

KAZAKSHTAN TEMIR ZHOLY NATIONAL COMPANY JSC

**Condensed interim consolidated
financial statements**
for the three months ended
31 March 2017 (unaudited)

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2017 (UNAUDITED)

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KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2017

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

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

- properly selecting and applying accounting policies;
- making reasonable judgments and estimates;
- complying with the requirements of IAS 34, with material departures being disclosed and explained in the condensed interim consolidated financial statements;
- providing additional disclosures when compliance with the specific requirements in IAS 34 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the consolidated financial position and financial performance of the Group; 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 condensed interim consolidated financial statements of the Group comply with IAS 34;
- maintaining statutory accounting records in compliance with local legislation of the Republic of Kazakhstan and IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The condensed interim consolidated financial statements for the tree months ended 31 March 2017 were authorized for issue by management on 29 May 2017.

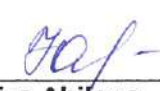
On behalf of management of the Group:


Erik Imashev
Acting President

29 May 2017


Arman Sultanov
Vice-President of Development

29 May 2017


Nazira Abilova
Chief accountant

29 May 2017

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2017 (UNAUDITED) (in thousands of tenge)

	Notes	31 March 2017 (unaudited)	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment			
Intangible assets	6	2,528,497,311	2,521,329,368
Investments in joint ventures		11,701,789	11,589,266
Investments in associates	7	12,306,134	11,720,150
Deferred tax assets	7	10,235,012	11,357,875
Other non-current financial assets		5,633,432	8,632,019
Long-term trade accounts receivable	10	2,196,110	2,333,030
Other non-current assets		112,124	117,217
	8	81,926,423	91,920,382
Total non-current assets		2,652,608,335	2,658,999,307
Current assets			
Inventories			
Trade accounts receivable	9	29,822,003	28,846,944
Other current financial assets		20,022,938	15,416,517
Prepaid income tax	10	30,179,141	16,186,691
VAT recoverable		1,599,764	1,903,220
Cash and cash equivalents		58,519,348	57,252,499
Other current assets	11	36,145,121	48,978,173
Asset held for the benefit of the Shareholder	12	40,034,941	39,174,885
	24	48,067,799	48,067,799
		264,391,055	255,826,728
Assets and disposal groups classified as held for sale	13	103,099,430	120,625,761
Total current assets		367,490,485	376,452,489
Total assets		3,020,098,820	3,035,451,796
EQUITY AND LIABILITIES			
Equity			
Share capital	14	993,460,480	993,460,480
Cash flow hedging reserve	14	(34,792,224)	(39,073,931)
Foreign currency translation reserve	14	3,620,362	4,110,006
Retained earnings		224,566,671	198,501,308
Equity attributable to the Shareholder		1,186,855,289	1,156,997,863
Non-controlling interests		10,979,815	11,035,349
Total equity		1,197,835,104	1,168,033,212

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2017 (UNAUDITED) (CONTINUED) (in thousands of tenge)

	Notes	31 March 2017 (unaudited)	31 December 2016
Non-current liabilities			
Borrowings	15	1,044,802,075	1,098,117,957
Employee benefit obligation		26,387,126	26,169,983
Deferred tax liability		233,785,557	224,357,530
Other non-current liabilities	17	4,308,925	4,399,245
Total non-current liabilities		1,309,283,683	1,353,044,715
Current liabilities			
Borrowings	15	173,019,939	141,561,817
Employee benefit obligation		2,960,557	2,960,557
Trade accounts payable	16	93,450,277	124,453,799
Income tax payable		106,943	117,552
Other taxes payable		7,188,646	8,128,214
Constructive obligation for the benefit of Shareholder	24	48,067,799	48,067,799
Other current liabilities	17	96,314,147	92,267,628
		421,108,308	417,557,366
Liabilities directly associated with disposal groups classified as held for sale	13	91,871,725	96,816,503
Total current liabilities		512,980,033	514,373,869
Total liabilities		1,822,263,716	1,867,418,584
Total equity and liabilities		3,020,098,820	3,035,451,796

On behalf of management of the Group:

Erik Imashev
Acting President

29 May 2017

Arman Sultanov
Vice-President of
Development

29 May 2017

Nazira Abilova
Chief accountant

29 May 2017

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

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONDENSED INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 MARCH 2017 (UNAUDITED) (in thousands of tenge)

	Notes	Three months ended 31 March	
		2017	2016
Continuing operations			
Revenue			
Freight transportation		169,118,252	151,565,331
Passenger transportation		17,763,189	16,123,187
Government grants		3,747,330	5,046,927
Other revenue		9,830,681	7,728,146
Total revenue		200,459,452	180,463,591
Cost of sales	18	(170,631,076)	(155,615,631)
Gross profit		29,828,376	24,847,960
General and administrative expenses	19	(17,862,436)	(17,276,640)
Finance costs	20	(24,404,827)	(19,664,375)
Foreign exchange gain/(loss)		50,138,704	(14,062,554)
Finance income		1,340,058	1,805,851
Other profit and loss		236,306	434,742
Impairment of assets		(937,204)	(1,959,160)
Share of (loss)/profit of associates and joint ventures	7	(407,059)	861,096
Gain from disposal of subsidiaries not qualifying as discontinued operations		158,858	189,406
Gain from disposal of shares in joint ventures		1,377,732	6,767,097
Profit/(loss) before tax		39,468,508	(18,056,577)
Income tax (expense)/benefit		(13,103,938)	1,496,836
Profit/(loss) for the period from continuing operations		26,364,570	(16,559,741)
Discontinued operations			
Loss for the period from discontinued operations		(354,741)	(597,964)
Profit/(loss) for the period		26,009,829	(17,157,705)
Other comprehensive income/(loss) for the period net of tax:			
<i>Items that may be reclassified subsequently to profit or loss in subsequent periods:</i>			
Net fair value gain/(loss) on hedging instruments entered into for cash flow hedges	14	4,281,707	(3,844,650)
Exchange differences on translating foreign operations		(489,644)	562,641
Other comprehensive income/(loss) for the period		3,792,063	(3,282,009)
Total comprehensive income/(loss) for the period		29,801,892	(20,439,714)
Profit/(loss) for the period attributable to:			
Shareholder		26,065,363	(16,844,180)
Non-controlling interests		(55,534)	(313,525)
		26,009,829	(17,157,705)
Total comprehensive income/(loss) for the period attributable to:			
Shareholder		29,857,426	(20,137,307)
Non-controlling interests		(55,534)	(302,407)
		29,801,892	(20,439,714)
Earnings/(loss) per share from continuing and discontinued operations (in whole tenge)	22	52	(34)
Earnings/(loss) per share from continuing operations (in whole tenge)	22	53	(33)

On behalf of management of the Group:

Erik Imashev
Acting President

29 May 2017

Arman Sultanov
Vice-President of Development

29 May 2017

Nazira Abilova
Chief accountant

29 May 2017

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

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE THREE MONTHS ENDED 31 MARCH 2017 (UNAUDITED) (CONTINUED) (in thousands of tenge)


