

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

Condensed Interim Consolidated Financial Statements
for Three and Six Months Ended
30 June 2017 (unaudited)

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

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KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL FOR ISSUANCE OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THREE AND THE SIX MONTHS ENDED 30 JUNE 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 (the "Group") as at 30 June 2017, and the results of its operations for three and six months then ended, and cash flows and changes in equity for six months then ended, in compliance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB").

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

- properly selecting and applying accounting policies;
- making reasonable estimates and judgments;
- complying with 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 is 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 condensed interim consolidated financial statements of the Group comply with IAS 34;
- maintaining accounting records in compliance with 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
- detecting and preventing fraud and other irregularities.

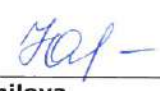
These condensed interim consolidated financial statements for three and six months ended 30 June 2017 have been authorized for issue by management on 14 August 2017.

On behalf of management of the Group:


A.T. Sultanov
Acting President

14 August 2017




N. Kh. Abilova
Chief Accountant

14 August 2017

REPORT ON REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying condensed interim consolidated statement of financial position of Kazakhstan Temir Zholy National Company JSC and its subsidiaries (the "Group") as of June 30, 2017 and the related condensed interim consolidated statements of profit or loss and other comprehensive income for three and six month then ended, condensed interim consolidated statements of changes in equity and cash flows for the six months then ended, and a summary of significant accounting policies and other selected explanatory notes. Management is responsible for the preparation and fair presentation of this condensed interim consolidated financial statements in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this condensed interim consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of condensed interim consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

DELOITTE, LLP

Deloitte LLP

14 August 2017

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

(in thousands of tenge)

| | Notes | 30 June 2017 (unaudited) | 31 December 2016 |
|--|-------|--------------------------------|----------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 6 | 2,571,875,902 | 2,521,329,368 |
| Intangible assets | | 11,043,259 | 11,589,266 |
| Investments in joint ventures | 7 | 13,433,826 | 11,720,150 |
| Investments in associates | 7 | 10,508,247 | 11,357,875 |
| Deferred tax assets | | 8,730,647 | 8,632,019 |
| Other financial assets | 10 | 2,255,890 | 2,333,030 |
| Long-term trade accounts receivable | | 132,007 | 117,217 |
| Other non-current assets | 8 | 92,062,770 | 91,920,382 |
| Total non-current assets | | 2,710,042,548 | 2,658,999,307 |
| Current assets | | | |
| Inventories | 9 | 32,320,956 | 28,846,944 |
| Trade accounts receivable | | 22,725,136 | 15,416,517 |
| Other financial assets | 10 | 19,853,936 | 16,186,691 |
| Prepaid income tax | | 998,978 | 1,903,220 |
| VAT recoverable | | 55,610,051 | 57,252,499 |
| Cash and cash equivalents | 11 | 153,754,104 | 48,978,173 |
| Other current assets | 12 | 45,165,631 | 39,174,885 |
| Assets held for the benefit of the Shareholder | 24 | 289,730 | 48,067,799 |
| | | 330,718,522 | 255,826,728 |
| Assets and disposal groups classified as held for sale | 13 | 98,641,536 | 120,625,761 |
| Total current assets | | 429,360,058 | 376,452,489 |
| Total assets | | 3,139,402,606 | 3,035,451,796 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 14 | 1,043,460,480 | 993,460,480 |
| Cash flow hedging reserve | 14 | (41,304,485) | (39,073,931) |
| Foreign currency translation reserve | | 3,939,189 | 4,110,006 |
| Retained earnings | | 198,260,623 | 198,501,308 |
| Equity attributable to the Shareholder | | 1,204,355,807 | 1,156,997,863 |
| Non-controlling interests | | 11,751,804 | 11,035,349 |
| Total equity | | 1,216,107,611 | 1,168,033,212 |

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017 (CONTINUED) (in thousands of tenge)

| | Notes | 30 June 2017 (unaudited) | 31 December 2016 |
|--|-------|--------------------------------|----------------------|
| Non-current liabilities | | | |
| Borrowings | 15 | 1,143,236,282 | 1,098,117,957 |
| Employee benefit obligations | | 26,604,269 | 26,169,983 |
| Deferred tax liabilities | | 233,089,832 | 224,357,530 |
| Other non-current liabilities | 17 | 4,271,655 | 4,399,245 |
| Total non-current liabilities | | 1,407,202,038 | 1,353,044,715 |
| Current liabilities | | | |
| Borrowings | 15 | 181,358,999 | 141,561,817 |
| Employee benefit obligations | | 2,960,557 | 2,960,557 |
| Trade accounts payable | 16 | 95,201,958 | 124,453,799 |
| Income tax payable | | 81,083 | 117,552 |
| Other taxes payable | | 7,108,158 | 8,128,214 |
| Constructive obligation for the benefit of Shareholder | 24 | 289,730 | 48,067,799 |
| Other current liabilities | 17 | 138,627,445 | 92,267,628 |
| | | 425,627,930 | 417,557,366 |
| Liabilities directly associated with disposal groups classified as held for sale | 13 | 90,465,027 | 96,816,503 |
| Total current liabilities | | 516,092,957 | 514,373,869 |
| Total liabilities | | 1,923,294,995 | 1,867,418,584 |
| Total equity and liabilities | | 3,139,402,606 | 3,035,451,796 |

On behalf of management of the Group:

A.T. Sultanov
Acting President
14 August 2017



N. Kh. Abilova
Chief Accountant
14 August 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 AND THE SIX MONTHS ENDED 30 JUNE 2017 (UNAUDITED)**
(in thousands of tenge)

