103	1,363
Expected credit losses (%)		up to 5.61%	up to 37.15%	1.37%-44.59%	2.57%-100%
Allowance for expected credit losses	(1,520)	(75)	(152)	(139)	(1,154)
Carrying value	21,671	16,222	4,276	964	209

1 January 2018	Total	Not overdue	Overdue up to 90 days	Overdue 90 - 120 days	Overdue over 120 days
Gross book value	30,931	19,053	3,312	23	8,543
Expected credit losses (%)		up to 1%	1% - 25.52%	1.11%-32.37%	2.8%-100%
Allowance for expected credit losses	(8,554)[7]	(18)	(11)	(17)	(8,508)
Carrying value	22,377	19,035	3,301	6	35

[7] The provision includes the amount of debt of 7,931 million tenge, for which the Group has no reasonable expectations of recovering. Accordingly, when applying IFRS 9, the Group directly reduced the gross carrying value for this amount.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

Changes in the allowance for expected credit losses on trade accounts receivable for the years ended 31 December are as follows:

	2018	2017 (restated)
Allowance for doubtful accounts receivable under IAS 39 at the beginning of the year	**8,549**	**8,220**
Adjustment in connection with the application of IFRS 9	(7,926)	-
Allowance for expected credit losses on accounts receivable under IFRS 9 at the beginning of the year	**623**	**8,220**
Accrued for the year	3,657	606
Written off during the year against a previously created allowance	(2,702)	(277)
Disposal of a subsidiary	(58)	-
Allowance for expected credit losses on accounts receivable under IFRS 9 at the end of the year	**1,520**	**8,549**

11. OTHER NON-CURRENT ASSETS

	31 December 2018	31 December 2017 (restated)
Advances paid for property, plant and equipment	59,795	56,536
VAT recoverable	43,627	36,488
Loans to employees	4,928	5,550
Investment property	11,557	2,663
Prepaid expenses	3,856	1,874
Long-term trade accounts receivable (Note 10)	32	42
Other	3,516	5,174
	127,311	**108,327**
Less: allowance for advances for property, plant and equipment	(5,985)	(1,350)
Less: allowance for non-recoverable VAT	(17,772)	(17,551)
Less: allowance for other non-current assets	(754)	-
	102,800	**89,426**

As at 31 December, advances paid for property, plant and equipment included:

	31 December 2018	31 December 2017 (restated)
Supply of locomotives	34,468	20,354
Construction of a ferry complex at Kuryk Port and the operation of universal freight and passenger ferries	10,976	22,276
Supply of freight wagons	5,655	-
Supply of spare parts for passenger wagons	4,328	8,131
Construction of the Astana station complex	-	412
Other	4,368	5,363
	59,795	**56,536**

12. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017 (restated)
Short-term bank deposits, in tenge	30,434	19,287
Cash in bank current accounts, in tenge	22,750	40,521
Cash in bank current accounts, in US$	9,867	4,202
Cash in bank accounts, in other currencies	3,278	17,147
Short-term bank deposits in other currencies	287	-
Petty cash	9	12
Less: allowance for expected credit losses on cash	(19)	-
	66,606	81,169
Cash included in assets held for sale and for distribution to the Shareholder (Note 15)	1,617	3,215
	68,223	**84,384**

As at 31 December 2018, the weighted average interest rate on cash in current accounts was 1.3% in tenge and 0.94% in other currencies (31 December 2017: 2.11% in tenge, 0.2% в US$ and 0.28% in other currencies).

Short-term bank deposits in tenge and foreign currency are opened for up to three months, depending on the Group's cash needs. As at 31 December 2018, the weighted average interest rate on short-term bank deposits was 7.49% in tenge and 5.69% in other currencies (31 December 2017: 8.11% in tenge; while there were no deposits in other currencies).

The Group places cash and cash equivalents in banks and other financial institutions rated between B- and BB+. Based on this, the Group believes that the cash and cash equivalent credit risk as at 31 December 2018 is low.

The allowance for expected credit losses on cash is based on 12-month expected credit losses, which matches their maturity date.

13. INVENTORIES

	31 December 2018	31 December 2017
Spare parts	14,587	9,443
Materials and supplies	8,766	8,359
Railway materials	6,294	5,590
Fuel and lubricants	3,526	5,129
Work-in-progress	537	422
Finished goods	371	380
Construction materials	540	334
Other	1,166	1,021
	35,787	**30,678**
Less: allowance for inventories	(625)	(361)
	35,162	**30,317**

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

14. OTHER CURRENT ASSETS

	31 December 2018	31 December 2017 (restated)
Other taxes prepaid	27,028	20,868
Advances paid	18,373	13,265
Claims, interest and fines	8,610	8,325
Receivables from the sale of subsidiaries	3,515	3,515
Amounts due from employees	1,447	1,476
Prepaid expenses	1,222	1,803
Restricted cash	303	518
Dividends receivable	410	386
Other	12,070	13,559
	72,978	**63,715**
Less: allowance for the impairment of advances paid and allowance for expected credit losses on other current assets	(16,088)	(12,500)
	56,890	**51,215**

Changes in the allowance for impairment on advances issued and allowance for expected credit losses on other current assets for the years ended 31 December are represented as follows:

	2018	2017 (restated)
Allowance for the impairment of advances issued and other current assets at the beginning of the year	12,500	11,430
Foreign currency translation	-	13
Accrued for the year	3,579	1,235
Written off during the year against previously created allowance	(524)	(178)
Translation from other non-current assets	533	-
Allowance for the impairment of advances issued and allowance for expected credit losses on other current assets at the end of the year	**16,088**	**12,500**

15. DISCONTINUED OPERATIONS AND ASSETS, CLASSIFIED AS HELD FOR SALE AND FOR DISTRIBUTION TO THE SHAREHOLDER

During 2016, as part of the Government's Comprehensive Privatisation Plan for 2016-2020, Group management approved a list of Group subsidiaries, associates and joint ventures to be sold to private investors.

As at 31 December 2018 and 2017, the assets and liabilities of the subsidiaries meeting the criteria of non-current assets held for sale criteria were classified as 'disposal groups classified as held for sale' in the consolidated statement of financial position.

In 2018, the Group completed a transaction to sell shares to a third party in the subsidiary M. Tynyshpayev Kazakh Transport and Communications Academy JSC. As a result of the sale, the Group lost control over the subsidiary, which does not represent a major line of business, and recognised the results of the sale in profit from the disposal of subsidiaries that are not a component of discontinued operations (Note 29).

Transtelecom JSC

In April 2018, an agreement was concluded to sell a 26% interest -1 share of Transtelecom JSC. Consequently, Transtelecom JSC assets and liabilities as at 31 December 2018 and 2017 were classified as assets held for sale. Management expects that the transaction will be completed within 12 months of the reporting date.

(in millions of Tenge, unless stated otherwise)

Sales of interests in associates and joint ventures

During 2018, the Group completed a transaction to sell a 25% interest in the associate Elektrovoz Kurastyru Zauyty JSC to a third party. After the sale, the Group lost significant influence over the company and recognised a gain of 8,301 million tenge in profit from the sale of interests in associates.

During 2017, the Group entered into a transaction to sell a 50% interest in the joint ventures Astyk-Trans JSC and Locomotiv Kurastyru Zauyty JSC to a third party. After the sale, the Group lost joint control over the companies and recognised the gain of 8,145 million tenge in profit from the sale of interests in joint ventures.