	Notes	Three months ended 31 March	
		2017	2016
Cash flows from operating activities:			
Profit/(loss) for the period		26,009,829	(17,157,705)
Income tax expense / (benefit) recognized in profit or loss including discontinued operations		13,227,806	(1,128,413)
Adjustments for:			
Depreciation and amortization		27,905,952	28,739,231
Finance costs	13,20	25,954,893	21,164,888
Impairment of assets		937,204	1,959,159
Finance income		(1,459,263)	(1,984,874)
Defined benefit plan costs		308,470	415,120
Share of (profit)/loss of associates and joint ventures	7	407,059	(861,096)
Allowance for doubtful debts		475,788	93,863
Foreign exchange (gain)/loss		(49,907,409)	13,855,179
Gain from disposal of subsidiaries not qualifying as discontinued operations		(158,858)	(189,406)
Gain from disposal of shares in joint ventures	7	(1,377,732)	(6,767,097)
Other		2,883,566	1,335,537
Operating income before changes in working capital and other balances		45,207,305	39,474,386
Change in trade accounts receivable		(1,273,076)	(3,636,533)
Changes in inventories		(978,475)	3,441,817
Change in other current and non-current assets (including non-current VAT recoverable)		(9,498,610)	(4,683,994)
Changes in trade accounts payable		(1,619,543)	(11,963,578)
Changes in other taxes payable		(4,353,759)	5,875,214
Change in other current liabilities		1,623,731	1,242,653
Change in employee benefit obligations		(91,327)	(225,979)
Change in other non-current liabilities		(15,949)	110,876
Cash generated from operations		29,000,297	29,634,862
Interest paid		(13,442,873)	(14,800,317)
Interest received		948,821	1,643,283
Income tax paid		(284,969)	(847,597)
Net cash flows from operating activities		16,221,276	15,630,231
Cash flows from investing activities:			
Purchase of property, plant and equipment, including advances paid		(44,334,017)	(38,652,092)
Purchase of intangible assets		(175,505)	(191,284)
Proceeds from sale of shares in joint ventures		5,252,130	7,807,400
Investments in other financial assets		(7,276,525)	(14,684,827)
Proceeds from return of other financial assets		7,265,860	11,112,131
Dividends received from joint ventures		1,663,776	951,036
Net cash inflows from disposal of subsidiaries and discontinued operations		788,972	274,864
Loans given		(16,512,512)	(40,809)
Other		332,083	550,456
Net cash flows used in investing activities		(52,995,738)	(32,873,125)

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE THREE MONTHS ENDED 31 MARCH 2017 (UNAUDITED) (CONTINUED) (in thousands of tenge)

	Notes	Three months ended 31 March	
		2017	2016
Cash flows from financing activities:			
Contributions to share capital	14	-	36,400,000
Proceeds from borrowings		27,114,679	10,312,496
Repayments of borrowings		(14,087,949)	(21,552,469)
Purchase of asset held for the benefit of the Shareholder		-	(1,322,963)
Other		(355,204)	(100,596)
Net cash flows from financing activities		12,671,526	23,736,468
Net decrease in cash and cash equivalents		(24,102,936)	6,493,574
Cash and cash equivalents at the beginning of the period	11	67,085,431	74,903,521
Effects of exchange rate changes on the balance of cash held in foreign currencies		(888,679)	(512,102)
Cash and cash equivalents at the end of the period	11	42,093,816	80,884,993
Non-cash transactions:			
Additions of property, plant and equipment for the borrowing funds directly transferred by bank to supplier		7,901,802	13,504,426
Debt for realization of the administrative building		-	13,451,228
Cash flow hedge		(4,281,707)	3,844,650
Railway administrations receivables and payables offset		1,875,565	2,214,585
Capitalization of borrowing costs		714,299	876,171
Loan conversion		(1,832,599)	-
Fair value adjustment of collateral given in favor of associates		413,795	-


On behalf of management of the Group:

 Erik Imashev
Acting President

29 May 2017

 Arman Sultanov
Vice-President of Development

29 May 2017

 Nazira Abilova
Chief accountant

29 May 2017

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

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE TREE MONTHS ENDED 31 MARCH 2017 (UNAUDITED) (in thousands of tenge)

	Share capital	Cash flow hedging reserve	Foreign currency translation reserve	Retained earnings	Equity attributable to the Shareholder	Non-controlling interests	Total equity
At 1 January 2016	865,393,896	(43,491,357)	4,601,406	142,411,682 (16,844,180)	968,915,627 (16,844,180)	(651,552) (313,525)	968,264,075 (17,157,705)
(Loss)/profit for the period	-	-	-	-	-	-	-
Other comprehensive (loss)/income for the period	-	(3,844,650)	551,523	-	(3,293,127)	11,118	(3,282,009)
Total comprehensive (loss)/income for the period	-	(3,844,650)	551,523	(16,844,180)	(20,137,307)	(302,407)	(20,439,714)
Shares issue (Note 14)	36,457,780	-	-	-	36,457,780	-	36,457,780
Other distributions (Note 14)	-	-	-	(165,272)	(165,272)	-	(165,272)
At 31 March 2016 (unaudited)	901,851,676	(47,336,007)	5,152,929	125,402,230	985,070,828	(953,959)	984,116,869
At 1 January 2017	993,460,480	(39,073,931)	4,110,006	198,501,308 26,065,363	1,156,997,863 26,065,363	11,035,349 (55,534)	1,168,033,212 26,009,829
Profit/ (loss) for the period	-	-	-	-	-	-	-
Other comprehensive income/(loss) for the period	-	4,281,707	(489,644)	-	3,792,063	-	3,792,063
Total comprehensive income/(loss) for the period	-	4,281,707	(489,644)	26,065,363	29,857,426	(55,534)	29,801,892
At 31 March 2017 (unaudited)	993,460,480	(34,792,224)	3,620,362	224,566,671	1,186,855,289	10,979,815	1,197,835,104



On behalf of management of the Group:

Erik Imashev
Acting President

29 May 2017

Arman Sultanov
Vice-President of
Development

29 May 2017

Nazira Abilova
Chief accountant

29 May 2017

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

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2017

(in thousands of tenge unless otherwise is stated)

1. GENERAL INFORMATION

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

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

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

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

The Group historically financed large investment projects through the capital contributions received from the Government, and external borrowings, in addition to cash flows from operating activities. As at 31 March 2017, the Group's borrowings of 173,019,939 thousand tenge are payable within twelve months of the reporting date. The Group has assessed its needs for cash, including its scheduled debt repayments and its development plans, and it considered that it will have adequate cash inflows from its activity along with available cash to settle its liabilities.

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

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2017 (CONTINUED)

(in thousands of tenge unless otherwise is stated)

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

Statement of compliance

The Group's condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting.

Going concern

The condensed interim consolidated financial statements have been prepared on a going concern basis. This assumes the sale of assets and settlement of liabilities in the normal course of business in the foreseeable future. As at 31 March 2017, current liabilities of the Group exceeded its current assets by 145,489,548 thousand tenge. The Group historically financed large investment projects through the capital contributions received from the Government, and external borrowings, in addition to cash flows from operating activities. As at 31 March 2017, the Group's borrowings of 173,019,939 thousand tenge are payable within twelve months of the reporting date, including borrowings from the Shareholder of 75,000,000 thousand tenge payable in September 2017. The Group has assessed its needs for cash, including its scheduled debt repayments and its development plans. In assessing its going concern basis, management have also considered the Group's financial position, expected future performance and cash flows from operations, its borrowings, available credit facilities, its capital expenditure commitments, considerations of tariffs, currency exchange rates and other risks facing the Group. After making appropriate enquiries, management concluded that the Group has adequate resources to continue in operational existence and settle its liabilities and that the going concern basis is appropriate in preparing these condensed interim consolidated financial statements.

Basis of preparation

The condensed interim consolidated financial statements are unaudited and has not included all the information and disclosures required in the annual financial statements. The Group omitted disclosures, which would substantially duplicate the information contained in its audited annual consolidated financial statements for 2016 prepared in accordance with International Financial Reporting Standards ("IFRS"), such as accounting policies and details of accounts, which have not changed significantly in amounts or composition.

These condensed interim consolidated financial statements should be considered in conjunction with the Group's annual consolidated financial statements for 2016.

The same accounting policies, accounting judgments, presentation and methods of computation have been followed in these financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2016.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Control assessment

Control over KazAutoZhol National Company JSC

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

Control over Aktau International Sea Commercial Port National Company JSC

Aktau International Sea Commercial Port National Company JSC is recognized as a subsidiary of the Group, although the Group does not legally own shares in Aktau International Sea

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2017 (CONTINUED)

(in thousands of tenge unless otherwise is stated)

Commercial Port. The Group assessed whether it has control over Aktau International Sea Commercial Port, considering all relevant facts and circumstances arising from a trust management agreement concluded with Samruk-Kazyna National Welfare Fund JSC, the legal owner, in respect of its 100% ownership interest in Aktau International Sea Commercial Port. The Group concluded that it controls Aktau International Sea Commercial Port. In reaching this judgment, management of the Group considered the broad power granted to the Group by the Shareholder, which gives the Group the practical ability to unilaterally direct the relevant activities of Aktau International Sea Commercial Port to affect its returns to the Group.