| | Notes | Three months ended 30 June | | Six months ended 30 June | |
|---|-------|-------------------------------|---------------|-----------------------------|---------------|
| | | 2017 | 2016 | 2017 | 2016 |
| Continuing operations | | | | | |
| Revenue | | | | | |
| Freight transportation | | 183,208,196 | 171,333,927 | 352,326,448 | 322,899,258 |
| Passenger transportation | | 19,887,640 | 20,012,515 | 37,650,829 | 36,135,702 |
| Government grants | | 4,802,559 | 5,203,784 | 8,549,889 | 10,250,711 |
| Other income | | 8,951,820 | 6,465,904 | 18,782,501 | 14,194,050 |
| Total revenue | | 216,850,215 | 203,016,130 | 417,309,667 | 383,479,721 |
| Cost of sales | 18 | (171,670,695) | (156,694,831) | (342,301,771) | (312,310,462) |
| Gross profit | | 45,179,520 | 46,321,299 | 75,007,896 | 71,169,259 |
| General and administrative expenses (Impairment of assets)/recovery of impairment | 19 | (20,772,247) | (18,686,279) | (38,634,683) | (35,962,919) |
| Other income and expenses | | (12,690,361) | 242,329 | (13,627,565) | (1,716,831) |
| Finance income | | 433,167 | 1,658,927 | 669,473 | 2,093,669 |
| Finance costs | | 1,915,872 | 1,527,272 | 3,255,930 | 3,333,123 |
| Foreign exchange gain/(loss) | 20 | (23,492,988) | (20,232,866) | (47,897,815) | (39,897,241) |
| Share of profit of associates and joint ventures | 7 | (21,893,559) | 15,276,194 | 28,245,145 | 1,213,640 |
| Gain from disposal of subsidiaries not qualifying as discontinued operations | | 995,348 | 1,129,548 | 588,289 | 1,990,644 |
| Gain from disposal of shares in joint ventures | | 91,921 | - | 250,779 | 189,406 |
| | | 6,588,809 | 332,000 | 7,966,541 | 7,099,097 |
| Profit/(loss) before income tax | | (23,644,518) | 27,568,424 | 15,823,990 | 9,511,847 |
| Income tax (expense)/benefit | | 3,613,443 | (3,216,082) | (9,490,495) | (1,719,246) |
| Profit/(loss) from continuing operations for the period | | (20,031,075) | 24,352,342 | 6,333,495 | 7,792,601 |
| Discontinued operations | | | | | |
| (Loss)/profit from discontinued operations for the period | 13 | 257,655 | (2,424,018) | (97,086) | (3,021,982) |
| Profit/(loss) for the period | | (19,773,420) | 21,928,324 | 6,236,409 | 4,770,619 |

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS FOR SIX MONTHS ENDED 30 JUNE 2017 (UNAUDITED)

(in thousands of tenge)

| | Notes | Six months ended 30 June | |
|---|--------|-----------------------------|-------------------|
| | | 2017 | 2016 |
| Cash flows from operating activities: | | | |
| Profit for the period | | 6,236,409 | 4,770,619 |
| Income tax expense recognized in profit or loss including discontinued operations | | 10,064,939 | 2,371,133 |
| Adjustments for: | | | |
| Depreciation and amortization | | 55,910,013 | 56,791,704 |
| Finance costs | 13, 20 | 50,961,604 | 43,026,143 |
| Impairment of assets | | 13,627,565 | 1,716,831 |
| Finance income | | (3,408,572) | (3,660,196) |
| Defined benefit plan costs | 18, 19 | 625,309 | 827,234 |
| Share of profit of associates and joint ventures | 7 | (588,289) | (1,990,644) |
| Allowance for doubtful debts | | 1,230,143 | 943,399 |
| Foreign exchange gain | | (27,776,187) | (192,913) |
| Gain from disposal of subsidiaries not qualifying as discontinued operations | | (250,779) | (189,406) |
| Gain from disposal of shares in joint ventures | | (7,966,541) | (7,099,097) |
| Other | | 2,878,498 | (454,891) |
| Operating income before changes in working capital and other items on the statement of financial position | | 101,544,112 | 96,859,916 |
| Change in trade accounts receivable | | (7,390,004) | 3,703,622 |
| Changes in inventories | | (3,251,406) | (391,365) |
| Change in other current and non-current assets (including non-current VAT recoverable) | | (11,849,441) | (7,479,930) |
| Changes in trade accounts payable | | (3,187,052) | (16,324,914) |
| Changes in other taxes payable | | (5,127,189) | 2,300,892 |
| Change in other current liabilities | | 15,337,176 | 589,457 |
| Change in employee benefit obligations | | (191,023) | (392,948) |
| Change in other non-current liabilities | | 80 | 243,149 |
| Cash flows from operating activities | | 85,885,253 | 79,107,879 |
| Interest paid | | (47,956,098) | (41,225,181) |
| Interest received | | 1,735,222 | 2,967,281 |
| Income tax paid | | (605,996) | (2,588,738) |
| Net cash flows from operating activities | | 39,058,381 | 38,261,241 |

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS FOR SIX MONTHS ENDED 30 JUNE 2017 (UNAUDITED) (CONTINUED)

(in thousands of tenge)

| | Notes | Six months ended 30 June | |
|--|-------|-----------------------------|---------------------|
| | | 2017 | 2016 |
| Cash flows from investing activities: | | | |
| Purchase of property, plant and equipment, including advances paid | | (126,028,783) | (81,354,059) |
| Purchase of intangible assets | | (182,680) | (1,741,746) |
| Proceeds from sale of shares in joint ventures | | 19,396,755 | 8,139,400 |
| Proceeds from sale of other non-current assets | | 541,049 | 4,918,408 |
| Investments in other financial assets | | (48,693,732) | (55,044,975) |
| Proceeds from return of other financial assets | | 29,586,267 | 67,124,394 |
| Dividends received from joint ventures | 7 | 1,663,776 | 1,659,754 |
| Net cash inflows from disposal of subsidiaries and discontinued operations | | 425,051 | 274,864 |
| Other | | 451,000 | 272,429 |
| Net cash used in investing activities | | (122,841,297) | (55,751,531) |
| Cash flows from financing activities | | | |
| Contributions to share capital | 14 | 50,000,000 | 46,400,000 |
| Proceeds from borrowings | | 131,973,166 | 128,668,996 |
| Repayments of borrowings | | (28,660,099) | (162,283,159) |
| Change in ownership share in subsidiaries without loss of control | 14 | 23,096,457 | 9,000,000 |
| Purchase of asset held for the benefit of the Shareholder | | - | (2,127,584) |
| Other | | (72,441) | (246,700) |
| Net cash flows from financing activities | | 176,337,083 | 19,411,553 |
| Net change in cash and cash equivalents | | 92,554,167 | 1,921,263 |
| 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 | | (2,013,786) | (2,843,866) |
| Cash and cash equivalents at the end of the period | 11 | 157,625,812 | 73,980,918 |

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2017 (in thousands of tenge)