	As at 31 December 2018			As at 31 December 2017 (restated)		
	Transtelecom JSC	Other	Total	Transtelecom JSC	Other	Total
Assets						
Property, plant and equipment	79,349	2	79,351	67,239	5	67,244
Intangible assets	5,093	-	5,093	4,132	-	4,132
Other non-current assets	2,706	-	2,706	5,865	-	5,865
Inventories	942	-	942	1,333	-	1,333
Trade accounts receivable	6,457	-	6,457	3,525	-	3,525
Other current assets	2,867	21	2,888	4,127	21	4,148
Cash and cash equivalents	1,615	2	1,617	3,215	-	3,215
Total assets of the disposal group held for sale	**99,029**	**25**	**99,054**	**89,436**	**26**	**89,462**
Asset for distribution to the Shareholder (Note 33)	-	282	282	-	290	290
Other (wagon repair depot assets)	-	-	-	-	2,890	2,890
Total non-current assets held for sale and for distribution to the Shareholder	**-**	**282**	**282**	**-**	**3,180**	**3,180**
Total assets held for sale and distribution to the Shareholder	**99,029**	**307**	**99,336**	**89,436**	**3,206**	**92,642**
Liabilities						
Borrowings	52,268	-	52,268	47,111	-	47,111
Finance lease liabilities	1,821	-	1,821	2,008	-	2,008
Employee benefit obligations	499	-	499	407	-	407
Deferred tax liabilities	4,140	-	4,140	3,471	-	3,471
Other non-current liabilities	16	-	16	-	-	-
Trade accounts payable	17,839	113	17,952	6,385	113	6,498
Other taxes payable	202	-	202	155	-	155
Contracts liabilities	113	-	113			
Other current liabilities	5,198	3	5,201	2,786	2	2,788
Total liabilities attributable to assets held for sale	**82,096**	**116**	**82,212**	**62,323**	**115**	**62,438**
Net assets of the disposal group	**16,933**	**-**	**-**	**27,113**	**-**	**-**

Discontinued operations

The Group presented the operating results of the subsidiary Transtelecom JSC as discontinued in the consolidated statement of profit or loss and other comprehensive income.

The results of discontinued operations for 2018 and 2017 are as follows:

	2018	2017 (restated)
Revenue	36,500	37,724
Cost of sales	(25,217)	(25,284)
General and administrative expenses	(6,598)	(4,219)
Asset impairment	(293)	(22)
Write down of disposal group value to fair value less costs to sell	(11,049)	-
Other profit and losses	315	82
Finance income	486	257
Finance costs	(5,833)	(5,989)
Foreign exchange rate gain/(loss)	98	(275)
(Loss)/profit before tax	**(11,591)**	**2,274**
Income tax expenses	(1,288)	(1,498)
(Loss)/profit from discontinued operations for the year	**(12,879)**	**776**
Basic (loss)/earnings per share (tenge)	(26)	2

Changes in cash from the discontinued operations of subsidiaries are as follows:

	2018	2017
Net cash received from operating activities	15,960	4,621
Net cash used in investing activities	(21,407)	(6,932)
Net cash received/(used) in finance activities	3,847	(7,610)
Net cash outflow	**(1,600)**	**(9,921)**

16. EQUITY

As at 31 December 2018 and 2017, share capital is presented as follows:

	No. of shares authorised for issue	No. of shares issued and paid for	Share capital, millions of tenge	Additional paid-in capital, mln. tenge
As at 1 January 2017	502,040,458	496,063,720	993,460	-
Shares issued	-	93,852	69,175	-
As at 31 December 2017	502,040,458	496,157,572	1,062,635	-
Shares issued	-	290,037	-	290
As at 31 December 2018	**502,040,458**	**496,447,609**	**1,062,635**	**290**

The Company's share capital was established through a series of share issuances in exchange for either cash or property, plant and equipment or shares. The Shareholder is entitled to dividends, a part of the Company's assets in the event of liquidation, and preference in purchasing the Company's shares or other securities convertible into Company shares.

Contributions

Shares issue

In 2018, the Shareholder contributed 51 open wagons with a total market value of 290 million tenge for 290,037 shares issued by the Group (Note 7). As at 31 December 2018, the Group recognised the transaction in additional paid-in capital, as the shares registration had not been completed (Note 35).

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

In 2017, shares were issued as follows:

a) 66,852 shares, as payment for which it received cash of 66,852 million tenge, to build the ferry complex at the Kuryk Port and operate universal freight and passenger ferries and
b) 27,000 shares, as payment for which it received property (Karabatan railway station (development of railway tracks and auxiliary facilities)) and land use rights for two land plots for a total value of 2,323 million tenge (Note 7).

Foreign currency translation reserve

The foreign currency translation reserve is used to account for exchange differences arising due to the recalculation of the financial statements of the structural subdivisions of Company divisions, subsidiaries, joint ventures and associates whose functional currency is not tenge and whose financial statements are included in the Group's consolidated financial statements.

Hedging reserve

The cash flow hedge reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges related to revenue in foreign currency. The cumulative deferred gain or loss on the hedging instrument is recognized in profit or loss only when the hedged transaction impacts the profit or loss, or is included directly in the initial cost or other carrying amount of the hedged non-financial items (basis adjustment).

On 7 August 2015, the Group hedged cash flows to reduce the risk of changes in tenge equivalent revenues denominated in Swiss Francs. The principal of Eurobonds issued on 20 June 2014 on the Swiss stock exchange and maturing on 20 June 2019 and 2022 are used as hedging instruments, and which are separately identifiable and reliably estimated. A highly probable revenue stream forecast relating to transit traffic in Swiss Francs (in particular, first sales received in the period from 1 January to 20 June 2019 and 2022) is the hedged item in this hedging relationship.

As at 31 December 2018, the effective part of 14,026 million tenge was recorded in the cash flow hedging reserve through other comprehensive income (2017: 3,479 million tenge). The ineffective part of 167 million tenge was recorded in finance costs (2017: 75 million tenge).

Dividends

In 2018, the Company declared and paid dividends for 2017 of 1,710 million tenge.

As at 31 December 2018, dividends payable to the Shareholder amounted to 16,425 million tenge (31 December 2017: 16,425 million tenge) (Notes 23 and 33).

Other distributions

In December 2018, the Kazakhstan Government and Shareholder charged the Group with financing the construction of a Children's Centre in Turkestan. As a consequence, the Group accepted the irrevocable commitment to build it and as a result recognised the distribution to the Shareholder of estimated construction costs of 5,300 million tenge.

In 2018, the Group recognised an additional imputed VAT obligation of 1 million tenge, which arose as a result of the transfer of several kindergarten facilities to local authorities.

In 2017, the Group recognised an additional irrevocable commitment related to construction of a multifunctional ice palace as a distribution for the amount of VAT of 5,733 million tenge as a result of the Ice Palace's transfer free of charge to the Astana city administration (Note 33).

In 2017, the Group entered into an irrevocable commitment to finance restoration work on the Kazakhstan Trade and Exhibition Centre in Moscow and recognised a distribution to the Shareholder of 1,388 million tenge.

In 2017, the Group recognised an impairment adjustment for bonds purchased from Special Investment Company DSFK LLP of 2,111 million tenge in other distributions to the Shareholder, net of deferred tax of 88 million tenge.

(in millions of Tenge, unless stated otherwise)

Change in ownership share in subsidiaries without loss of control

In July 2017, the Group, represented by its subsidiary KTZ Express JSC, sold a 49% interest in KTZE-Khorgos Gateway LLP to a third party for 24,063 million tenge, resulting in the recognition of a non-controlling interest in KTZE-Khorgos Gateway LLP of 16,516 million tenge. The 7,547 million tenge difference was recognised in the Group's retained earnings.

17. BORROWINGS

As at 31 December, borrowings, including accrual interest, consisted of the following:

	31 December 2018		31 December 2017	
	Amount	Weighted average effective interest rate (%)	Amount	Weighted average effective interest rate (%)
Fixed interest rate borrowings				
Borrowings received	223,280		277,429	
- in tenge	*159,669*	*8.52*	*145,120*	*8.99*
- in US$	*2,104*	*2.55*	*65,866*	*3.28*
- in Euros	*58,808*	*5.89*	*63,012*	*6.11*
- in other currencies	*2,699*	*4.25*	*3,431*	*4.00*
Debt securities issued	1,082,402		839,965	
- in tenge	*103,015*	*9.69*	*25,512*	*11.00*
- in US$	*718,771*	*6.64*	*629,359*	*6.86*
- in Swiss Francs	*177,855*	*3.26*	*98,687*	*3.35*
- in other currencies	*82,761*	*8.75*	*86,407*	*8.75*
Variable interest rate borrowings				
Borrowings received	23,424		93,780	
- in tenge	*18,039*	*11.41*	*71,151*	*11.57*
- in US$	*5,385*	*5.79*	*22,629*	*5.73*
Debt securities issued	53,171		53,546	
- in tenge	*53,171*	*9.32*	*53,546*	*10.42*
	1,382,277		**1,264,720**	
Current portion of borrowings	175,164		93,751	
Long-term portion of borrowings	1,207,113		1,170,969	
	1,382,277		**1,264,720**	

Borrowings, exclusive of debt securities, should be repaid as follows:

	31 December 2018	31 December 2017
During the year	126,434	74,020
1-2 years	9,737	37,064
2-3 years	7,851	37,252
3-4 years	4,357	32,580
4-5 years	1,642	30,849
Over 5 years	96,683	159,444
	246,704	**371,209**

Early repayment

In 2018, the Group, represented by its subsidiary KTZ-Freight Transportation JSC, within the framework of a credit agreement with dated 12 December 2016 Halyk Bank JSC made an early repayment of the loan 25,246 million tenge.