Control over airports

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

Control over Khorgos International Centre of Boundary Cooperation JSC

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

Control over Tulpar-Talgo LLP

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

On 15 May 2015, the Group and Patentes Talgo S.L.U., sole founder of Talgo Kazajstan S.L., entered into a preliminary agreement on sale of 51% of the shares in Tulpar-Talgo LLP, under which the Group received an advance of 23,000 thousand euro (4,661,410 thousand tenge). The agreement provides certain conditional clauses, including the Shareholder's approval of the transaction by the stated date, reimbursement of financial consequences of changes in euro exchange rate against tenge, as well as an increase in the purchase price of passenger coaches delivered in 2015 or later in the case of growth of the exchange rate of euro against tenge, which resulted in increased costs for the production of these passenger coaches. In October 2016, the State commission on modernization of economy of Kazakhstan approved direct sale of shares in Tulpar-Talgo LLP to Talgo Kazajstan S.L. As at 31 March 2017, the Group received all approvals, signed agreements for increase in purchase prices for a portion of passenger coaches volumes. Management still considers the sale transaction as highly probable. Accordingly, it classifies the subsidiary within disposal group classified as held for sale and discontinued operations.

Control over Kazakhstan Wagon Construction Company LLP

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

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2017 (CONTINUED)

(in thousands of tenge unless otherwise is stated)

Assets classified as held for sale

In December 2015, the Government of Kazakhstan approved the 'Complex Plan of Privatization for 2016-2020', under which, in February 2016, management of the Group approved the list of subsidiaries, associates and joint ventures subject to sale. IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* requires management to apply judgements regarding high probability of sale of the asset. As at reporting date, management of the Group assessed the status of execution of the Complex Plan of Privatization and classified certain assets / liabilities as disposal groups held for sale, relating to those, which meet the criteria of IFRS 5 (Note 13).

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of tangible and intangible assets

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

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

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

As at 31 March 2017, the Group reviewed indications of any significant impairment of property, plant and equipment since the date of the most recent test as at 31 December 2016, considering the updated development plan and the execution of the budget for the three months of 2017. As a result the Group concluded that, in overall, for the period of three months ended 31 months 2017 there were no impairment.

4. CHANGES IN CLASSIFICATION AFFECTING COMPARATIVE INFORMATION

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

The Group recognized the results of operations of its subsidiary Transtelecom JSC, which represents a separate major line of business in discontinued operations and accordingly, comparative amounts for the three months ended 31 March 2016 were restated.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2017 (CONTINUED)

(in thousands of tenge unless otherwise is stated)

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

	As previously reported	Discontinued operations	As restated
2016			
Other revenue	10,562,577	(2,834,431)	7,728,146
Total revenue	183,298,022	(2,834,431)	180,463,591
Cost of sales	(156,939,997)	1,324,366	(155,615,631)
Gross profit	26,358,025	(1,510,065)	24,847,960
General and administrative expenses	(17,860,399)	583,759	(17,276,640)
Finance income	1,962,070	(156,219)	1,805,851
Finance costs	(21,124,621)	1,460,246	(19,664,375)
Foreign exchange loss	(14,012,233)	(50,321)	(14,062,554)
Other profit and loss	454,558	(19,816)	434,742
Loss before tax	(18,364,161)	307,584	(18,056,577)
Income tax benefit	1,131,763	365,073	1,496,836
Loss from continuing operations	(17,232,398)	672,657	(16,559,741)
Profit/(loss) from discontinued operations	74,693	(672,657)	(597,964)
Loss for the period	(17,157,705)	-	(17,157,705)
Loss per share from continuing operations (in whole tenge)	(34)	1	(33)

5. SEGMENT INFORMATION

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

The Chief Operating Decision Maker ("CODM") of the Group monitors multiple measures of segment profitability for the Group's operating segments, such as profit before taxation, profit for the period and gross profit. However, profit for the period from continuing operations is the primary measure used by the CODM of the Group for the purpose of resource allocation and assessment of segment performance.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2017 (CONTINUED)

(in thousands of tenge unless otherwise is stated)

	For the three months ended 31 March 2017 (unaudited)				
	Freight transportation	Passenger transportation	Total reportable segments	Other	Total
Key operating measures					
Revenue					
Transportation	173,889,973	18,237,784	192,127,757	-	192,127,757
Government grants	-	3,747,330	3,747,330	-	3,747,330
Other revenue	7,280,022	936,417	8,216,439	3,953,809	12,170,248
Intersegment revenue	(5,736,979)	(532,183)	(6,269,162)	(1,316,721)	(7,585,883)
Revenue	175,433,016	22,389,348	197,822,364	2,637,088	200,459,452
Cost of sales	(146,616,488)	(22,199,065)	(168,815,553)	(1,815,523)	(170,631,076)
General and administrative expenses	(15,764,690)	(1,181,849)	(16,946,539)	(915,897)	(17,862,436)
Impairment of assets	(231,448)	(705,756)	(937,204)	-	(937,204)
Other profit and loss	159,674	69,759	229,433	6,873	236,306
Finance income	1,085,886	140,815	1,226,701	113,357	1,340,058
Finance costs	(23,534,625)	(673,419)	(24,208,044)	(196,783)	(24,404,827)
Foreign exchange gain/(loss)	49,797,413	(14,561)	49,782,852	355,852	50,138,704
Share of profit/(loss) of associates and joint ventures	(362,130)	-	(362,130)	(44,929)	(407,059)
Gain from disposal of share in joint ventures	1,377,732	-	1,377,732	-	1,377,732
Gain from disposal of subsidiaries not qualifying as discontinued operations	158,858	-	158,858	-	158,858
Profit/(loss) before tax	41,503,198	(2,174,728)	39,328,470	140,038	39,468,508
Income tax (expenses)/benefit	(12,945,227)	(74,221)	(13,019,448)	(84,490)	(13,103,938)
Profit/(loss) for the period from continuing operations	28,557,971	(2,248,949)	26,309,022	55,548	26,364,570
Other key segment information					
Additions to property, plant and equipment	35,198,649	453,360	35,652,009	106,347	35,758,356
Depreciation of property, plant and equipment	24,966,124	1,891,311	26,857,435	467,392	27,324,827

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**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED 31 MARCH 2017 (CONTINUED)**
(in thousands of tenge unless otherwise is stated)

	For the three months ended 31 March 2016 (unaudited)				
	Freight transportation	Passenger transportation	Total reportable segments	Other	Total
Key operating measures					
Revenue					
Transportation	155,657,996	16,581,048	172,239,044	-	172,239,044
Government grants	-	5,046,927	5,046,927	-	5,046,927
Other revenue	4,722,164	654,424	5,376,588	10,365,207	15,741,795
Intersegment revenue	(4,457,061)	(554,096)	(5,011,157)	(7,553,018)	(12,564,175)
Revenue	155,923,099	21,728,303	177,651,402	2,812,189	180,463,591
Cost of sales	(133,921,928)	(22,347,302)	(156,269,230)	653,599	(155,615,631)
General and administrative expenses	(14,856,464)	(1,154,316)	(16,010,780)	(1,265,860)	(17,276,640)
Impairment of assets	(1,760,036)	(199,124)	(1,959,160)	-	(1,959,160)
Other profit and loss	282,728	129,379	412,107	22,635	434,742
Finance income	1,319,958	115,594	1,435,552	370,299	1,805,851
Finance costs	(18,114,815)	(562,741)	(18,677,556)	(986,819)	(19,664,375)
Foreign exchange (loss)/gain	(14,025,768)	20,358	(14,005,410)	(57,144)	(14,062,554)
Share of profit/ (loss) of associates and joint ventures	1,197,660	-	1,197,660	(336,564)	861,096
Gain from disposal of share in joint ventures	-	-	-	6,767,097	6,767,097
Gain from disposal of subsidiaries not qualifying as discontinued operations	189,406	-	189,406	-	189,406
(Loss)/profit before tax	(23,766,160)	(2,269,849)	(26,036,009)	7,979,432	(18,056,577)
Income tax benefit/(expenses)	1,381,245	(216,531)	1,164,714	332,122	1,496,836
(Loss)/profit for the period from continuing operations	(22,384,915)	(2,486,380)	(24,871,295)	8,311,554	(16,559,741)
Other key segment information					
Additions to property, plant and equipment	23,076,100	1,073,799	24,149,899	3,911,789	28,061,688
Depreciation of property, plant and equipment	24,872,364	1,929,422	26,801,786	2,142,082	28,943,868

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2017 (CONTINUED)

(in thousands of tenge unless otherwise is stated)

6. PROPERTY, PLANT AND EQUIPMENT

During the three months ended 31 March 2017, the Group purchased freight and passenger cars, locomotives and other property, plant and equipment of 14,208,616 thousand tenge (unaudited) (2016: 4,952,014 thousand tenge) and performed renovation and modernization of property, plant and equipment of 1,994,696 thousand tenge (unaudited) (2016: 999,068 thousand tenge).