| | Share capital | Additional paid-in 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 | 968,915,627 | (651,552) | 968,264,075 |
| Profit/(loss) for the period | - | - | - | - | 5,206,158 | 5,206,158 | (435,539) | 4,770,619 |
| Other comprehensive income/(loss) for the period | - | - | (703,022) | 74,450 | - | (628,572) | 1,104 | (627,468) |
| Total comprehensive income/(loss) for the period | - | - | (703,022) | 74,450 | 5,206,158 | 4,577,586 | (434,435) | 4,143,151 |
| Shares issue (Note 14) | 36,543,584 | 10,000,000 | - | - | - | 46,543,584 | - | 46,543,584 |
| Dividends | - | - | - | - | - | - | (6,411) | (6,411) |
| Other distributions (Note 14) | - | - | - | - | 704,721 | 704,721 | - | 704,721 |
| Change in ownership share in subsidiaries without loss of control | - | - | - | - | (2,425,063) | (2,425,063) | 11,425,063 | 9,000,000 |
| At 30 June 2016 (unaudited) | 901,937,480 | 10,000,000 | (44,194,379) | 4,675,856 | 145,897,498 | 1,018,316,455 | 10,332,665 | 1,028,649,120 |
| At 1 January 2017 | 993,460,480 | - | (39,073,931) | 4,110,006 | 198,501,308 | 1,156,997,863 | 11,035,349 | 1,168,033,212 |
| Profit for the period | - | - | - | - | 5,492,683 | 5,492,683 | 743,726 | 6,236,409 |
| Other comprehensive loss for the period | - | - | (2,230,554) | (63,042) | - | (2,293,596) | - | (2,293,596) |
| Total comprehensive income/(loss) for the period | - | - | (2,230,554) | (63,042) | 5,492,683 | 3,199,087 | 743,726 | 3,942,813 |
| Shares issue (Note 14) | 50,000,000 | - | - | - | - | 50,000,000 | - | 50,000,000 |
| Dividends | - | - | - | - | - | - | (17,827) | (17,827) |
| Other distributions | - | - | - | - | - | - | - | - |
| (Note 14) | - | - | - | - | (5,733,368) | (5,733,368) | - | (5,733,368) |
| Disposal of subsidiaries | - | - | - | (107,775) | - | (107,775) | (9,444) | (117,219) |
| At 30 June 2017 (unaudited) | 1,043,460,480 | - | (41,304,485) | 3,939,189 | 198,260,623 | 1,204,355,807 | 11,751,804 | 1,216,107,611 |

On behalf of management of the Group:

A.T. Sultanov
Acting President
14 August 2017

N. Kh. Abilova
Chief Accountant
14 August 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 SIX MONTHS ENDED 30 JUNE 2017

(in thousands of tenge, unless otherwise indicated)

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

Committee on Regulation of Natural Monopolies and Protection of Competition under the Ministry of National Economy of the Republic of Kazakhstan ("CRNM") approved tariffs for 2016-2020 for railway network services, with an annual tariff increase by 4%.

Since 1 April 2017, CRNM agreed tariffs for freight transportation services. As a result, the average increase in railway freight transportation during six months ended 30 June 2017 comprised 5%, including railway network access of 4% and locomotive haulage services of 7%.

Starting from 1 January 2017, CRNM approved increase in tariffs for passenger transportation in number of interdistrict routes by 7%.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

Going concern basis

The condensed interim consolidated financial statements have been prepared on a going concern basis. This assumes the realization of assets and discharge of liabilities in the normal course of the business. As at 30 June 2017, current liabilities of the Group exceeded its current assets by 86,732,899 thousand tenge. Historically, the Group financed large investment projects through capital contributions from the Government and external borrowings, in addition to cash flows from operating activities. As at 30 June 2017, the Group's borrowings of 181,358,999 thousand tenge are payable within twelve months of the reporting date, including borrowings from the Shareholder of 75,000,000 thousand tenge with maturity in September 2017. To refinance long-term borrowings of 75,000,000 thousand tenge from the Shareholder to subsidiaries (Kaztemirtrans JSC and KTZ-Freight Transportation JSC), the Group has issued and placed debt securities of 15,000,000,000 Russian rubles (83,100,000 thousand tenge) in the domestic market of Russian Federation. (Note 15). The Group has estimated the need for cash, including the repayment of borrowing liabilities, and its development plans. In estimating its going concern basis, management have also considered the Group's financial position, expected future financial performance and cash flows from operations, its borrowings, available credit facilities, its capital expenditure commitments, as well as expected tariffs, currency exchange rates and other risks facing the Group. Based on the estimates, management have concluded that the Company 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.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017 (CONTINUED)

(in thousands of tenge, unless otherwise indicated)

Basis of preparation

These condensed interim consolidated financial statements are unaudited and exclude disclosures required for annual financial statements. The Group omitted disclosures that would substantially have duplicated 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 been changed significantly in amount or composition.

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

Accounting policies, accounting judgments, presentation and computation methods applied to these financial statements are the same as those applied to the Group's financial statements for the year ended 31 December 2016, except for the effects from the application of the amended standards effective from 1 January 2017:

- Amendments to IAS 7 *Disclosure Initiative*;
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealized Losses*; and
- Annual Improvements to IFRSs 2014-2016 Cycle.

Amendments to IAS 7 Disclosure Initiative

The amendments require disclosures to enable financial statement users to assess changes in the liabilities of an entity as a result of its financial activities, including changes related to cash flows and other changes.

As the disclosures above are not required for condensed interim financial statements, the application of these amendments has had no material effect on the Group's condensed interim consolidated financial statements.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses

The amendments provide clarifications on how an entity should estimate the availability of future taxable profits against which to utilize the deductible temporary difference.

As the approach practiced by the Group when estimating the availability of future taxable profit does not contradict the amendments above, the application of these amendments has had no material effect on the Group's condensed interim consolidated financial statements.

Annual Improvements to IFRSs 2014-2016 Cycle.

The Group has applied the amendments to IFRS 12 that are included in Annual Improvements to IFRSs 2014-2016 Cycle. The amendments have been applied by the Group for the first time to these financial statements. Other amendments included in Annual Improvements to IFRSs 2014-2016 Cycle are not in effect yet and have not been applied by the Group to these financial statements.

As IFRS 12 does not require the disclosures above for condensed interim consolidated financial statements, the application of these amendments has had no material effect on the Group's condensed interim consolidated financial statements.

New IFRSs in issue but not yet effective

The Group has not applied early adoption of the new IFRSs that have been issued but are not yet effective.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017 (CONTINUED)

(in thousands of tenge, unless otherwise indicated)

IFRS 9 Financial Instruments

Based on the analysis of the Group's financial assets and financial liabilities as at 30 June 2017, as well as based on the facts and circumstances that existed at that date, the management of the Group has made a preliminary assessment of the impact of IFRS 9 on the Group's condensed interim consolidated financial statements:

Classification and measurement

Loans carried at amortized cost are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Therefore, with the adoption of IFRS 9, these financial assets will be recognized at amortized cost.

All other financial assets and financial liabilities will continue to be recognized under IFRS 9 the same as under IAS 39.

Hedge accounting

Since the new hedge accounting requirements will lead to a more accurate matching of risk management accounting activity, expanding set of instruments that can be identified as hedging items and instruments, a preliminary analysis of the Group's current hedging relationships shows that they all will be accounted for as continuing hedging relationships during the transitioning to IFRS 9 similar to the current Group's accounting policy.

In addition to above, the management of the Group does not expect that the application of hedge accounting requirements in accordance with IFRS 9 will have a significant impact on the consolidated financial statements of the Group.

Impairment loss

The Group expects to apply the simplified approach to recognize lifetime expected credit losses for its trade receivables.

As regards loans to related parties and entities under trust management and other financial assets, expected credit losses will be recognized over the lifetime or a 12-month period, depending on whether there has been a significant increase in credit risk for these items from initial recognition. Management of the Group is in the process of assessing a potential impact from these factors.