Within the framework of a credit agreement dated 26 November 2012 with the US Export-Import Bank, the Group, represented by its subsidiary KTZ-Freight Transportation JSC, made a full repayment of its debt of 61,803 million tenge.

The Group, represented by the Company and its subsidiary Kaztemirtrans JSC, within the framework of a loan restructuring agreements with EBRD dated 22 December 2016 made an early repayment of the loan of 43,578 million tenge.

The early repayment of these borrowings did not lead to additional finance costs.

Borrowings received

In 2018, the Group received the following borrowings:

Halyk Bank JSC

In 2018, the Group, represented by its subsidiary KTZ-Freight Transportation JSC, within the framework of a credit line agreement concluded 26 February 2015, borrowed 48,800 million tenge at 12% interest per annum for up to one year. The Group repaid the funds ahead of schedule.

In 2018, the Group, represented by the Company, within the framework of a credit line agreement concluded 26 February 2015, borrowed 30,490 million tenge at 12% interest per annum for up to one year. During 2018, the Group made a partial repayment of 2,500 million tenge.

In June 2018, an addendum was signed with Halyk Bank JSC to the credit line agreement dated 26 February 2015, which stipulated KTZ-Express JSC's inclusion as a co-borrower for 15,000 million tenge at 12% interest per annum for up to one year. During 2018, the Group made a partial repayment of 7,100 million tenge.

Debt securities issued

As at 31 December, debt securities issued included:

	Repayment date	Exchanges	31 December 2018	31 December 2017
Bonds issued, by price				
6.95% Eurobonds (105.521%) in US$	10 July 2042	LSE/KASE	441,797	395,123
4.85% Eurobonds (100.393%) in US$	17 November 2027	ISE/KASE	276,974	234,235
8.75% Bonds (100%) in Russian Roubles	7 June 2022	MOEX	82,761	86,408
9.25% Bonds (100%) in tenge	15 November 2024	KASE	76,831	-
3.638% Eurobonds (100%) in Swiss Francs	20 June 2022	SIX Swiss Exchange	73,574	64,174
3.25% Eurobonds (100%) in Swiss Francs	5 December 2023	SIX Swiss Exchange	64,710	-
Inflation rate +2.52% (9.32%) Bonds (100%) in tenge	25 April 2026	KASE	53,171	53,546
2.59% Eurobonds (100%) in Swiss Francs	20 June 2019	SIX Swiss Exchange	39,570	34,513
11% Bonds (100%) in tenge	23 July 2027	KASE	26,185	25,512
Total debt securities issued			**1,135,573**	**893,511**
Current portion of debt securities issued			48,730	19,731
Long-term portion of debt securities issued			1,086,843	873,780
			1,135,573	**893,511**

On 25 September 2018, to refinance currency borrowings and borrowings in tenge with high interest rates, the Company issued bonds on KASE for 75,000 million tenge with a coupon rate of 9.25% per annum and maturity date of 15 November 2024. The coupon is paid once a year.

On 5 December 2018, to refinance a US$ loan of KTZ-Freight Transportation JSC, the Company issued Eurobonds on SIX Swiss Exchange for 170,000,000 Swiss Francs, with a coupon rate of 3.25% per annum and maturity date of 5 December 2023. The coupon is paid once a year.

The fair value of the borrowings is presented in Note 34.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

Credit agreements and breaches of credit agreements

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

EBRD and HSBC France loan agreements with a carrying value of 23,320 million tenge and 58,808 million tenge, respectively, include certain financial covenants, such as Adjusted Debt to Adjusted EBITDA, Adjusted Debt to Equity[8] and Interest Coverage Ratios (based on Adjusted EBITDA).

As at 31 December 2018, the Group had failed to meet one of the HSBC France financial covenants, and, as a result, classified long-term portion of the loan of 46,238 million tenge as current liability. After the reporting date, the Group received a waiver from HSBC France to reset covenant threshold as at 31 December 2018 (Note 35). As at 31 December 2018, the Group was in compliance with the reset covenant. Accordingly, this event had not resulted in payment acceleration of HSBC France loan and had not impacted the Group's obligations under its other borrowing arrangements.

In order to avoid noncompliance with obligations to EBRD and DBK, prior to year-end, the Group received a waiver from creditors agreeing not to apply financial covenants as at 31 December 2018.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

Reconciliation of changes in liabilities and cash flows from financing activity

	2018			2017		
	Borrowings and debt securities issued	Finance lease liabilities (Note 18)	Total	Borrowings and debt securities issued	Finance lease liabilities (Note 18)	Total
As at 1 January in accordance with IAS 39 requirements	**1,264,720**	**14,885**	**1,279,605**	**1,239,680**	**-**	**1,239,680**
Adjustment in connection with the application of IFRS 9	4,505	-	4,505	-	-	-
As at 1 January 2018, in accordance with IFRS 9 requirements	**1,269,225**	**14,885**	**1,284,110**	**1,239,680**	**-**	**1,239,680**
Changes due to cash flows from financing activities						
Principal payment	(283,608)	-	(283,608)	(431,847)	-	(431,847)
Proceeds from borrowings received	271,996	-	271,996	419,633	-	419,633
Payments on finance lease liabilities	-	(784)	(784)	-	(128)	(128)
Total changes due to cash flows from financing activities	**(11,612)**	**(784)**	**(12,396)**	**(12,214)**	**(128)**	**(12,342)**
Other changes						
Effect of changes in foreign exchange rates	112,798	-	112,798	2,534	-	2,534
Cash flow hedging	14,193	-	14,193	3,554	-	3,554
New finance lease agreements	-	5,287	5,287	-	14,414	14,414
Interest expenses on loans and finance leases and discount amortisation (Note 28)	90,306	1,092	91,398	89,312	195	89,507
Interest paid	(93,936)	(572)	(94,508)	(73,253)	(190)	(73,443)
Effect of modifications or exchange of debt assets and liabilities that do not lead to derecognition	(1,036)	-	(1,036)	-	-	-
Other changes	2,339	(1,836)	503	15,107	594	15,701
Total other changes attributable to liabilities	**124,664**	**3,971**	**128,635**	**37,254**	**15,013**	**52,267**
As at 31 December	**1,382,277**	**18,072**	**1,400,349**	**1,264,720**	**14,885**	**1,279,605**

18. FINANCE LEASE LIABILITIES

As at 31 December, Group finance lease liabilities included:

	2018		2017	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
During one year	1,513	1,677	1,222	1,135
Between two and five years inclusive	7,256	5,021	3,143	2,512
Over five years	22,794	11,374	15,603	11,238
Net minimum liabilities	**31,563**	**18,072**	**19,968**	**14,885**
Less future finance costs	(13,491)	-	(5,083)	-
Present value of lease payments	**18,072**	**18,072**	**14,885**	**14,885**
Less amounts due within 12 months		(1,677)		(1,135)
Amount to be repaid after 12 months		**16,395**		**13,750**

Passenger wagons

In December 2016, the Group, represented by its subsidiary Passenger Transportation JSC, entered into a finance lease agreement with DBK-Leasing JSC, a related party, to lease 43 passenger cars manufactured by Tulpar-Talgo LLP for 12,938 million tenge, for 20 years and at interest of 1.75% per annum. The Group acts as the lessee. The effective interest rate is 1.95% per annum. The concession period for the principal is 5 years.