During the three months ended 31 March 2017, the Group continued the construction of railway lines Zhezkazgan-Beineu and Arkalyk-Shubarkol of 666,914 thousand tenge (unaudited) (2016: 3,540,304 thousand tenge), the development of the railway junction at Astana station, including construction of a railway station of 14,607,306 thousand tenge (unaudited) (2016: 7,941,471 thousand tenge), the construction of ferry at sea port Kuryk of 5,650,038 thousand tenge (unaudited) (2016: 406,269 thousand tenge) and the construction of dry port and infrastructure of special economic zone "Khorgos-Eastern Gates" of 1,720 thousand tenge (unaudited) (2016: 2,133,966 thousand tenge).

The Group also continued work on other objects of reconstruction of the railway infrastructure.

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2017 (CONTINUED) (in thousands of tenge unless otherwise is stated)

7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Name	Principal activity	Place of incorporation and principal place of business	31 March 2017 (unaudited)		31 December 2016	
			Carrying value	Share	Carrying value	Share
Associates:						
China-Kazakhstan International Logistics Company in Lianyungang	International multimodal transportation	China	9,187,417	49%	9,906,269	49%
Aktau Sea North Terminal LLP	Construction and exploitation of logistics, industrial and infrastructural constructions	Kazakhstan	1,019,868	40%	1,284,568	40%
Other			<u>27,727</u>	25-49%	<u>167,038</u>	25-49%
Total investments in associates			<u>10,235,012</u>		<u>11,357,875</u>	
Joint ventures:						
Logistic System Management B.V.	Forwarding services, handling rolling stock, terminal service	Kazakhstan (incorporated in Netherlands)	<u>12,306,134</u>	50%	<u>11,720,150</u>	50%
Total investments in joint ventures			<u>12,306,134</u>		<u>11,720,150</u>	

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

For the three months ended 31 March, the movement in investments in associates and joint ventures was as follows:

	2017	2016
Associates		
At 1 January	11,357,875	10,898,604
Share of loss	(993,043)	(391,479)
Effect of foreign currency exchange differences	(505,785)	140,912
Fair value of financial guarantees given	44,929	-
Fair value adjustment of collateral given in favor of associates	331,036	-
Transfer from joint ventures	-	262,204
At 31 March (unaudited)	<u>10,235,012</u>	<u>10,910,241</u>
Joint ventures		
At 1 January	11,720,150	22,104,613
Recognized share of profit	585,984	1,252,575
Transfer to associates	-	(262,204)
Dividends receivable	-	(594,546)
At 31 March (unaudited)	<u>12,306,134</u>	<u>22,500,438</u>

As at 31 March 2017, the Group's unrecognized share of losses with respect to significant associates, Aktobe Rail and Section Mill Plant LLP, Continental Logistics LLP and Electrovoz kurastyru зауыты LLP, amounted to 6,518,879 thousand tenge (31 December 2016: 6,716,574 thousand tenge).

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2017 (CONTINUED)

(in thousands of tenge unless otherwise is stated)

During the three months ended 31 March 2017, the Group have received dividends from joint venture Logistic System Management B.V., in ownership share of 1,663,776 thousand tenge (during the three months ended 31 March 2016: in ownership share of 951,036 thousand tenge).

8. OTHER NON-CURRENT ASSETS

	31 March 2017 (unaudited)	31 December 2016
Advances to suppliers for property, plant and equipment	54,754,378	65,111,134
VAT recoverable	34,847,745	34,141,032
Loans given to employees	6,013,359	6,400,774
Prepaid expenses	1,272,109	1,488,627
Residential properties	417,086	439,954
Other	2,388,143	1,391,967
	99,692,820	108,973,488
Less: allowance for advances to suppliers for property, plant and equipment	(2,073,480)	(2,068,719)
Less: allowance for non-recoverable VAT	(15,692,917)	(14,984,387)
	<u>81,926,423</u>	<u>91,920,382</u>

As at 31 March 2017 and 31 December 2016, advances to suppliers for property, plant and equipment comprised the following:

	31 March 2017 (unaudited)	31 December 2016
Supply of locomotives	19,429,154	7,344,090
Supply of passenger coaches components	8,475,908	8,317,108
Construction of a railway station in Astana	6,918,321	20,278,582
Supply of sea-crafts	4,177,487	3,139,592
Construction of ferry at sea port Kuryk and utilization of freight and passengers ferry	3,569,870	9,020,197
Supply of railroad portal cranes	2,279,533	2,279,533
Construction of Zhezkazgan-Beineu and Arkalyk-Shubarkol railway lines	1,507,195	2,401,224
Other	8,396,910	12,330,808
	<u>54,754,378</u>	<u>65,111,134</u>

9. INVENTORIES

	31 March 2017 (unaudited)	31 December 2016
Materials and supplies	11,887,954	10,247,492
Spare parts	7,352,622	7,729,888
Fuel	5,021,119	5,287,640
Upper railway components	3,936,828	3,373,485
Construction materials	853,086	776,322
Finished goods	394,586	420,866
Work in process	274,108	267,601
Other	739,709	977,286
	30,460,012	29,080,580
Less: allowance for obsolete and slow-moving inventories	(638,009)	(233,636)
	<u>29,822,003</u>	<u>28,846,944</u>

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2017 (CONTINUED)

(in thousands of tenge unless otherwise is stated)

10. OTHER FINANCIAL ASSETS

	31 March 2017 (unaudited)	31 December 2016
Amounts in credit institutions (financial investments)	16,469,546	17,549,976
Loans given	16,821,565	1,885,605
Less: allowance on loans given	(915,860)	(915,860)
	<u>32,375,251</u>	<u>18,519,721</u>
Current portion of other financial assets	30,179,141	16,186,691
Non-current portion of other financial assets	2,196,110	2,333,030
	<u>32,375,251</u>	<u>18,519,721</u>

During the three months ended 31 March 2017, the Group, represented by its subsidiary Airport Management Group LLP, for the purpose of current assets replenishment, provided financial aid of 16,500,000 thousand tenge to Astana International Airport LLP, which is under trust management. The Group recognized fair value adjustment of financial aid of 1,770,129 thousand tenge as a part of finance costs. For the purposes of calculation of the fair value of financial aid, the Group has applied effective interest rates of 14-15.2% using market rates with similar conditions.

Amounts in credit institutions:

	31 March 2017 (unaudited)	31 December 2016
Ratings from BBB-(Baa3) to BB-(Ba3)	51,005	313,100
Ratings from B+(B1) to B-(B3)	16,415,524	17,236,876
Ratings from CCC+(Caa1) to CC(Ca)	3,017	-
	<u>16,469,546</u>	<u>17,549,976</u>

As at 31 March 2017, weighted average interest rate on amounts in credit institutions comprised 4.04% in US Dollars and 13.08% in tenge (31 December 2016: 4.54% in US Dollars and 13.08% in tenge).