In general, management anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the respective items and are currently assessing a potential impact on the Group's consolidated financial statements.

It should be noted that the above assessments were made based on an analysis of the Group's financial assets and financial liabilities as at 30 June 2017 on the basis of the facts and circumstances that existed at that date. As facts and circumstances may change until 1 January 2018 (expected date of application of IFRS 9 as the Group does not intend to early apply the standard), the assessment of the potential impact is subject to change.

IFRS 15 Revenue from Contracts with Customers

The Group has analyzed significant contracts related to freight transportation, which represent the main proportion of the Group's revenue.

The Group has concluded that recognizing these revenues over time as a freight transportation services are performed continues to be appropriate during the initial application of IFRS 15.

The Group continues to perform detailed reviews of specific contractual terms including assessing potential additional performance obligation, price, and variable reimbursement due to discounts. Consequently, preliminary estimate given above may change.

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Management of the Group intends to adopt IFRS 15 using a modified retrospective approach, however, a final decision has yet to be made.

Based on preliminary assessment, management of the Group does not expect material change to revenue recognition from adopting IFRS 15.

3. CRITICAL ACCOUNTING JUDGMENTS 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 income 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 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 conclusion, 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 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 on the balance of the Shareholder. The Group has not recognized the airports as subsidiaries as the Group acts as an agent exercising decision-making powers on behalf of the Committee and the Shareholder, without control over these airports. This agreement does not entitle the Group to any returns from the operating activities of the airports.

Control over Khorgos International Centre of Boundary Cooperation JSC

The Group entered into a trust management agreement with the Committee in respect of 100% equity interest in JSC Khorgos International Centre of Cross-border Cooperation (hereinafter, "Khorgos"), a state-owned company. The Group has not recognized Khorgos as a subsidiary as the Group acts as an agent exercising decision-making powers for and on behalf of the Committee, without control over the entity. This agreement does not entitle the Group to any returns from the operating activities of Khorgos.

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Control over Tulpar-Talgo, LLP

The Group, as 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 payment of 23,000 thousand euro (4,661,410 thousand tenge). The agreement provides for certain conditional clauses, including the requirement for the Shareholder's approval of the transaction by the stated date, the reimbursement of financial consequences that may result from changes in euro exchange rate against tenge, as well as the requirement for 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 where it results in increased costs for the production of these passenger coaches. In October 2016, the State commission on modernization of economy of Kazakhstan approved the direct sale of shares in Tulpar-Talgo LLP to Talgo Kazajstan S.L. As at 30 June 2017, the Group received all approvals, signed agreements for an increase in purchase prices for passenger coaches. Management still considers the sale of shares in Tulpar Talgo LLP 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, as 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.

Control over Astana Diesel Service LLP

On 29 April 2015, Repair Corporation Kamkor LLP and Locomotive Kurastyru Zauyty JSC entered into a trust management agreement in respect of 100% equity interest in Astana Diesel Service LLP, a subsidiary to Locomotive Kurastyru Zauyty JSC. With Repair Corporation Kamkor LLP acting as an agent without control over Astana Diesel Service LLP and exercising rights delegated by Locomotive Kurastyru Zauyty JSC for the purpose of making decisions for the benefit of Locomotive Kurastyru Zauyty JSC. Repair Corporation Kamkor LLP is not contractually entitled to variable income from operating activities of Astana Diesel Service LLP.

Loans at a rate below the market interest rate

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

Assets classified as held for sale

In December 2015, the Government of Kazakhstan approved the *Complex Plan of Privatization for 2016-2020* under which in February 2016 the 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 apply judgements regarding whether a sale of asset is highly probable. Based on the analysis of the progress of the Complex Plan of Privatization as at the reporting date, the Group classified certain assets and liabilities into disposal groups held for sale; these assets and liabilities relate to entities qualifying for the criteria in IFRS 5 (Note 13).

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(in thousands of tenge, unless otherwise indicated)

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, which are likely to result in material adjustments 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 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 rate) that management believes reflects current market assessment of the time value of money and the risks specific to the assets. A change in the estimated recoverable amount may result in impairment or its recovery in future periods.

As at 30 June 2017, the Group performed impairment indicators analysis on property, plant and equipment and intangible assets since the latest date of the test, as at 31 December 2016, considering the budget implementation progress for the first half of 2017. Due to impairment indicators, such as underperformance of transit freight transportation volumes in first half of 2017, the Group assessed the recoverable amount of property, plant and equipment and intangible assets as at 30 June 2017.

Based on the results of the test no impairment have been identified.

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

4. CHANGES IN CLASSIFICATION AFFECTING COMPARATIVE INFORMATION

In pursuance of the Complex Plan of Privatization for 2016-2020 approved by the Government of the Republic of Kazakhstan, management of the Group approved the list of subsidiaries, associates and joint ventures for 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 and the six months ended 30 June 2016 were restated.

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(in thousands of tenge, unless otherwise indicated)

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

| | As previously reported | Discontinued operations | As restated |
|--|---------------------------|----------------------------|---------------|
| Three months ended 30 June 2016 (unaudited) | | | |
| Other revenue | 9,059,133 | (2,593,229) | 6,465,904 |
| Total revenue | 205,609,359 | (2,593,229) | 203,016,130 |
| Cost of sales | (158,042,598) | 1,347,767 | (156,694,831) |
| Gross profit | 47,566,761 | (1,245,462) | 46,321,299 |
| General and administrative expenses | (19,422,368) | 736,089 | (18,686,279) |
| Other income and expenses | 1,666,060 | (7,133) | 1,658,927 |
| Finance income | 1,672,790 | (145,518) | 1,527,272 |
| Finance costs | (21,822,887) | 1,590,021 | (20,232,866) |
| Foreign exchange gain | 15,221,448 | 54,746 | 15,276,194 |
| Profit before income tax | 26,585,681 | 982,743 | 27,568,424 |
| Income tax expense | (3,502,896) | 286,814 | (3,216,082) |
| Profit for the year from continuing operations | 23,082,785 | 1,269,557 | 24,352,342 |
| Loss for the period from discontinued operations: | (1,154,461) | (1,269,557) | (2,424,018) |
| Profit for the period | 21,928,324 | - | 21,928,324 |
| Earnings per share from continuing and discontinued operations (in whole tenge) | 47 | 3 | 50 |
| | As previously reported | Discontinued operations | As restated |
| Six months ended 30 June 2016 (unaudited) | | | |
| Other revenue | 19,621,710 | (5,427,660) | 14,194,050 |
| Total revenue | 388,907,381 | (5,427,660) | 383,479,721 |
| Cost of sales | (314,982,595) | 2,672,133 | (312,310,462) |
| Gross profit | 73,924,786 | (2,755,527) | 71,169,259 |
| General and administrative expenses | (37,282,767) | 1,319,848 | (35,962,919) |
| Other income and expenses | 2,120,618 | (26,949) | 2,093,669 |
| Finance income | 3,634,860 | (301,737) | 3,333,123 |
| Finance costs | (42,947,508) | 3,050,267 | (39,897,241) |
| Foreign exchange gain | 1,209,215 | 4,425 | 1,213,640 |
| Profit before income tax | 8,221,520 | 1,290,327 | 9,511,847 |
| Income tax expense | (2,371,133) | 651,887 | (1,719,246) |
| Profit for the period from continuing operations | 5,850,387 | 1,942,214 | 7,792,601 |
| Loss for the period from discontinued operations: | (1,079,768) | (1,942,214) | (3,021,982) |
| Profit for the period | 4,770,619 | - | 4,770,619 |
| Earnings per share from continuing operations (in tenge) | 13 | 4 | 17 |