During 2017, the Group had received 43 passenger cars of 11,552 million tenge and recognised them as property, plant and equipment at present value of minimum lease payments inclusive of paid advances.

Platform cars

In August 2017, the Group, represented by its subsidiary KTZ Express JSC, entered into a finance lease agreement with DBK-Leasing JSC, a related party, to lease 1,995 platform cars for 33,264 million tenge, for 15 years and at interest of 15% per annum, of which 10% is subsidised by the Transport Committee of the Ministry of Investment and Development ("Transport Committee") under National Budget Programme №212 *Interest Rate Subsidies for Loans and Finance Leases to Purchase Wagons for Passenger Carriers on Socially Significant Routes and Car (Container) Operators*. The concession period for principal repayments is five years. The Group acts as the lessee. The effective interest rate is 15.62%.

During 2018, the Group received 351 platform cars (in 2017: 30) in accordance with the contractual supply schedule.

Low-sided cars

In August 2017, the Group, represented by its subsidiary Kaztemirtrans JSC, entered into a finance lease agreement with DBK-Leasing JSC, a related party, to lease 1,000 low-sided cars for 15,077 million tenge, for 15 years and at interest of 15% per annum, of which 10% is subsidised by the Transport Committee under National Budget Programme №212 *Interest Rate Subsidies for Loans and Finance Leases to Purchase Wagons for Passenger Carriers on Socially Significant Routes and Car (Container) Operators*. The concession period for principal repayments is 7 years. The Group acts as lessee. The effective interest rate is 15.095% per annum.

During 2018, the Group received 228 low-sided cars (2017: 81) in accordance with the contractual supply schedule.

All lease liabilities are denominated in tenge.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

19. EMPLOYEE BENEFIT OBLIGATIONS

Defined benefits scheme and other non-current employee benefits

Under Kazakhstan law, pension contributions are the responsibility of employees, and the Group has no current or future obligations to make payments to employees following their retirement, apart from those stipulated in a collective agreement (see below).

Employee benefit obligations and other non-current employee benefits are payable in accordance with the Collective Agreement between the Group and its employees for 2018-2020. Pursuant to this agreement, the Group provides the following benefits under an unfunded scheme:

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

Movement in the present value of obligations for the years ended December 31 are as follows:

	2018	2017 (restated)
Total liabilities at the beginning of the year	31,241	29,131
Current service cost	1,172	1,034
Past service cost	1,480	(72)
Interest cost	2,944	2,795
Actuary remeasurement recognised in other comprehensive losses	1,137	1,558
Payments made during the year	(3,211)	(3,547)
Actuary loss recognised in profit or loss for the year	19	342
Disposal of subsidiaries	(37)	-
Total liabilities as at the end of the year	**34,745**	**31,241**
Including liabilities due within one year	2,797	2,858
Liabilities due after one year	31,948	28,383
	34,745	**31,241**

Defined benefit obligations and other long-term employee benefits recognised in profit or loss during 2018 and 2017 are as follows:

	2018	2017 (restated)
Cost of sales (Note 26)	4,893	3,529
General and administrative expenses (Note 27)	722	571
Total recognised in profit or loss for the year	**5,615**	**4,100**

The Group's obligations were estimated based on published statistical data regarding mortality and actual Group data concerning employee and pensioner headcount, age, gender and years of service, and turnover. Other significant actuarial assumptions as at the reporting date for the consolidated statement of financial position are as follows:

	2018	2017
Discount rate	8.3%	9.0%
Expected annual growth in material aid in the future	3.4% (average)	4.0% (average)
Expected annual minimum salary growth in the future	4.9% (average)	4.3% (average)
Expected annual future growth in rail ticket cost	6.3% (average)	6.6% (average)

According to an actuary sensitivity analysis, the maximum increase in the employee benefit obligations is 10.1% caused by an inflation rate increase of 1%.

20. CORPORATE INCOME TAX

Income tax expenses for the year ended 31 December included:

	2018	2017 (restated)
Current income tax expenses	667	526
Adjustment in relation to income tax for prior years	828	(308)
Income tax paid withheld	686	306
Deferred income tax expense	133	5,620
	2,314	**6,144**

The table below provides a reconciliation of income tax expenses based on accounting profit before tax at the statutory rate against income tax expenses reported for the years ended 31 December:

	2018	2017 (restated)
(Loss)/profit before tax from continuing operations	(71,262)	18,279
Official tax rate	20%	20%
Theoretical tax (benefit)/expense at the official rate	(14,252)	3,656
Tax effect of non-deductible expenses for tax calculation purposes, and other effect:		
Adjustment of income tax from prior years	828	(308)
Non-deductible expenses	9,334	1,164
Change in unrecognised deferred tax assets	6,404	1,632
Income tax expense recognised in profit or loss (attributable to continuing activities)	**2,314**	**6,144**

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

	31 December 2018	31 December 2017 (restated)
Deferred tax assets:		
Tax losses carried forward	143,256	134,504
Difference in accounts receivable	4,232	3,295
Financial guarantee contracts liabilities	2,918	-
Accrued employee liabilities	2,718	2,544
Discount on loan accounts receivable	2,178	2,305
Other	1,470	2,193
	156,772	**144,841**
Less: deferred tax assets offset against deferred tax liabilities	(150,348)	(138,888)
Deferred tax assets	**6,424**	**5,953**
Deferred tax liabilities:		
Property, plant and equipment and other non-current assets	(332,719)	(321,557)
Adjustment to borrowings to fair value	(43,881)	(44,353)
Deferred expenses	(78)	(259)
Other	(8)	(317)
	(376,686)	**(366,486)**
Less: deferred tax liabilities offset against deferred tax assets	150,348	138,888
Deferred tax liabilities	**(226,338)**	**(227,598)**
Total net deferred tax liabilities	**(219,914)**	**(221,645)**

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

	2018	2017 (restated)
Net deferred tax liabilities as at the beginning of the year	(221,645)	(216,044)
Recognised in profit or loss	(133)	(5,620)
Recognised in a consolidated statement of changes in equity	-	107
Disposal of subsidiaries	1,030	-
Recognised in investments in associates	834	(88)
Net deferred tax liabilities as at the end of the year	**(219,914)**	**(221,645)**

The Group has not recognised deferred tax assets relating to the portion of tax losses carried forward. Management believes it is improbable that there will be sufficient taxable income available in the future against which any such deferred tax assets can be utilised. As at 31 December 2018, the total tax effect of unrecognised tax losses carried forward amounted to 11,842 million tenge (31 December 2017: 5,438 million tenge). These tax losses carried forward expire in 10 years from the date they were incurred.

21. TRADE ACCOUNTS PAYABLE

	31 December 2018	31 December 2017 (restated)
Accounts payable for the supply of property, plant and equipment	59,154	39,096
Accounts payable for services provided	49,838	52,583
Accounts payable for inventories received	30,451	25,475
Other accounts payable	2,460	723
	141,903	**117,877**
Current portion of trade accounts payable	140,222	117,624
Long-term portion of trade accounts payable (Note 23)	1,681	253
	141,903	**117,877**

As at 31 December, trade accounts payable were expressed in the following currencies:

	31 December 2018	31 December 2017 (restated)
Tenge	128,623	100,772
US$	6,325	7,496
Swiss Francs	813	806
In other currencies	6,142	8,803
	141,903	**117,877**

The average turnover period for accounts payable is 56 days (2017: 59 days).

22. CONTRACTS LIABILITIES

	31 December 2018
Advances received on contracts with customers	61,302
Deferred income	7,708
	69,010

The revenue recognized in the reporting period, which was included in the balance of advances received and deferred income at the beginning of the period amounted to 48,162 million tenge.

23. OTHER LIABILITIES

	31 December 2018	31 December 2017 (restated)
Salaries payable	17,506	15,526
Dividends payable (Note 16)	16,425	16,425
Liabilities under financial guarantee contracts	14,588	4,194
Provision for unused vacation	11,705	10,880
Deferred income	7,229	8,414
Obligatory pension contributions and social contributions, insurance and obligatory medical insurance contributions	6,034	5,323
Advances received	2,797	83,697
Trade accounts payable (Note 21)	1,681	253
Other liabilities	11,437	17,898
	89,402	**162,610**
Current portion of other liabilities	68,418	158,163
Long-term portion of other liabilities	20,984	4,447
	89,402	**162,610**

As at 31 December 2018 and 2017, other liabilities were, predominantly, expressed in tenge.