Amounts in credit institutions as at 31 March 2017 and 31 December 2016 were denominated in the following currencies:

	31 March 2017 (unaudited)	31 December 2016
US Dollars	16,121,835	17,202,382
Tenge	347,711	347,594
	<u>16,469,546</u>	<u>17,549,976</u>

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at 31 March 2017 and 31 December 2016 comprised the following:

	31 March 2017 (unaudited)	31 December 2016
Cash in current accounts in tenge	20,364,951	15,436,352
Cash in current accounts in US Dollars	5,020,771	5,659,164
Cash in current accounts in other currencies	1,361,218	1,565,122
Short-term bank deposits in tenge	9,382,513	26,218,883

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2017 (CONTINUED)

(in thousands of tenge unless otherwise is stated)

Short-term bank deposits in other currencies	-	84,165
Petty cash	15,668	14,487
	36,145,121	48,978,173
Cash included in disposal groups classified as held for sale ¹	5,948,695	18,107,258
	42,093,816	67,085,431

As at 31 March 2017, the weighted average interest rate on cash on current accounts was 5.63% in tenge, 0.39% in US Dollars and 0.22% in other currencies (31 December 2016: 6.10%, 0.47% and 0.44%, respectively).

Short-term bank deposits in tenge and in foreign currency are placed for varying periods of up to three months and less depending on the Group's immediate cash requirements. As at 31 March 2017, the weighted average interest rate on short-term bank deposits was 9.89% in tenge and 0% in other currencies (31 December 2016: 10.63% in tenge and 7.06% in other currencies).

12. OTHER CURRENT ASSETS

	31 March 2017 (unaudited)	31 December 2016
Other taxes prepaid	16,059,173	15,536,701
Advances paid	9,646,498	9,217,302
Claims, fines and penalties	8,231,286	7,330,878
Prepaid expenses	3,578,211	4,257,444
Receivables from sales of subsidiaries	3,525,000	3,525,000
Dividends receivable	-	1,663,776
Receivables from employees	1,535,304	1,560,333
Restricted cash	492,778	1,782,029
Other	8,022,751	5,093,177
	51,091,001	49,966,640
Less: allowance for doubtful debts	(11,056,060)	(10,791,755)
	40,034,941	39,174,885

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

	31 March 2017 (unaudited)	31 March 2016 (unaudited)
Allowance for doubtful debts at the beginning of the period	(10,791,755)	(10,141,038)
Foreign currency translation	10,854	-
Provided for the period	(326,199)	(83,196)
Written off during the period against previously created allowance	51,040	234,929
Allowance for doubtful debts at the end of the period	(11,056,060)	(9,989,305)

¹ Amounts include 952,473 thousand tenge (31 December 2016: 4,500,168 thousand tenge) of cash and cash equivalents held by Tulpar-Talgo LLP that were included "Assets of newly acquired subsidiary" in Note 13.

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2017 (CONTINUED)

(in thousands of tenge unless otherwise is stated)

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

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

As at 31 March 2017 and 31 December 2016, assets and liabilities of the subsidiaries satisfying criteria of non-current assets held for sale were classified as "disposal groups classified as held for sale" in the condensed interim consolidated statement of financial position.

As at 31 March 2017, Transtelecom JSC (the remaining 51% subsidiary owned by the Group) was classified as a disposal group, as the Group initiated a selling process of 26% less 1 share, which is expected to be completed during 2017. Thus, on 30 December 2016, the first stage of the selling process was completed, on 10 February 2017, the results of an open two-stage tender were summed up.

Tulpar-Talgo LLP

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

As at 31 March 2017, the conditions have partially been met and the management believes that the transaction will be completed within the 12 months period. As such, the subsidiary continue to be held as a subsidiary held for sale.

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2017 (CONTINUED) (in thousands of tenge unless otherwise is stated)

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

	At 31 March 2017 (unaudited)			At 31 December 2016		
	Transtelecom JSC	Tulpar-Talgo LLP	Other	Transtelecom JSC	Tulpar-Talgo LLP	Other
Assets						
Property, plant and equipment	60,508,273	-	17,801	62,193,300	-	751,136
Intangible assets	3,530,301	-	11	3,556,450	-	2,044
Other non-current assets	1,176,016	-	399	1,250,748	-	399
Inventories	672,701	-	-	680,233	-	85,821
Trade accounts receivable	2,727,899	-	102,723	3,543,338	-	885,747
Other current assets	8,681,610	-	56,214	4,859,875	-	1,144,199
Cash and cash equivalents	4,789,614	-	206,608	13,201,627	-	405,463
Assets of newly acquired subsidiary	-	11,888,523	-	-	15,451,118	-
Total assets of disposal groups classified as held for sale	82,086,414	11,888,523	383,756	89,285,571	15,451,118	3,274,809
Transfer from investments in joint ventures	-	-	8,740,737	-	-	12,614,263
Total non-current assets classified as held for sale	-	-	8,740,737	-	-	12,614,263
Total non-current assets and assets of disposal groups classified as held for sale	82,086,414	11,888,523	9,124,493	89,285,571	15,451,118	15,889,072
Liabilities						
Loans	51,016,713	-	-	53,560,485	-	-
Finance lease obligation	1,900,501	-	-	1,839,073	-	-
Employee benefit obligations	418,391	-	-	418,391	-	136,052
Deferred tax liabilities	3,196,591	-	-	3,072,754	-	36,834
Trade accounts payables	10,368,012	-	405,640	8,561,108	-	289,147
Other taxes	388,809	-	-	450,065	-	767,679
Other current liabilities	8,147,656	-	12,357	7,898,517	-	232,428
Liabilities of newly acquired subsidiary	-	16,017,055	-	-	19,306,464	247,506
Total liabilities of disposal groups classified as held for sale	75,436,673	16,017,055	417,997	75,800,393	19,306,464	1,709,646
Net assets \ (liabilities) of disposal group	6,649,741	(4,128,532)	-	13,485,178	(3,855,346)	-

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2017 (CONTINUED)

(in thousands of tenge unless otherwise is stated)

Discontinued operations

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

The results of the discontinued operations were as follows:

	For the three months ended 31 March 2017 (unaudited)			2016 (unaudited)		
	Transtele- com JSC	Tulpar- Talgo LLP	Total	Transtele- com JSC	Tulpar- Talgo LLP	Total
Revenue	4,130,459	-	4,130,459	2,834,431	-	2,834,431
Cost of sales	(1,889,066)	-	(1,889,066)	(1,324,366)	-	(1,324,366)
General and administrative expenses	(794,548)	(110,717)	(905,265)	(583,759)	(49,355)	(633,114)
Other income and expenses	105,441	(10,286)	95,155	19,816	(12,193)	7,623
Finance income	112,271	6,934	119,205	156,219	22,804	179,023
Finance cost	(1,518,376)	(31,690)	(1,550,066)	(1,460,246)	(40,267)	(1,500,513)
Foreign exchange (loss)/ gain	(282,603)	51,308	(231,295)	50,321	157,054	207,375
(Loss)/ profit before tax	(136,422)	(94,451)	(230,873)	(307,584)	78,043	(229,541)
Income tax expenses	(123,868)	-	(123,868)	(365,073)	(3,350)	(368,423)
(Loss)/ profit for the period	<u>(260,290)</u>	<u>(94,451)</u>	<u>(354,741)</u>	<u>(672,657)</u>	<u>(74,693)</u>	<u>(597,964)</u>
Basic loss per share (in tenge)	(1)	-	(1)	(1)	-	(1)

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

	For the three months ended 31 March	
	2017 (unaudited) Transtelecom JSC	2016 (unaudited) Transtelecom JSC
Net cash (outflows)/ inflows from operating activities	(4,478,121)	1,358,390
Net cash outflows from investing activities	(1,211,611)	(2,703,737)
Net cash outflows from financing activities	(2,648,196)	(2,268,015)
Net cash inflows	<u>(8,337,928)</u>	<u>(3,613,362)</u>

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14. EQUITY

Contributions

Contributions to share capital

There were no additions to share capital during the three months ended 31 March 2017.