5. SEGMENT INFORMATION

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

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Management of the Group monitors multiple measures of segment profitability for the Group's operating segments, including profit before taxation, profit for the period from continuing operations and gross profit. However, profit for the period is the key measure used by the Group for the purpose of resource allocation and the assessment of segment performance.

| | For the three months ended 30 June 2017 (unaudited) | | | | |
|--|--|---|--|------------------|---------------------|
| | Freight transporta- tion | Passenger transporta- tion | Total reportable segments | Other | Total |
| Key operating measures | | | | | |
| Revenue | | | | | |
| Revenue from transportation | 187,951,667 | 20,380,711 | 208,332,378 | - | 208,332,378 |
| Government grants | - | 4,802,559 | 4,802,559 | - | 4,802,559 |
| Other revenue | 6,358,997 | 1,013,683 | 7,372,680 | 3,859,815 | 11,232,495 |
| Intrasegment revenue | (6,030,703) | (554,134) | (6,584,837) | (932,380) | (7,517,217) |
| Total revenue | 188,279,961 | 25,642,819 | 213,922,780 | 2,927,435 | 216,850,215 |
| Cost of sales | (146,340,339) | (22,892,886) | (169,233,225) | (2,437,470) | (171,670,695) |
| General and administrative expenses | (18,470,000) | (1,310,159) | (19,780,159) | (992,088) | (20,772,247) |
| (Impairment of assets)/reversal of impairment | (12,761,006) | 70,645 | (12,690,361) | - | (12,690,361) |
| Other income and expenses | 212,738 | 191,336 | 404,074 | 29,093 | 433,167 |
| Finance income | 1,366,349 | 144,354 | 1,510,703 | 405,169 | 1,915,872 |
| Finance costs | (22,631,721) | (582,165) | (23,213,886) | (279,102) | (23,492,988) |
| Foreign exchange (loss)/gain | (21,827,045) | 97,032 | (21,730,013) | (163,546) | (21,893,559) |
| Share of profit/(loss) of associates and joint ventures | 999,686 | - | 999,686 | (4,338) | 995,348 |
| Gain from disposal of shares in joint ventures | 6,588,809 | - | 6,588,809 | - | 6,588,809 |
| Gain from disposal of subsidiaries not qualifying as discontinued operations | 91,921 | - | 91,921 | - | 91,921 |
| (Loss)/profit before tax | (24,490,647) | 1,360,976 | (23,129,671) | (514,847) | (23,644,518) |
| Income tax benefit/(expense) | 3,621,952 | (74,901) | 3,547,051 | 66,392 | 3,613,443 |
| (Loss)/profit from continuing operations for the period | <u>(20,868,695)</u> | <u>1,286,075</u> | <u>(19,582,620)</u> | <u>(448,455)</u> | <u>(20,031,075)</u> |
| Other key segment information | | | | | |
| Capital expenditure on property, plant and equipment | 71,660,414 | 838,607 | 72,499,021 | 231,889 | 72,730,910 |
| Depreciation of property, plant and equipment | 25,699,207 | 1,703,095 | 27,402,302 | 475,380 | 27,877,682 |

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(in thousands of tenge, unless otherwise indicated)

| | For the three months ended 30 June 2016 (unaudited) | | | | |
|---|---|----------------------------------|---------------------------------|--------------------|-------------------|
| | Freight transporta- tion | Passenger transporta- tion | Total reportable segments | Other | Total |
| Key operating measures | | | | | |
| Revenue | | | | | |
| Revenue from transportation | 178,141,633 | 20,497,381 | 198,639,014 | - | 198,639,014 |
| Government grants | - | 5,203,784 | 5,203,784 | - | 5,203,784 |
| Other revenue | 2,744,827 | 1,296,355 | 4,041,182 | 3,934,568 | 7,975,750 |
| Intrasegment revenue | (6,846,544) | (722,066) | (7,568,610) | (1,233,808) | (8,802,418) |
| Total revenue | 174,039,916 | 26,275,454 | 200,315,370 | 2,700,760 | 203,016,130 |
| Cost of sales | (131,000,387) | (21,825,153) | (152,825,540) | (3,869,291) | (156,694,831) |
| General and administrative expenses | (16,567,864) | (1,252,628) | (17,820,492) | (865,787) | (18,686,279) |
| (Impairment of assets)/reversal of impairment | 312,851 | (70,522) | 242,329 | - | 242,329 |
| Other income and expenses | 1,486,610 | 150,792 | 1,637,402 | 21,525 | 1,658,927 |
| Finance income | 978,559 | 124,833 | 1,103,392 | 423,880 | 1,527,272 |
| Finance costs | (19,269,907) | (554,564) | (19,824,471) | (408,395) | (20,232,866) |
| Foreign exchange gain/(loss) | 15,548,331 | (9,318) | 15,539,013 | (262,819) | 15,276,194 |
| Share of profit/(loss) of associates and joint ventures | 1,167,376 | - | 1,167,376 | (37,828) | 1,129,548 |
| Gain from disposal of shares in joint ventures | - | - | - | 332,000 | 332,000 |
| Profit before income tax | 26,695,485 | 2,838,894 | 29,534,379 | (1,965,955) | 27,568,424 |
| Income tax (expense)/benefit | (3,274,197) | (189,516) | (3,463,713) | 247,631 | (3,216,082) |
| Profit for the period from continuing operations | <u>23,421,288</u> | <u>2,649,378</u> | <u>26,070,666</u> | <u>(1,718,324)</u> | <u>24,352,342</u> |
| Other key segment information | | | | | |
| Capital expenditure on property, plant and equipment | 55,897,793 | 1,365,491 | 57,263,284 | 1,270,402 | 58,533,686 |
| Depreciation of property, plant and equipment | 23,652,275 | 1,927,568 | 25,579,843 | 1,976,356 | 27,556,199 |