As disclosed in Note 31, in 2018, the Company provided a financial guarantee to Development Bank of Kazakhstan JSC for the loan received by Astana International Airport JSC, which is under trust management of the Group, and recognised a liability under financial guarantee contract of 6,451 million tenge.

The Group provided financial guarantees on bank loans obtained by its associates Elektrovoz Kurastyru Zauyty LLP and Aktobe Rail and Section Mill Plant LLP. As at 31 December 2018, the amortised cost of these financial guarantees was 8,137 million tenge (2017: 4,194 million tenge).

24. REVENUE

In 2018 and 2017, revenue from freight transportation included:

	2018	2017 (restated)
Revenue received on contracts with customers:		
Domestic routes	283,878	254,723
International (transit) routes	243,760	209,217
International (export) routes	178,063	158,203
International (import) routes	95,915	88,719
Additional charges related to the transportation process	33,618	28,557
Other revenue from freight transportation	13,802	10,152
	849,036	**749,571**

In 2018 and 2017, revenue from passenger transportation included:

	2018	2017
Revenue received on contracts with customers:		
On domestic routes	60,461	56,893
On international routes	16,841	19,519
Other revenue	6,917	5,474
	84,219	**81,886**

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

25. OTHER REVENUE

	2018	2017 (restated)
Revenue from wagon lease	44,562	22,937
Revenue from the sale of goods and provision of other services	39,848	33,561
Revenue from fines	5,758	4,698
	90,168	**61,196**

Revenue from the sale of goods and provision of other services consists primarily of revenue from loading and unloading services, vessel servicing, the sale of inventory and scrap, locomotive haulage, and from the provision of services of the main railway network in passenger traffic. Revenue of 19,075 million tenge was recognized at a certain point in time, revenue of 20,773 million tenge was recognized over time as services were rendered.

Fines charged to customers represent mainly revenue earned on late payment interest related to the late pickup of freight cars and for a breach of contract terms.

26. COST OF SALES

	2018	2017
Staff costs, including taxes, contributions and provision for unused vacations	266,930	240,736
Fuel and lubricants	120,476	89,420
Depreciation and amortisation	114,431	101,677
Repairs and maintenance	99,219	88,006
Work and services of a production nature	52,485	48,407
Electricity	45,679	43,893
Materials and supplies	42,728	45,040
Taxes	20,287	17,338
Operating lease	15,554	4,559
Communication services	5,315	4,753
Employee benefit expenses and other long-term employee benefits (Note 19)	4,893	3,528
Utilities and building maintenance	3,901	3,172
Business trip expenses	2,810	2,787
Insurance	2,472	1,589
Transportation services	839	1,116
Other	20,429	25,308
	818,448	**721,330**

27. GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017 (restated)
Staff costs, including taxes, contributions and provision for unused vacations	41,231	39,028
Property tax and other taxes	16,583	17,813
Allowances for expected credit losses	7,231	1,841
Depreciation and amortisations	6,547	5,230
Consulting, audit and legal services	3,659	3,753
Other third party services	3,215	1,264
Business trip expenses	1,577	1,434
Operating lease expenses	1,438	1,407
Advertising	1,373	1,891
Materials	1,095	689
Expenses to hold celebrations and cultural events	970	851
Banking services	928	793
Utilities and building maintenance	872	840
Employee benefit expenses and other long-term employee benefits (Note 19)	722	571
Expenses to maintain social sphere facilities	413	417
Vocational and professional training expenses	364	233
Insurance	347	275
Repairs and maintenance	273	260
Other expenses	8,716	8,091
	97,554	**86,681**

28. FINANCE COSTS

	2018	2017 (restated)
Interest and borrowing costs	90,306	89,312
Other finance costs	13,228	8,402
	103,534	**97,714**

29. DISPOSAL OF SUBSIDIARIES

In 2018, the Group sold a 100% interest in the subsidiary M Tynyshpayev Kazakh Transport and Communications Academy JSC to a third party at the selling price of 10,251 million tenge (in 2017: shares and participation interest in the subsidiaries Transportation Service Centre JSC and Regional Forwarding Logistics OJSC, Rauan-Burabai LLP, Make-Ekibastuz LLP and Bas Balkhash LLP). As a result of the sale, the Group lost control over the subsidiaries.

Gain from the disposal of subsidiaries:

	2018	2017
Consideration received	10,251	1,033
Net assets disposed off	(10,219)	(899)
Non-controlling interests	-	9
Foreign currency translation reserve	-	108
Gain from disposal	**32**	**251**

Net cash inflows from the disposal of subsidiaries:

	2018	2017
Cash consideration	10,251	1,033
Less disposed of cash and cash equivalents	(855)	(608)
Total	**9,396**	**425**

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

30. EARNINGS PER SHARE

Basic earnings per share are calculated using the weighted average number of common shares issued during the year. Basic and diluted per share data are the same, as there are no dilutive instruments outstanding. During 2018 and 2017, there were no antidilutive instruments outstanding.

	2018	2017 (restated)
Weighted average quantity of common shares	496,160,750	496,098,049
(Loss)/profit for the year attributable to the Shareholder (millions of tenge)	(87,219)	11,355
(Loss)/profit per common share (tenge)	**(176)**	**23**
(Loss)/profit per year from continuing operations attributable to the Shareholder (millions of tenge)	(74,340)	10,579
(Loss)/profit per common share from continuing operations (tenge)	**(150)**	**21**
Net assets not including intangible assets and non-controlling interests	1,102,607	1,217,272
Quantity of common shares in circulation (registered)	496,157,572	496,157,572
Carrying amount of one share (tenge)[9]	**2,222**	**2,453**

31. FINANCIAL AND CONTINGENT LIABILITIES

Capital commitments

As at 31 December 2018, the Group had commitments to purchase long rails and purchase freight and passenger electric locomotives, freight and passenger steam locomotives for a total of 1,459,577 million tenge (31 December 2017: 1,119,544 million tenge).

Other contractual liabilities

The Group, represented by its subsidiary KTZ Express JSC, has contingent liabilities under three agreements to provide freight handling services and freight storage in the future with Continental Logistics LLP, Sberbank of Russia SB JSC and Odyssey Investments Group LLP dated 20 November 2015; Aktau Marine North Terminal LLP, Sberbank of Russia SB JSC and Inter Port Development PTE LTD dated 28 December 2015; and Continental Logistics Shymkent LLP and Odyssey Investments Group LLP dated 15 August 2016 ("the Agreements"). The Agreements stipulate that the Group has to acquire a minimum volume of freight storage services for 10, 13 and 15 years, which is a potentially onerous term. The service period under the Agreement dated 20 November 2015 started from 15 September 2016.

In 2018, according to an agreement dated 20 November 2015, the Group did not meet conditions to acquire minimum freight storage services from Continental Logistics LLP. However, the Group does not expect that it will incur losses in connection with the failure to execute minimum freight storage services, because it received confirmation that Continental Logistics LLP does not intend to make claims with respect to the agreement in question.

Based on an assessment, Group management believes that as at 31 December 2018 and 31 December 2017 that there is no high probability of non-performance of its obligation in the future to acquire minimum freight storage service volumes. Accordingly, the Group had not provided for the contingent liability.

[9] The carrying amount of shares is calculated in accordance with KASE requirements.

Contingent liabilities

Litigations

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

Contingent liabilities related to the Kazakhstan tax system

Due to the uncertainties inherent in the Kazakhstan tax system, the ultimate amount of taxes, fines and late payment interest may exceed the amount expensed as at 31 December 2018 and 2017. It is not possible to determine the value of any unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome.

In 2017 after a thematic tax audit of the VAT refund for the reporting periods 2011-2015, the subsidiary Suburban Transportation JSC was subject to additional VAT of KZT 1,473 million and late payment interest of KZT 130 million because budget subsidies allocated to compensate carrier losses to transport passengers on socially significant routes were not included in taxable turnover.