During the three months ended 31 March 2016, additions to share capital were as follows:

- (a) an issue of 364,000 shares for which cash of 36,400,000 thousand tenge was received. This capital was received to finance construction of "Zhezkazgan-Beineu" railway lines, construction of second railway lines on sector Almaty 1- Shu, Construction of ferry in sea port Kuryk and development of multi-purpose freight-passenger ferries;
- (b) an issue of 642 shares for which building for Group's Scientific and Technical Information and Analysis Center, technical library, in Taraz city valued at 57,780 thousand tenge was received.

Foreign currency translation reserve

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

Cash flow hedging reserve

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

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

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

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

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

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

For the three months ended 31 March 2017, the effective part of 4,281,707 thousand tenge was recorded in other comprehensive income in the cash flow hedging reserve (the three months ended 31 March 2016: 3,844,650 thousand tenge). Ineffective part of 77,957 thousand tenge was recorded in finance costs.

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Other distributions

During the three months ended 31 March 2016, the Group recognized an additional irrevocable commitment and the distribution of 195,587 thousand tenge, which represented the amount of VAT arising as a result of the transfer of the Kindergarten to local authorities and recognized a decrease in the irrevocable commitment and a reversal of the distribution of 30,315 thousand tenge due to a decrease in the costs of construction.

15. BORROWINGS

Borrowings, including accrued interest, as at 31 March 2017 and 31 December 2016 comprised the following:

	31 March 2017 (unaudited)		31 December 2016	
	Amount	Weighted average interest rate (%)	Amount	Weighted average interest rate (%)
<i>Borrowings with fixed interest rate</i>				
Loans	374,851,246	8.64	382,813,330	8.20
Debt securities	677,989,948	6.25	715,583,589	6.26
<i>Borrowings with floating interest rate:</i>				
Loans	107,108,320	12.00	85,525,355	5.88
Debt securities	57,872,500	16.92	55,757,500	16.92
	<u>1,217,822,014</u>		<u>1,239,679,774</u>	
Current portion of borrowings	173,019,939		141,561,817	
Non-current portion of borrowings	<u>1,044,802,075</u>		<u>1,098,117,957</u>	
	<u>1,217,822,014</u>		<u>1,239,679,774</u>	

Borrowings as at 31 March 2017 and 31 December 2016 were denominated in currencies as follows:

	31 March 2017 (unaudited)	31 December 2016
US Dollars	701,417,516	803,503,513
Tenge	363,756,514	283,039,276
Euro	56,756,552	53,664,002
Other currencies	95,891,432	99,472,983
	<u>1,217,822,014</u>	<u>1,239,679,774</u>

Loans

During the three months ended 31 March 2017, the Group received the following loans:

HSBC France

In January-March 2017, under the General Framework Agreement with HSBC France, together with HSBC Bank PLC and SB HSBC Kazakhstan JSC, and with the support of export-credit agency, COFACE, entered on 31 May 2012 for purchasing of cargo and passenger electric locomotives for total amount of 880,877,000 Euro, and its additional addendums, the Group, represented by subsidiary, KTZ-Freight Transportation JSC, borrowed funds of 25,534,947 Euro (8,777,915 thousand tenge) (including COFACE premium). Interest is paid on a semi-annual basis at EUR

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CIRR + margin 0.75%. The principal is repaid on a semi-annual basis until fully repaid in 2020. Loan is received under the Company's guarantee.

National bank of Kazakhstan JSC

Loan 1

Under the credit facility agreement with National bank of Kazakhstan JSC entered into on 26 February 2015, the Group, for the purpose of current assets replenishment, borrowed funds of 15,000,000 thousand tenge at interest rate of 13% due within one year. The loan is unsecured.

Loan 2

In March 2017, under the credit facility agreement with National bank of Kazakhstan JSC entered into on 26 February 2016 and its additional addendum, concluded on 7 March 2017 for total amount of 20,000,000 thousand tenge, the Group, represented by subsidiary, KTZ-Freight Transportation JSC, for the purpose of current assets replenishment, borrowed funds of 5,000,000 thousand tenge at interest rate of 13% due within one year.

European Bank for Reconstruction and Development (EBRD)

In February 2017, under the loans restructuring agreement dated 22 December 2016 with the EBRD for the total amount of 180,913,719 US Dollars, the Group converted portion of the debt of 170,000,000 US Dollars into tenge. In connection with significant change in loan terms, the Group recognized the conversion operation as derecognition of an initial financial liability and recognition of a new financial liability. As a result, the new financial liability at the date of conversion amounted of 54,983,100 thousand tenge and 10,913,719 US Dollars. Interest is paid on a semi-annual basis at 6 months LIBOR + 4.35% for US Dollar tranche and all-in-cost+ 4.35% for tenge tranche.

Citibank Kazakhstan JSC

In January-March 2017, under General short-term loan agreement entered into on 30 November 2009, the Group, represented by its subsidiary KTZ-Freight Transportation JSC, obtained loans from Citibank Kazakhstan JSC of 5,400,000 thousand tenge at interest rate of 13% due within one year.

Debt securities

Debt securities as at 31 March 2017 and 31 December 2016 comprised the following:

	Maturity date	Markets	31 March 2017 (unaudited)	31 December 2016
Debt securities issued at price				
6.95% Eurobonds (105.521%)	10 July 2042	LSE/KASE	367,213,256	383,857,203
6.375% Eurobonds (100%)	6 October 2020	LSE	219,265,031	236,673,280
3.638% Eurobonds (100%)	20 June 2022	SIX Swiss Exchange	59,561,956	61,813,397
16.92% (inflation rate +2.52%)	25 April 2026	KASE	57,872,500	55,757,500
2.59% Eurobonds (100%)	20 June 2019	SIX Swiss Exchange	31,949,705	33,239,709
Total debt securities issued			735,862,448	771,341,089
Current portion of debt securities			15,349,067	10,270,037
Long-term portion of debt securities			720,513,381	761,071,052
			735,862,448	771,341,089

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Fair value of the borrowings is disclosed in Note 25.

Covenants and breach of loan agreements

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

EBRD and HSBC France loan agreements include certain financial covenants, such as debt to EBITDA, debt to equity and interest coverage ratio. These covenants are calculated on an annual basis by EBRD loan agreement and on an annual/semi-annual basis by HSBC France loan agreement.

16. TRADE ACCOUNTS PAYABLE

	31 March 2017 (unaudited)	31 December 2016
Accounts payable for services	43,870,585	38,204,408
Accounts payable for inventory	25,482,486	32,099,886
Accounts payable for property, plant and equipment	23,572,681	53,630,962
Other accounts payable	524,525	518,543
	<u>93,450,277</u>	<u>124,453,799</u>

Trade accounts payable as at 31 March 2017 and 31 December 2016 were denominated in various currencies as follows:

	31 March 2017 (unaudited)	31 December 2016
Tenge	73,022,727	103,845,042
US Dollars	17,107,171	16,746,337
Euro	2,396,747	2,548,278
Russian ruble	661,062	869,668
Other currencies	262,570	444,474
	<u>93,450,277</u>	<u>124,453,799</u>

17. OTHER LIABILITIES

	31 March 2017 (unaudited)	31 December 2016
Advances received	33,883,825	36,531,256
Dividends payable	16,424,670	16,424,670
Salaries payable	16,285,755	14,687,152
Unused vacation provision	11,763,685	9,897,257
Deferred income	5,513,051	5,935,882
Obligatory pension and social contributions	4,545,359	4,440,239
Liabilities under financial guarantee contracts	4,308,925	4,399,245
Other liabilities	7,897,802	4,351,172
	<u>100,623,072</u>	<u>96,666,873</u>
Current portion of other liabilities	96,314,147	92,267,628
Long-term portion of other liabilities	4,308,925	4,399,245
	<u>100,623,072</u>	<u>96,666,873</u>

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18. COST OF SALES

	For the three months ended 31 March	
	2017 (unaudited)	2016 (unaudited)
Personnel costs, including taxes, contributions and unused vacation provision	59,756,350	56,743,441
Depreciation and amortization	26,680,830	27,360,380
Fuels and lubricants	21,139,511	15,609,635
Repair and maintenance	16,991,631	18,398,218
Services	14,958,346	9,581,572
Electricity	12,189,115	10,753,491
Materials and supplies	8,064,481	6,296,760
Taxes	4,153,932	3,401,251
Communication services	1,157,866	495,903
Utilities and building maintenance	921,548	931,959
Business trip expenses	602,912	506,338
Employee benefit expense	254,086	355,716
Operating lease expenses	210,776	364,021
Other	3,549,692	4,816,946
	<u>170,631,076</u>	<u>155,615,631</u>