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| | For the six months ended 30 June 2017 (unaudited) | | | | |
|--|---|----------------------------------|---------------------------------|------------------|------------------|
| | Freight transporta- tion | Passenger transporta- tion | Total reportable segments | Other | Total |
| Key operating measures | | | | | |
| Revenue | | | | | |
| Revenue from transportation | 361,841,640 | 38,618,495 | 400,460,135 | - | 400,460,135 |
| Government grants | - | 8,549,889 | 8,549,889 | - | 8,549,889 |
| Other revenue | 13,639,019 | 1,950,100 | 15,589,119 | 7,813,624 | 23,402,743 |
| Intrasegment revenue | (11,767,682) | (1,086,317) | (12,853,999) | (2,249,101) | (15,103,100) |
| Total revenue | 363,712,977 | 48,032,167 | 411,745,144 | 5,564,523 | 417,309,667 |
| Cost of sales | (292,956,827) | (45,091,951) | (338,048,778) | (4,252,993) | (342,301,771) |
| General and administrative expenses | (34,234,690) | (2,492,008) | (36,726,698) | (1,907,985) | (38,634,683) |
| Impairment of assets | (12,992,454) | (635,111) | (13,627,565) | - | (13,627,565) |
| Other income and expenses | 372,412 | 261,095 | 633,507 | 35,966 | 669,473 |
| Finance income | 2,452,235 | 285,169 | 2,737,404 | 518,526 | 3,255,930 |
| Finance costs | (46,166,346) | (1,255,584) | (47,421,930) | (475,885) | (47,897,815) |
| Foreign exchange gain | 27,970,368 | 82,471 | 28,052,839 | 192,306 | 28,245,145 |
| Share of profit/(loss) of associates and joint ventures | 637,556 | - | 637,556 | (49,267) | 588,289 |
| Gain from disposal of shares in joint ventures | 7,966,541 | - | 7,966,541 | - | 7,966,541 |
| Gain from disposal of subsidiaries not qualifying as discontinued operations | 250,779 | - | 250,779 | - | 250,779 |
| Profit/(loss) before income tax | 17,012,551 | (813,752) | 16,198,799 | (374,809) | 15,823,990 |
| Income tax expense | (9,323,275) | (149,122) | (9,472,397) | (18,098) | (9,490,495) |
| Profit/(loss) from continuing operations for the period | <u>7,689,276</u> | <u>(962,874)</u> | <u>6,726,402</u> | <u>(392,907)</u> | <u>6,333,495</u> |
| Other key segment information | | | | | |
| Capital expenditure on property, plant and equipment | 106,859,063 | 1,291,967 | 108,151,030 | 338,236 | 108,489,266 |
| Depreciation of property, plant and equipment | 50,665,331 | 3,594,406 | 54,259,737 | 942,772 | 55,202,509 |

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(in thousands of tenge, unless otherwise indicated)

| | For the six months ended 30 June 2016 (unaudited) | | | | |
|--|---|----------------------------------|---------------------------------|------------------|------------------|
| | Freight transporta- tion | Passenger transporta- tion | Total reportable segments | Other | Total |
| Key operating measures | | | | | |
| Revenue | | | | | |
| Revenue from transportation | 333,799,629 | 37,078,429 | 370,878,058 | - | 370,878,058 |
| Government grants | - | 10,250,711 | 10,250,711 | - | 10,250,711 |
| Other revenue | 7,466,991 | 1,950,779 | 9,417,770 | 8,179,010 | 17,596,780 |
| Intrasegment revenue | (11,303,605) | (1,276,162) | (12,579,767) | (2,666,061) | (15,245,828) |
| Total revenue | 329,963,015 | 48,003,757 | 377,966,772 | 5,512,949 | 383,479,721 |
| Cost of sales | (264,922,315) | (44,172,455) | (309,094,770) | (3,215,692) | (312,310,462) |
| General and administrative expenses | (31,424,328) | (2,406,944) | (33,831,272) | (2,131,647) | (35,962,919) |
| Impairment of assets | (1,447,185) | (269,646) | (1,716,831) | - | (1,716,831) |
| Other income and expenses | 1,769,338 | 280,171 | 2,049,509 | 44,160 | 2,093,669 |
| Finance income | 2,298,517 | 240,427 | 2,538,944 | 794,179 | 3,333,123 |
| Finance costs | (37,384,722) | (1,117,305) | (38,502,027) | (1,395,214) | (39,897,241) |
| Foreign exchange gain/(loss) | 1,522,563 | 11,040 | 1,533,603 | (319,963) | 1,213,640 |
| Share of profit/(loss) of associates and joint ventures | 2,365,036 | - | 2,365,036 | (374,392) | 1,990,644 |
| Gain from disposal of shares in joint ventures | - | - | - | 7,099,097 | 7,099,097 |
| Gain from disposal of subsidiaries not qualifying as discontinued operations | 189,406 | - | 189,406 | - | 189,406 |
| Profit before income tax | 2,929,325 | 569,045 | 3,498,370 | 6,013,477 | 9,511,847 |
| Income tax (expense)/benefit | (1,892,952) | (406,047) | (2,298,999) | 579,753 | (1,719,246) |
| Profit for the period from continuing operations | <u>1,036,373</u> | <u>162,998</u> | <u>1,199,371</u> | <u>6,593,230</u> | <u>7,792,601</u> |
| Other key segment information | | | | | |
| Capital expenditure on property, plant and equipment | 78,973,893 | 2,439,290 | 81,413,183 | 5,182,191 | 86,595,374 |
| Depreciation of property, plant and equipment | 48,524,639 | 3,856,990 | 52,381,629 | 4,118,438 | 56,500,067 |

6. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group purchased freight and passenger cars, locomotives and other property, plant and equipment of 2,151,758 thousand tenge (unaudited) (2016: 11,090,334 thousand tenge) and performed renovation and modernization of property, plant and equipment of 7,734,416 thousand tenge (unaudited) (2016: 1,854,098 thousand tenge).

During the six months ended 30 June 2017, the Group continued the construction of "Zhezkazgan-Beineu" and "Arkalyk-Shubarkol" railway lines in the amount of 3,165,265 thousand tenge (unaudited) (2016: 19,384,184 thousand tenge); the construction of the ferry facilities in the port of Kuryk in the amount of 5,669,046 thousand tenge (unaudited) (2016: 1,813,650 thousand tenge) and the construction of the dry port and the infrastructure for the special economic zone "Korgos - Eastern Gates" of 61,168 thousand tenge (2016: 6,784,835 thousand tenge).

During the six month ended 30 June 2017, the Group's spending on development of a railway junction at Astana station and construction of railway station amounted to 53,578,069 thousand tenge (unaudited) (2016: 19,901,281 thousand tenge). As at 30 June 2017, the Group put into service first stage facilities of this project of 163,012,749 thousand tenge in total.

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(in thousands of tenge, unless otherwise indicated)

The Group also continued with the reconstruction of other components of the railway infrastructure.