According to the results of the appeal in the specialized interdistrict economic court of Astana, the Decision dated 24 December 2018 on the cancellation of the above accrual was received.

As at 31 December 2018 and 2017, the Group had not provided for the above amounts because it believes that the tax authorities' actions contradict tax law and is disputing the charges in court and with the state authorities.

Insurance

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

Guarantees

As at 31 December 2018, guarantees were represented as follows:

Creditor	Guarantee purpose	Guarantee issue date	Guarantee period	Guarantee amount
Eurasian Development Bank	Execute the obligations of Elektrovoz Kurastyru Zauyty LLP to finance construction of a locomotive production plant (an associate until November 2018)	17 September 2012	until 2023	2,370 million tenge
Development Bank of Kazakhstan JSC	Execute the obligations of the associate Aktobe Rail and Section Mill Plant LLP to finance the construction of a rail and section mill plant in Aktobe	4 July 2013	until 2033	23,070 million tenge
Development Bank of Kazakhstan JSC	Execute the obligations of an organisation under trustee management, Astana International Airport JSC to finance its upgrade	28 March 2018	until 2033	22,500 million tenge

Note 23 discloses the fair value of these guarantees.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

In order to avoid non-compliance with respect to obligations to its creditors, prior to year-end, the Group received a waiver related to the non-application of financial covenants as at 31 December 2018 under the financial guarantee contract with Development Bank of Kazakhstan JSC.

Finance lease

In July 2017, the Group, represented by its subsidiary Passenger Transportation JSC, entered into a finance lease agreement with DBK-Leasing JSC to lease 62 passenger cars produced by Tulpar-Talgo LLP for 18,892 million tenge, for 20 years and at interest of 1.75% per annum. The concession period for the principal is 6 years. The Group acts as a lessee. The finance lease is due to commence in December 2020.

In addition, as disclosed in Note 18, the Group, represented by its subsidiaries KTZ Express JSC and Kaztemirtrans JSC, entered into finance lease agreements with DBK-Leasing JSC for platform cars and low-sided cars, which are expected to be supplied during 2019.

32. SUBSIDIARIES

Information on the composition of the Group as at the end of the reporting period is as follows:

Subsidiary	Activities	Country	Ownership interest, % 2018	Ownership interest, % 2017
1. Kaztemirtrans JSC	Freight wagon operation	Kazakhstan	100	100
2. Passenger Transportation JSC	Passenger transportation	Kazakhstan	100	100
3. KTZ-Freight Transportation JSC	Freight transportation and locomotive haulage	Kazakhstan	100	100
4. KTZ Express JSC	Multimodal transportation	Kazakhstan	100	100
5. Temirzholsu JSC	Utilities	Kazakhstan	100	100
6. Remlocomotive JSC	Rolling stock production	Kazakhstan	100	100
7. Transtelecom JSC	Telecommunication services	Kazakhstan	51	51
8. Militarised Railway Security JSC	Security	Kazakhstan	100	100
9. Kamkor Repair Corporation LLP	Machinery production	Kazakhstan	100	100
10. Vokzal-Service JSC	Station management	Kazakhstan	-	100
11. M Tynyshpayev Kazakh Academy of Transport and Communications JSC	Staff training, vocational training and retraining	Kazakhstan	-	100
12. Aktau Sea Commercial Port National Company JSC[10]	Vessel loading and unloading work	Kazakhstan	100	100
13. Port Kuryk LLP	Freight transhipment and vessel servicing	Kazakhstan	100	100
14. KTZ Finance OJSC	Bond issues to finance projects and the operations of KTZ group companies	Russia	100	100

In 2018, a 100% interest in the M Tynyshpayev Kazakh Academy of Transport and Communications JSC was sold to a third party while Vokzal-Service JSC was liquidated.

[10] In November 2013, the Shareholder transferred a 100% ownership interest in National Company Aktau Sea Commercial Port JSC to the Group's trust management. National Company Aktau Sea Commercial Port JSC is recognised as a Group subsidiary although the Group does not legally hold shares in it.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

33. RELATED PARTY TRANSACTIONS

For the purpose of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other or exercise significant influence over the other party when making financial or operational decisions. In addition, parties under common control within the Group are considered to be related. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Related parties may enter into transactions that might not be necessarily available to unrelated parties, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of related party relationships for those related parties with which the Group entered into significant transactions or had significant balances outstanding as at 31 December that are not outlined elsewhere in these notes are detailed below.

		Shareholder	Associates	Joint ventures in which the Group is a partner	Companies making up the Shareholder Group	Other related parties
Amounts due from related parties for goods, services and non-current assets	2018	11	37,614	500	3,537	3,076
	2017	7	9,135	305	1,009	-
including allowances for expected credit losses	2018	-	(1,000)	(26)	(71)	-
	2017	-	(12)	(24)	(32)	-
Amounts due to related parties for goods, services and non-current assets	2018	-	15,346	2,177	2,261	21,591
	2017	-	4,336	2,173	2,689	18,792
Restricted cash	2018	-	-	-	-	86
	2017	-	-	-	-	-
Loans receivable	2018	-	-	-	-	-
	2017	-	-	-	-	-
including allowances for expected credit losses	2018	-	-	-	-	-
	2017	-	-	-	-	-
Borrowings received	2018	107,906	-	-	-	30,112
	2017	105,739	-	-	-	37,476
Finance lease liabilities	2018	1,903	-	-	-	16,169
	2017	996	-	-	-	13,889
Dividends payable	2018	16,425	-	-	-	-
	2017	16,425	-	-	-	-

Transactions with related parties for the years ended 31 December are presented as follows:

		Shareholder	Associates	Joint ventures in which the Group is a partner	Companies making up the Shareholder group	Other related parties
Sale of goods, services and non-current assets	2018	54	9,922	29,588	37,747	1,952
	2017	2,858	1,117	24,155	15,854	-
(Accrued)/recovered allowances for expected credit losses	2018	-	(988)	(2)	(55)	-
	2017	-	5	-	2	-
Purchase of goods, services and non-current assets	2018	-	48,203	111	13,593	2,297
	2017	2,821	45,970	662	12,319	-

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

		Shareholder	Associates	Joint ventures in which the Group is a partner	Companies making up the Shareholder group	Other related parties
Loan issue	2018	-	-	-	-	-
	2017	-	-	13	-	-
Loan repayment	2018	-	-	-	-	24,000
	2017	-	-	-	-	4,000
Receipt of loans	2018	40,000	-	-	-	-
	2017	25,000	-	-	-	-
Repayment of loans received	2018	41,175	-	-	-	8,398
	2017	75,000	-	-	-	6,647
New finance lease agreements	2018	1,383	-	-	-	3,903
	2017	895	-	-	-	13,519
Finance lease payments	2018	784	-	-	-	572
	2017	51	-	-	-	76
Finance income	2018	14	-	-	-	785
	2017	-	-	14	-	43
Finance expenses	2018	5,802				3,297
	2017	5,914	-	1	-	2,823
Dividends income	2018	-	263	2,028	-	-
	2017	-	-	-	-	-
Dividends declared	2018	1,710	-	-	-	-
	2017	-	-	-	-	-
Sale of financial asset	2018	81,986	-	-	-	-
	2017	-	-	-	-	-
Share capital contribution	2018	290	-	-	-	-
	2017	69,175	-	-	-	-

In 2018, the Company received short-term loans from the Parent and acquired the Parent's bonds from bondholders and sold such financial assets back to the Parent. Acquisition and sale was based on market terms. The loans were settled during 2018.

As at 31 December 2018 and 2017, certain Group borrowings of 2,104 million tenge and 2,548 million tenge, respectively, were guaranteed by the Kazakhstan Government.

As at 31 December 2018 and 2017, the Group issued guarantees on certain borrowings of associates to ensure the execution of obligations to banks (Notes 23 and 31).

Transactions with Shareholder group companies, associates and joint ventures and other related parties mainly comprise transactions with KazMunaiGas National Company JSC (fuel), Kazakhtelecom JSC (communication services), Kazatomprom National Nuclear Company JSC (electricity), KEGOC JSC (electricity), Kazpost JSC (postal services), Kazakhstan Engineering National Company JSC (engineering production) and Samruk-Energo JSC (electricity). The Group also provides freight transportation services to Shareholder group companies, associates and joint ventures.