19. GENERAL AND ADMINISTRATIVE EXPENSES

	For the three months ended 31 March	
	2017 (unaudited)	2016 (unaudited)
Personnel costs, including taxes, contributions and unused vacation provision	10,129,026	8,732,085
Taxes	2,672,630	4,135,423
Depreciation and amortization	1,225,122	1,040,446
Consulting, audit and legal services	655,068	583,060
Allowances for doubtful debts	485,726	74,538
Other services of third parties	329,433	66,434
Business trip expenses	317,575	228,081
Operating lease expenses	294,543	198,536
Bank services	224,260	172,733
Utilities and building maintenance	213,711	193,106
Social sphere objects maintenance	157,989	143,764
Materials	113,964	132,231
Insurance	81,883	57,149
Expenses on holiday and cultural events	71,991	65,945
Advertising expenses	57,971	135,890
Employee benefit expenses	54,384	59,404
Repair and maintenance	52,431	39,566
Professional trainings and qualifications	33,054	46,736
Other	691,675	1,171,513
	<u>17,862,436</u>	<u>17,276,640</u>

20. FINANCE COSTS

	For the three months ended 31 March	
	2017 (unaudited)	2016 (unaudited)
Interest expense on borrowings	19,964,161	19,244,375
Finance leasing expense	-	18,175

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Loss on ineffective part of the hedging instruments	77,957	-
Other finance cost	4,362,709	401,825
	<u>24,404,827</u>	<u>19,664,375</u>

21. INCOME TAX

Corporate income tax for the three months ended 31 March 2017 was calculated at the average effective rate of 33.2% (the three months ended 31 March 2016: 28.84%).

22. EARNINGS PER SHARE

Basic earnings per share are calculated based on the weighted average number of common shares outstanding during the period. Basic and diluted per share data are the same, as there are no dilutive instruments outstanding. As at 31 March 2017 and 31 December 2016, there were no antilutive instruments outstanding.

	For the three months ended 31 March	
	2017 (unaudited)	2016 (unaudited)
Weighted average number of common shares	496,063,720	494,780,882
Profit/(loss) for the period attributable to the Shareholder (thousand tenge)	26,065,363	(16,844,180)
Profit/(loss) per common share (tenge)	<u>52</u>	<u>(34)</u>
Profit/(loss) for the period from continued operations attributable to the Shareholder (thousand tenge)	26,420,104	(16,246,216)
Profit/(loss) from continued operations per common share (tenge)	<u>53</u>	<u>(33)</u>

Carrying value per share as at 31 March 2017 and 31 December 2016 is presented below.

	31 March 2017 (unaudited)	31 December 2016
Net assets, excluding intangible assets and non-controlling interests	1,175,153,500	1,145,408,597
Number of common shares in issue	<u>496,063,720</u>	<u>496,063,720</u>
Carrying value per share (tenge)	<u>2,369</u>	<u>2,309</u>

23. FINANCIAL AND CONTINGENT LIABILITIES

Capital commitments

As at 31 March 2017, the Group had capital commitments for the construction of railway lines Zhezkazgan-Beineu and Arkalyk-Shubarkol, purchase of long rails, development of railway center in Astana including railway station, acquisition of freight and passenger electric locomotives, freight and passenger diesel locomotives totaling 952,124,628 thousand tenge (31 December 2016: 1,136,590,240 thousand tenge).

Other contractual liabilities

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

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potentially onerous term. Starting from 15 September 2016 the period of rendering services has started under the agreement dated 20 November 2015.

Based on the assessment performed, the management of the Group considers that as at 31 March 2017 nonfulfillment of the minimum volumes of services for storage of goods is not considered probable, and, therefore, the Group has not provided for contingent liabilities.

Contingent liabilities

Legal claims

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

Contingent liabilities related to Kazakhstan taxation

As at 31 March 2017, contingent liabilities related to Kazakhstan taxation comprised the following:

During the thematic tax audit of the VAT refund carried out for the periods from 2009 to 2012, the tax authorities revealed that VAT amounts of 4,443,986 thousand tenge claimed for refund, but not confirmed by counter check of suppliers, and assessed a penalty of 3,677,177 thousand tenge.

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

As at 31 March 2017, the Group did not accrue provisions for these amounts, since the Group believes that actions of tax authorities contradict tax law and the Group intends to defend its position in the court and state bodies.

Due to the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, may be in excess of the amount expensed to date and accrued as at 31 March 2017. It is not practicable to determine the amount of any unasserted claims that may manifest, if any, or the likelihood of any unfavorable outcome.

Insurance

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

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Guarantees

As at 31 March 2017, guarantees comprised the following:

	Guarantee purpose	Guarantee issued date	Guarantee maturity	Guarantee amount
Eurasian Development Bank	execution of obligations of the joint venture Electrovoz Kurastyru Zauyty LLP on financing construction of the plant for production of locomotives	17 September 2012	till 2023	2,370,000 thousand tenge
Development Bank of Kazakhstan JSC	execution of obligations of the associate Aktobe Rail and Section Mill Plant LLP on financing construction of rail and section mill plant in Aktobe.	4 July 2013	till 2023	24,628,189 thousand tenge

In the Note 17, a fair value of these guarantees is disclosed. As at 31 March 2017 and 31 December 2016, the Group did not have any obligations related to the guarantees listed above, which would require recognition of provisions for these guarantees.

Finance lease

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

24. RELATED PARTY TRANSACTIONS

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 March 2017 and 31 December 2016 are detailed below.

		Shareholder	Associates of the Group	Joint ventures where the Group is a participant	Companies in the group of the Shareholder	Other related parties
Debt due from related parties for goods, services and non-current assets	2017	2,560	18,148,433	6,371,932	3,364,223	-
	2016	-	9,580,245	7,397,824	1,656,854	-
including allowances for doubtful debt	2017	-	(22,136)	(23,896)	(33,393)	-
	2016	-	(16,763)	(191,312)	(33,552)	-
Debt to from related parties for goods, services and non-current assets	2017	-	1,852,048	3,130,426	6,014,188	61,912
	2016	-	1,619,534	4,299,385	3,816,564	-
Current accounts and contributions	2017	-	-	-	-	291
	2016	-	-	-	-	309
Restricted cash	2017	-	-	-	-	-
	2016	-	-	-	-	357,811

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		Shareholder	Associates of the Group	Joint ventures where the Group is a participant	Companies in the group of the Shareholder	Other related parties
Loans given	2017	-	-	124,146	-	-
	2016	-	-	99,428	-	-
including impairment provision on loans	2017	-	-	(590,075)	-	-
	2016	-	-	(590,075)	-	-
Loans received	2017	152,889,519	-	-	-	42,072,563
	2016	152,960,581	-	-	-	43,813,136
Liabilities on finance lease	2017	-	-	-	-	-
	2016	-	-	-	-	136,052
Dividends receivable	2017	-	-	-	-	-
	2016	-	-	1,663,776	-	-
Dividends payable	2017	16,424,670	-	-	-	-
	2016	16,424,670	-	-	-	-

Operations with related parties for the three months ended 31 March comprised the following:

		Shareholder	Associates of the Group	Joint ventures, where the Group is a participant	Companies in the Group of the Shareholder	Other related parties
Sale of goods, services and non-current assets	2017	-	53,454	8,330,858	3,721,273	-
	2016	-	85,800	9,797,215	3,555,180	-
(Accrued)/ reversed allowances for doubtful debt	2017	-	(5,373)	-	160	-
	2016	-	-	(23,896)	(306,742)	-
Purchase of goods, services and non-current assets	2017	-	9,972,790	533,762	5,087,445	52
	2016	-	1,417,315	29,370,164	2,340,277	19
Loans issued/ (Repayment of loans issued)	2017	-	-	12,512	-	-
	2016	-	-	-	-	-
Loans received	2017	-	-	-	-	-
	2016	-	-	-	-	508,367
Repayment of loans received	2017	-	-	-	-	1,417,832
	2016	-	-	-	-	1,466,601
Finance income	2017	-	-	13,949	-	-
	2016	-	-	51,476	-	-
Finance cost	2017	1,842,487	-	872	-	727,421
	2016	2,177,527	-	-	-	934,180

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		Shareholder	Associates of the Group	Joint ventures, where the Group is a participant	Companies in the Group of the Shareholder	Other related parties
Dividends receivable	2017	-	-	-	-	-
	2016	-	-	594,546	-	-
Share capital contributions	2017	-	-	-	-	-
	2016	36,457,780	-	-	-	-

As at 31 March 2017 and 31 December 2016, certain of the Group's borrowings of 3,112,254 thousand tenge and 3,285,544 thousand tenge, respectively, were guaranteed by the Government of the Republic of Kazakhstan.