7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

For the six months ended 30 June 2017 and 2016, the movements in the investments in associates and joint ventures was as follows:

| | 2017 | 2016 |
|---|-------------------|-------------------|
| Associates at 1 January | 11,357,875 | 10,898,604 |
| Share of loss | (1,125,387) | (546,973) |
| Effect of foreign currency exchange differences | (104,544) | (276,862) |
| Transfer from investments to joint ventures | - | 262,204 |
| Other | 380,303 | |
| Associates at 30 June (unaudited) | <u>10,508,247</u> | <u>10,336,973</u> |
| Joint ventures at 1 January | 11,720,150 | 22,104,613 |
| Share of profit | 1,713,676 | 2,537,617 |
| Transfer to investments in associates | - | (262,204) |
| Dividends receivable | - | (1,303,264) |
| Joint ventures at 30 June (unaudited) | <u>13,433,826</u> | <u>23,076,762</u> |

As at 30 June 2017, the Group's unrecognized share of losses in significant associates (Aktobe Rail and Section Mill Plant LLP, Continental Logistics LLP and Electrovoz kurastyru зауыты LLP) was 7,605,824 thousand tenge (31 December 2016: 6,716,574 thousand tenge).

During the six months ended 30 June 2017, the Group received dividends of 1,663,776 thousand tenge for 2015 in the monetary form from the joint venture Logistic System Management B.V. (Note 12).

During the six months ended 30 June 2016, the Group received dividends of 951,036 thousand tenge and 708,718 thousand tenge for 2014, in the monetary form, from the joint ventures Logistic System Management B.V. and Astyk Trans LLP, respectively.

8. OTHER NON-CURRENT ASSETS

| | 30 June 2017 (unaudited) | 31 December 2016 |
|---|--------------------------------|---------------------|
| Advances for property, plant and equipment | 63,671,183 | 65,111,134 |
| VAT recoverable | 35,420,766 | 34,141,032 |
| Loans to employees | 5,951,700 | 6,400,774 |
| Receivables from the sale of joint venture (Note 13) | 1,225,884 | - |
| Prepaid expenses | 1,047,179 | 1,488,627 |
| Residential properties | 138,241 | 439,954 |
| Other | 2,304,295 | 1,391,967 |
| | <u>109,759,248</u> | <u>108,973,488</u> |
| Less: allowance for advances to suppliers for property, plant and equipment | (2,073,397) | (2,068,719) |
| Less: allowance for non-recoverable VAT | (15,623,081) | (14,984,387) |
| | <u>92,062,770</u> | <u>91,920,382</u> |

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(in thousands of tenge, unless otherwise indicated)

As at 30 June 2017 and 31 December 2016, advances for property, plant and equipment included:

| | 30 June 2017 (unaudited) | 31 December 2016 |
|--|--------------------------------|---------------------|
| Acquisition of locomotives | 27,011,284 | 7,344,090 |
| Construction of the ferry facilities in the port of Kuryk and the operation of freight-and-passenger ferries | 18,569,545 | 9,020,197 |
| Supply of passenger coaches components | 8,311,498 | 8,317,108 |
| Construction of a railway station in Astana | 1,979,886 | 20,278,582 |
| Supply of sea-crafts | - | 3,139,592 |
| Supply of railroad portal cranes | - | 2,279,533 |
| Construction of Zhezkazgan-Beineu and Arkalyk-Shubarkol railway lines | 1,320,895 | 2,401,224 |
| Other | 6,478,075 | 12,330,808 |
| | <u>63,671,183</u> | <u>65,111,134</u> |

9. INVENTORIES

| | 30 June 2017 (unaudited) | 31 December 2016 |
|--|--------------------------------|---------------------|
| Raw materials and supplies | 9,748,639 | 10,247,492 |
| Spare parts | 7,551,450 | 7,729,888 |
| Fuel | 6,982,603 | 5,287,640 |
| Upper railway components | 5,969,131 | 3,373,485 |
| Work-in-progress | 906,638 | 267,601 |
| Construction materials | 475,360 | 776,322 |
| Finished goods | 359,135 | 420,866 |
| Other | 933,539 | 977,286 |
| | <u>32,926,495</u> | <u>29,080,580</u> |
| Less: allowance for obsolete and slow-moving inventories | <u>(605,539)</u> | <u>(233,636)</u> |
| | <u>32,320,956</u> | <u>28,846,944</u> |

10. OTHER FINANCIAL ASSETS

| | 30 June 2017 (unaudited) | 31 December 2016 |
|--|--------------------------------|---------------------|
| Loans issued | 27,101,268 | 1,885,605 |
| Amounts in credit institutions (financial investments) | <u>8,685,393</u> | <u>17,549,976</u> |
| | <u>35,786,661</u> | <u>19,435,581</u> |
| Less: allowance on loans given | <u>(13,676,835)</u> | <u>(915,860)</u> |
| | <u>22,109,826</u> | <u>18,519,721</u> |
| Current portion of other financial assets | 19,853,936 | 16,186,691 |
| Non-current portion of other financial assets | <u>2,255,890</u> | <u>2,333,030</u> |
| | <u>22,109,826</u> | <u>18,519,721</u> |

As at 30 June 2017 amounts in credit institutions of 2,255,890 thousand tenge was pledged as collateral (2016: 2,333,030 thousand tenge).

During the six months ended 30 June 2017, the Group, as represented by Airport Management Group, issued a repayable interest-free financial aid of 27,500,000 thousand tenge (2016: 500,000 thousand tenge) to Astana International Airport LLP to finance its working capital.

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(in thousands of tenge, unless otherwise indicated)

The fair-value adjustment of 3,070,718 thousand tenge (2016: 65,972 thousand tenge) for the financial aid was recognized by the Group in finance costs. For the purpose of the financial aid fair value calculation, the Group applied effective interest rates of 13.9% - 15.2% (2016: 15%), using market rates of similar conditions.

As at 30 June 2017, based on the analysis of the recoverability of these financial aid, the Group recorded an impairment allowance of 12,760,979 thousand tenge (2016: nil).

As at 30 June 2017 and 31 December 2016, loans are denominated in tenge.

Amounts in credit institutions:

| | 30 June 2017 (unaudited) | 31 December 2016 |
|-------------------------------------|--------------------------------|---------------------|
| Ratings from BBB-(Baa3) to BB-(Ba3) | - | 313,100 |
| Ratings from B+(B1) to B-(B3) | 8,685,393 | 17,236,876 |
| | <u>8,685,393</u> | <u>17,549,976</u> |

As at 30 June 2017, weighted average interest rate for amounts in credit institutions was 4.22% per annum in US dollars (31 December 2016: 4.54% in US dollars and 13.08% in tenge).

As at 30 June 2017, the annual weighted average interest rate for amounts in credit institutions pledged as a collateral was 3.5% per annum in US dollars (31 December 2016: 4%).