In addition, during 2016-2017, the Group, represented by its subsidiary Airport Management Group LLP, provided interest-free, reimbursable financial aid of 28,000 million tenge to organisation under trust management, Astana International Airport JSC, to finance working capital, of which 24,000 million tenge was repaid in 2018 and 4,000 million tenge in 2017.

As at 31 December, the Group recognised a constructive obligation to build the following facilities for the benefit of the Shareholder:

	Current liabilities				
	Children's Centre in Turkestan	Mangistau social facilities	Astana kindergarten	Ice Palace	Total
As 1 January 2017	-	247	43	47,778	48,068
Accrued for the year	-	-	-	5,733	5,733
Written off during the year	-	-	-	(53,511)	(53,511)
As at 31 December 2017	**-**	**247**	**43**	**-**	**290**
Accrued for the year	5,300	-	1	-	5,301
Written off during the year	-	-	(9)	-	(9)
As at 31 December 2018	**5,300**	**247**	**35**	**-**	**5,582**

As at and for the years ended 31 December, the Group incurred the following costs related to the construction of facilities for the benefit of the Shareholder for the above construction obligations:

	Current assets			
	Mangistau social facilities	Astana kindergarten	Ice Palace	Total
As at 1 January 2017	247	43	47,778	48,068
Disposal	-	-	(47,778)	(47,778)
As at 31 December 2017	**247**	**43**	**-**	**290**
Disposal	-	(8)	-	(8)
As at 31 December 2018	**247**	**35**	**-**	**282**

In May 2017, the Ice Palace, which was accounted for as an asset for the benefit of the Shareholder, in accordance with a decision of the Ultimate Shareholder, was transferred free of charge to the Astana city administration. As a result of the transfer, VAT of 5,733 million tenge was recognised as a distribution to the shareholder in retained earnings (Note 16).

Compensation of key management personnel of the Group

Key management personnel comprise members of the Group's Management Board and Board of Directors, totalling 17 persons for the year ended 31 December 2018 (2017: 16 persons). Total compensation to key management personnel included in personnel costs in the consolidated statement of profit or loss and other comprehensive income comprised 210 million tenge for the year ended 31 December 2018 (2017: 455 million tenge). Compensation to key management personnel mainly consists of contractual salary costs and bonuses based on operational results.

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

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

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to the Shareholder by optimising debt and equity balance. The Group's overall strategy remains unchanged from 2017.

There are no mandatory minimum capital requirements for the Group.

The Group's equity structure includes net debt (loans, debt securities and finance lease liabilities less cash and cash equivalents) and Group equity (which comprises share capital, foreign currency translation and cash flow hedge reserves, retained earnings and non-controlling interests).

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

Financial risk management objectives

Risk management is an essential element of the Group's operations. The Company monitors and manages financial risks relating to the Group's operations through internal risk reports which analyse risk exposure by the degree and size of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), liquidity risk and cash flow interest rate risk. A description of the Group's risk management policies in relation to those risks follows.

Interest rate risk

The interest rate risk to the Group is the risk of changes in market interest rates reducing the overall return on the Group's investments and/or increasing cash outflow on its loans and debt securities. The Group limits its interest rate risk by monitoring changes in interest rates in the currencies in which its financial instruments are held, and by maintaining a balance between its loans with fixed and variable interest rates.

The Group's exposure to the interest rate risk mainly relates to its borrowings with variable interest rates.

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

	31 December 2018		31 December 2017	
	Interest rate increase / (decrease) in base points	Effect on pre-tax profit/equity	Interest rate increase / (decrease) in base points	Effect on pre-tax profit/equity
US$	50/(15)	(26)/8	70/(8)	(154)/18
Tenge	50/(15)	(340)/102	70/(8)	(843)/96

Currency risk

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

A significant portion of the Group's short-term and long-term foreign currency debt is denominated in US$. A change in the tenge value against the US$, or any other foreign currency in which debt is denominated will result in a foreign exchange gain or loss. During 2018, the Group incurred a foreign exchange loss of 112,515 million tenge, of which major portion is attributable to borrowing as disclosed in Note 17 (2017: 7,408 million tenge). The Group maintains a portion of its cash and cash equivalents and other financial assets in US$ in order to partially offset any foreign currency gain or loss on borrowings.

The following table reflects the sensitivity of the Group's profit before tax and equity to potential changes in the US$, Euro, Russian Rouble and other exchange rates, provided all other parameters remaining constant.

	31 December 2018			31 December 2017		
	Exchange rate increase / (decrease)	Effect on pre-tax profit	Effect on equity	Exchange rate increase / (decrease)	Effect on pre-tax profit	Effect on equity
US$	14%/ (10%)	(100,256)/ 71,612	-	10%/ (10%)	(69,162)/ 69,162	-
Euros	14%/ (10%)	(8,727)/ 6,233	-	13.5%/ (9.5%)	(8,522)/ 5,997	-
Russian Roubles	14%/ (9%)	(11,393)/ 7,324	-	16%/ (16%)	(13,531)/ 13,531	-
Swiss Francs	14%/ (10%)	(77)/55	(24,900)/ 17,786	11.5%/ (11.5%)	(169)/169	(11,349)/ 11,349
Other currencies	14%/ (10%)	(165)/118	-	11.5%/ (11.5%)	(224)/224	-

On 7 August 2015, the Group began cash flow hedging to decrease the risk of a change in the tenge equivalent of revenue denominated in Swiss francs. Eurobonds issued on 20 June 2014 on the Swiss Stock Exchange are used as hedging instruments. The hedged item is revenue from transit traffic in Swiss Francs. As a result of hedging, in 2018 an effect of 14,026 million tenge was recognised in other comprehensive income (2017: 3,479 million tenge).

Credit risk

Credit risk arising from a party's inability to meet the terms of the Group's financial instrument contracts is generally limited to the amounts, if any, by which the counterparty's obligations exceed the Group's obligations to that party. It is the Group's policy to enter into financial instruments with a range of creditworthy parties. The maximum exposure to credit risk is represented by the carrying value of each financial asset.

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

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

In addition, the Group is exposed to credit risk on financial guarantees provided to banks. The maximum risk of the Group in this regard is equal to the maximum amount that the Group will be obliged to pay in the event of claims for guarantees disclosed in Note 31. As at 31 December 2018, the amount of 14,545 million tenge (effect of IFRS 9 adoption at 1 January 2018: 8,312 million tenge) was estimated as a loss allowance in accordance with IFRS 9, however, a loss allowance of 800 million tenge was not recognized in profit or loss as the initial fair value of the premium less cumulative amount of income, was above the amount of the expected credit losses allowance.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Group manages market risk through periodic estimates of potential losses that could arise from adverse changes in market conditions.

Liquidity risk

The Group manages short-term, mid-term and long-term financing liquidity risk in accordance with Shareholder requirements. The Group manages liquidity risk by maintaining adequate reserves, bank loans and accessible credit lines by constantly monitoring projected and actual cash flows and comparing the maturity of financial assets and liabilities.

As at 31 December 2018, the Group has also credit lines available in Halyk Bank JSC and Citibank of Kazakhstan for a total amount of 37,878 million tenge (2017: 49,970 million tenge).

The Group controls and monitors compliance with the covenants set by the Shareholder and credit/guarantee agreements on a regular basis.