As at 31 March 2017, certain borrowings of the associates and joint ventures have been guaranteed by the Group (Note 23).

Transactions with the companies in the group of the Shareholder, associates and joint ventures and other related parties mainly comprise transactions with KazMunaiGas National Company JSC (fuel), Kazakhtelecom JSC (communication services), Kazatomprom National Nuclear Company JSC (electricity), KEGOC JSC (electricity), Kazpost JSC (post services), Kazakhstan Engineering National Company JSC (engineering production) and Samruk-Energo JSC (electricity). In addition, the Group provides cargo transportation services to the associates and joint ventures of the Shareholder.

As at and for the three months ended 31 March, the Group recognized constructive obligations for the construction of the following projects for the benefit of the Shareholder:

	Current liabilities					Non-current liabilities
	Teleradio complex equipment	Mangystau municipalities	Kindergarten in Astana	Ice palace	Total	Ice palace
At 1 January 2016	28,238,638	247,276	1,702,660	-	30,188,574	48,601,265
Reserve	-	-	165,272	-	165,272	-
Disposals	-	-	(1,825,478)	-	(1,825,478)	-
At 31 March 2016	28,238,638	247,276	42,454	-	28,528,368	48,601,265
At 1 January 2017	-	247,276	42,454	47,778,069	48,067,799	-
At 31 March 2017	-	247,276	42,454	47,778,069	48,067,799	-

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

	Current assets				Non-current liabilities
	Teleradio complex equipment	Mangystau municipalities	Kindergarten in Astana	Ice palace	Ice palace
At 1 January 2016	28,238,638	247,276	1,672,345	-	41,268,374
Additions	-	-	-	-	2,026,269
Disposals	-	-	(1,629,891)	-	-
At 31 March 2016	28,238,638	247,276	42,454	-	43,294,643
At 1 January 2017	-	247,276	42,454	47,778,069	-
At 31 March 2017	-	247,276	42,454	47,778,069	-

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2017 (CONTINUED) (in thousands of tenge unless otherwise is stated)

Compensation of key management personnel of the Group

Key management personnel comprise members of the Group's Management Board and Board of Directors totaling 12 persons as at 31 March 2017 (31 March 2016: 13 persons). Total amount of compensation to key management personnel, included in the personnel costs, comprised 88,533 thousand tenge for the three months ended 31 March 2017 (for the three months ended 31 March 2016: 104,568 thousand tenge). Compensation to key management personnel mainly consists of expenses related to salary based on agreements, and bonuses based on operational results.

25. FINANCIAL INSTRUMENTS. 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, judgment is needed to arrive at a fair value, based on current economic conditions and the specific risks attributable to the instrument.

The following methods and assumptions are used by the Group to estimate the fair value of these financial instruments:

Cash and cash equivalents

The carrying value of cash and cash equivalents approximates their fair value due to the short-term maturity of these financial instruments.

Financial assets and liabilities

For assets and liabilities maturing within twelve months, the carrying value approximates fair value due to the relatively short-term maturity of these financial instruments.

For financial assets and liabilities maturing in over twelve months, the fair value represents the present value of estimated future cash flows discounted at year-end market rates.

Borrowings

The estimated fair value for loans from banks was made by discounting the scheduled future cash flows of individual loans through the estimated maturity using prevailing market rates as at the respective year-end for debt with a similar maturity and credit-rating profile. The Group's bank loans are mostly provided by international development institutions and foreign banks. Although interest rates on these loans, lower than interest rates of private commercial credit institutions of Kazakhstan, as a result, they are considered as the market interest rates for this category of lenders. The fair value of debt securities issued has been determined based on market prices at the reporting date.

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2017 (CONTINUED)

(in thousands of tenge unless otherwise is stated)

Fair value of financial assets and financial liabilities measured at fair value on a recurring basis

As at 31 March 2017 and 31 December 2016, the fair value of financial assets and financial liabilities, except for borrowings and debt securities, was not significantly different from its cost. Carrying value and fair value of borrowings and debt securities as at 31 March 2017 and 31 December 2016 is presented as follows:

	31 March 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans given	15,905,705	15,905,705	969,745	969,745
Other financial assets	16,469,546	16,469,546	17,549,976	17,549,976
Borrowings	481,959,566	457,509,026	468,338,685	451,931,634
Debt securities	735,862,448	781,902,243	771,341,089	790,399,781
Financial guarantees	4,308,925	4,308,925	4,399,245	4,399,245

Fair value hierarchy as at 31 March 2017

	Level 1	Level 2	Level 3	Total
Financial assets				
Loans given	-	15,905,705	-	15,905,705
Other financial assets	-	16,469,546	-	16,469,546
Total	-	32,375,251	-	32,375,251
Financial liabilities				
Financial liabilities held at amortized cost:				
- debt securities	781,902,243	-	-	781,902,243
- bank loans	-	284,313,343	7,492,025	291,805,368
- loans from related parties	-	165,703,658	-	165,703,658
- financial guarantees	-	4,308,925	-	4,308,925
Total	781,902,243	454,325,926	7,492,025	1,243,720,194

Fair value hierarchy as at 31 December 2016

	Level 1	Level 2	Level 3	Total
Financial assets				
Loans given	-	969,745	-	969,745
Other financial assets	-	17,549,976	-	17,549,976
Total	-	18,519,721	-	18,519,721
Financial liabilities				
Financial liabilities held at amortized cost:				
- debt securities	790,399,781	-	-	790,399,781
- bank loans	-	277,311,629	7,705,421	285,017,050
- loans from related parties	-	166,914,584	-	166,914,584
- financial guarantees	-	4,399,245	-	4,399,245
Total	790,399,781	448,625,458	7,705,421	1,246,730,660

The fair values of the financial assets and financial liabilities included in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

For trade accounts receivable and payable, the fair value approximates its carrying value.

During the three months 2017, there were no transfers between the hierarchy levels.

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2017 (CONTINUED)

(in thousands of tenge unless otherwise is stated)

26. EVENTS AFTER THE REPORTING DATE

Disposal of non-current assets classified as held for sale

In April 2017, the Group, has completed a deal on sale of 50% interest in joint venture, Locomotive Kurastyru Zauyty JSC, to the third party. As a result of this sale, the Group lost joint control over Locomotive Kurastyru Zauyty JSC.

In May 2017, the Group, represented by its subsidiary, Kaztemirtrans JSC, has completed a deal on sale of 90% interest in its subsidiary, Regional Forwarding Logistic LTD, to the second shareholder. As a result of this sale, the Group lost control over Regional Forwarding Logistic LTD. Operation results of Regional Forwarding Logistic LTD have been presented as a part of KTZ-Freight Transportation JSC's segment.

Borrowings

In May 2017, the Group obtained loans from Halyk Bank of Kazakhstan of 16,000,000 thousand tenge at interest rates of 13% due within one year.

Loans given

In April-May 2017, the Group, represented by its subsidiary, Airport Management Group LLP, provided financial aid of 11,000,000 thousand tenge to Astana International Airport LLP, which is under trust management.

Approval of financial statements

The Group's condensed interim consolidated financial statements were authorized for issue by management on 29 May 2017.