To refinance long-term borrowings received by the Company and subsidiaries KTZ-Freight Transportation JSC and KTZ Express JSC, the Group issued bonds domestically of 75,000 million tenge and overseas of 170,000,000 Swiss Francs.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

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

	Up to 1 month	1-3 months	3 months – 1 year	1-5 years	Over 5 years	Total
2018						
Interest-free						
Accounts payable	138,621	1,430	170	1,681	-	141,902
Other current liabilities	-	-	5,579	-	-	5,579
Interest-bearing						
Borrowings	21,080	8,194	225,700	538,845	1,860,848	2,654,667
Finance lease	1,931	1,501	2,821	37,031	45,229	88,513
Financial guarantees	32	1,034	1,971	19,160	66,075	88,272
	161,664	**12,159**	**236,241**	**596,717**	**1,972,152**	**2,978,933**
2017						
Interest-free:						
Accounts payable	70,135	1,579	42,913	2,997	-	117,624
Other current liabilities	-	-	17,892	-	-	17,892
Interest-bearing:						
Borrowings	20,154	10,205	114,331	628,069	1,704,444	2,477,203
Finance lease	695	527	3,629	29,133	74,557	108,541
Financial guarantees	1,829	2,968	9,348	27,214	-	41,359
	92,813	**15,279**	**188,113**	**687,413**	**1,779,001**	**2,762,619**

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

	Up to 1 month	1-3 months	3 months – 1 year	Over 1 year	Unspecified maturity	Total
2018						
Interest-bearing:						
Short-term deposits	30,708	-	-	-	-	30,708
Interest on short-term deposits	189	-	-	-	-	189
Other financial assets	-	-	285	-	-	285
Interest on other financial assets	-	-	16	-	-	16
Cash and cash equivalents	12,907	-	-	-	-	12,907
Interest-free:						
Cash and cash equivalents	22,991	-	-	-	-	22,991
Restricted cash	-	-	303	-	-	303
Trade accounts receivable	19,920	1,667	52	32	1,520	23,191
	86,715	**1,667**	**656**	**32**	**1,520**	**90,590**
2017						
Interest-bearing:						
Short-term deposits	18,263	403	622	-	-	19,288
Interest on short-term deposits	8	4	40	-	-	52
Other financial assets	-	50	13,496	2,326	-	15,872
Interest on other financial assets	-	1	287	462	-	750
Cash and cash equivalents	48,000	-	-	-	-	48,000
Interest-free:						
Cash and cash equivalents	35,333	-	-	-	-	35,333
Restricted cash	-	-	518	-	-	518
Trade accounts receivable	21,668	588	84	42	8,404	30,786
	123,264	**1,046**	**15,047**	**2,830**	**8,404**	**150,599**

Fair value of financial instruments

Fair value is defined as the amount at which an instrument could be exchanged in a current transaction between knowledgeable willing parties according to arm's length conditions, other than in a forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgement is needed to arrive at a fair value, based on current economic conditions and the specific risks attributable to the instrument.

The following methods and assumptions are used by the Group to estimate the fair value of these financial instruments:

Cash and cash equivalents

The carrying value of cash and cash equivalents approximates their fair value due to the short-term maturity of these financial instruments.

Financial assets and liabilities

For assets and liabilities maturing within 12 months, the carrying value approximates fair value due to the relatively short-term maturity of these financial instruments.

For financial assets and liabilities maturing in over 12 months, the fair value represents the present value of estimated future cash flows discounted at year-end market rates.

Borrowings

The fair value for bank loans was estimated by discounting the scheduled future cash flows of individual loans through estimated maturity using prevailing market rates as at the respective year-end for debt with a similar maturity and credit-rating profile. The Group's bank loans are mostly provided by international development institutions and foreign banks. Although interest rates on these borrowings are lower than interest rates of private commercial credit institutions in Kazakhstan, they are treated as the market interest rate for this lender category. The fair value of debt securities issued (Bonds) has been determined based on market prices at the reporting date.

Fair value of financial assets and financial liabilities not regularly measured at fair value (but fair value is mandatorily disclosed)

As at 31 December 2018 and 2017, the fair value of financial assets and financial liabilities, except for borrowings and debt securities was not significantly different from cost. The carrying value and fair value of borrowings and debt securities (bonds) as at 31 December is presented as follows:

	31 December 2018		31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans issued	-	-	23,542	23,542
Other financial assets	1,496	1,496	15,913	15,913
Borrowings	246,704	245,146	371,209	340,652
Debt securities	1,135,573	1,199,855	893,511	983,468
Finance lease	18,072	18,072	14,885	14,885
Financial guarantees	14,588	14,588	4,194	4,194

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge, unless stated otherwise)

Fair value hierarchy

The Group estimates fair value using the following fair value estimate hierarchy, taking into account the materiality of data used to generate the given estimates:

- level 1: quotes on an active market (uncorrected) in relation to identified financial instruments
- level 2: data differing from quotes attributable to level 1, and available directly (i.e. quotes) or indirectly (i.e. data generated from quotes). This category includes instruments estimated using market quotes on active markets for similar instruments, market quotes for similar instruments on market not treated as active, or other estimation methods, all of whose data used is directly or indirectly based on observable primary data
- level 3: data that is not available. This category includes instruments estimated using information not based on observable primary data. Moreover, any such unobservable data has a significant impact on an instrument's estimation. This category includes instruments estimated based on quotes for similar instruments that require the use of material unobservable quotes or judgements to reflect the different between instruments.

The table below provides an analysis of financial instruments recognised at fair value as at 31 December 2018, broken down into the fair value hierarchy levels.

	Level 1	Level 2	Level 3	Total
Financial assets				
Other financial assets at amortised cost	-	1,496	-	1,496
Financial liabilities				
Financial liabilities recognised at amortised cost:				
- debt securities	1,199,855	-	-	1,199,855
- bank loans	-	145,390	4,803	150,193
- borrowings from related parties	-	94,953	-	94,953
- finance lease	-	18,072	-	18,072
- financial guarantees	-	14,588	-	14,588
Total	**1,199,855**	**273,003**	**4,803**	**1,477,661**

The table below provides an analysis of financial instruments carried at fair value as at 31 December 2017, broken down into the fair value hierarchy levels.

	Level 1	Level 2	Level 3	Total
Financial assets				
Loans issued	-	23,542	-	23,542
Other financial assets	-	15,913	-	15,913
Total	**-**	**39,455**	**-**	**39,455**
Financial liabilities				
Financial liabilities carried at amortised cost:				
- debt securities	983,468	-	-	983,468
- bank loans	-	254,446	5,979	260,425
- borrowings from related parties	-	80,227	-	80,227
- finance lease	-	14,885	-	14,885
- financial guarantees	-	4,194	-	4,194
Total	**983,468**	**353,752**	**5,979**	**1,343,199**

The fair values of the financial assets and financial liabilities in levels 2 and 3 have been determined using generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the counterparty credit risk.

During 2018 and 2017, there were no transfers between the hierarchy levels.

35. EVENTS AFTER THE REPORTING DATE

Borrowings received

During January – March 2019, the Group, represented by its subsidiary KTZ-Express JSC, within the framework of a credit line agreement with Halyk Bank Kazakhstan concluded on 26 February 2015, made a partial early repayment of the loan of 7,900 million tenge.

Share issue

On 9 January 2019, the Group transferred from additional paid-in capital to share capital 290,037 legally registered common share, as payment for which in 2018 it received property from the Shareholder of low-sided cars with a market value of 290 million tenge (Note 16).

Sale of subsidiaries

On 4 February 2019, the Group and Transmashholding JSC terminated the purchase/sale agreement of a 99.99926% interest in Tulpar-Talgo LLP.

Trust management agreements

On 4 February 2019, the Group's contractual responsibilities for the trust management of International Airport Aktobe JSC, International Airport Atyrau JSC and Airport Pavlodar JSC had been terminated due to expiration of trust management agreement.

Loan agreements

On 28 February 2019, the Group received a waiver from HSBC France to reset the threshold value of the Adjusted Debt to Equity ratio at the reporting date to 1.53 (Note 17). The Group was in compliance with the reset ratio as at 31 December 2018.

Other

In accordance with Framework agreement between Government of Republic of Kazakhstan, national companies and shareholders of Tsesnabank JSC dated 17 January 2019, the Group, represented by its subsidiaries Aktau Sea Commercial Port National Company JSC and Transtelecom JSC, purchased bonds of Tsesnabank JSC for the total amount of 1,158 million tenge.

KAZAKHSTAN RAILWAYS

National Company Kazakhstan Temir Zholy JSC
010000, Republic of Kazakhstan, Nur-Sultan city, Kunayev str., bld. 6
www.railways.kz, temirzhol@railways.kz
Help Desk: +7 (7172) 93-01-13
Press Service: +7 (7172) 60-42-81