As at 30 June 2017 and 31 December 2016, amounts in credit institutions were denominated in the following currencies:

| | 30 June 2017 (unaudited) | 31 December 2016 |
|------------|--------------------------------|---------------------|
| US dollars | 8,685,393 | 17,202,382 |
| Tenge | - | 347,594 |
| | <u>8,685,393</u> | <u>17,549,976</u> |

11. CASH AND CASH EQUIVALENTS

| | 30 June 2017 (unaudited) | 31 December 2016 |
|--|--------------------------------|---------------------|
| Cash in current bank accounts in Russian rubles | 61,635,395 | 225,498 |
| Cash in current bank accounts in tenge | 52,149,810 | 15,158,796 |
| Cash in current bank accounts in US dollars | 3,555,419 | 5,659,164 |
| Cash in current bank accounts in other currencies | 1,190,156 | 1,339,624 |
| Short-term bank deposits in tenge | 13,235,683 | 26,218,883 |
| Short-term bank deposits in other currencies | - | 84,165 |
| Cash in transit | 21,967,568 | 277,556 |
| Petty cash | 20,073 | 14,487 |
| | <u>153,754,104</u> | <u>48,978,173</u> |
| Cash included in disposal groups classified as assets held for sale (Note 13) ¹ | 3,871,708 | 18,107,258 |
| | <u>157,625,812</u> | <u>67,085,431</u> |

As at 30 June 2017, cash in transit was mainly denominated in Russian rubles.

¹ The amounts include cash and cash equivalents of Tulpar-Talgo LLP included in the "Assets of a newly acquired subsidiary" in Note 13 in the amount of 564,383 thousand tenge (2016: 4,500,168 thousand tenge).

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(in thousands of tenge, unless otherwise indicated)

As at 30 June 2017, weighted average interest rate for cash in current bank accounts was 1.81% per annum in tenge, 0.27% per annum in US dollars and 3.22% per annum 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, depending on the Group's cash needs. As at 30 June 2017, weighted average rate for short-term bank deposits was 7.99% per annum in tenge (31 December 2016: 10.63% in tenge; 7.06% in other currencies).

12. OTHER CURRENT ASSETS

| | 30 June 2017 (unaudited) | 31 December 2016 |
|--|--------------------------------|---------------------|
| Other taxes prepaid | 17,947,741 | 15,536,701 |
| Advances paid | 8,577,440 | 9,217,302 |
| Claims, fines and penalties | 7,485,037 | 7,330,878 |
| Receivables from sales of subsidiaries | 3,525,000 | 3,525,000 |
| Prepaid expenses | 2,830,499 | 4,257,444 |
| Receivables from employees | 1,546,878 | 1,560,333 |
| Restricted cash | 849,129 | 1,782,029 |
| Dividends receivable | 363,992 | 1,663,776 |
| Other | 13,667,054 | 5,093,177 |
| | 56,792,770 | 49,966,640 |
| Less: allowance for doubtful debts | (11,627,139) | (10,791,755) |
| | 45,165,631 | 39,174,885 |

The movements in the allowance for doubtful debts related to advances paid and other current assets for the six months ended 30 June comprise:

| | 30 June 2017 (unaudited) | 30 June 2016 (unaudited) |
|--|--------------------------------|--------------------------------|
| Allowance for doubtful debts at the beginning of the period | (10,791,755) | (10,141,038) |
| Foreign currency translation | 2,056 | - |
| Charge for the period | (907,347) | (1,350,876) |
| Written off during the period against previously created allowance | 69,907 | 150,185 |
| Allowance for doubtful debts at the end of the period | (11,627,139) | (11,341,729) |

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

In 2016, as part of the Complex 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 30 June 2017 and 31 December 2016, assets and liabilities of the subsidiaries, which meet the 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.

During the six months ended 30 June 2017, the Group, as represented by its subsidiaries Kaztemirtrans JSC and KTZ-Freight Transportation JSC completed sales of shares and interests in the subsidiaries to third parties: Transport Services Center JSC and Regional Forward Logistics LLC; Rauan Burabai LLP, Mak-Ekibastuz LLP and Bas-Balkhash LLP, respectively. Upon the sale the Group lost control over these subsidiaries. As these subsidiaries did not represent a major line of business, the resulting gain was recognized as gain from the disposal of subsidiaries not qualifying as discontinued operations.

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(in thousands of tenge, unless otherwise indicated)

As at 31 December 2016, assets and liabilities of these subsidiaries were disclosed as "Other" in the table below.

Investments in joint ventures

In February 2017, the Group, as represented by the subsidiary Kaztemirtrans JSC, completed sale of 50% interest in the joint venture Astyk-Trans JSC to a third party. The sale price amounted to 5,252,130 thousand tenge. Carrying value of the investment as at the date of disposal was 3,874,398 thousand tenge.

In April 2017, the Group sold 50% interest in joint venture Locomotive Kurastyru Zauyty JSC to a third party. The sale price amounted to 15,716,250 thousand tenge, a 10% deferred payment under the agreement will be paid over two years. In April 2017, the Group received 90% of the consideration of 14,144,625 thousand tenge. The Group estimated the fair-value of the consideration, and recognized the difference between the fair value and the nominal amount of consideration of 386,704 thousand tenge as a part of gain from disposal of shares in joint ventures.

As a result, the Group lost joint control over these joint ventures and recognized gain from the disposal of shares in joint ventures.

As at 31 December 2016, investments in these joint ventures were disclosed as "Other" in the table below.

Transtelecom JSC

As at 30 June 2017, 51% shares in Transtelecom JSC owned by the Group was classified as a disposal group in the condensed interim consolidated financial statements, as the Group initiated a selling process of 26% less 1 share, which is expected to be completed within 12 months after the reporting date. Thus, on 30 December 2016, the first stage of the tender was completed. On 10 February 2017, the results of the open two-stage tender were finalized. In May 2017, based on the results, an application for the disposal of 26% less 1 share in Transtelecom JSC as a strategic asset was submitted to the Ministry for Investments and Development of the Republic of Kazakhstan.

Tulpar-Talgo LLP

In May 2015, the Group, as 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 payment 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.

As at 30 June 2017, all required approvals were obtained and the contracts providing for an increase in the purchase price for passenger coaches were signed. Management believes that the sale of shares in Tulpar Talgo LLP is highly probable. Therefore, the Group has classified this subsidiary as assets held for sale and discontinued operations.

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| | As at 30 June 2017 (unaudited) | | | | As at 31 December 2016 | | |
|--|--------------------------------|---------------------|----------|------------|------------------------|---------------------|------------|
| | Trans- telecom JSC | Tulpar-Talpo LLP | Other | Total | Trans- telecom JSC | Tulpar-Talpo LLP | Other |
| Assets | | | | | | | |
| Property, plant and equipment | 63,745,398 | - | 6,018 | 63,751,416 | 62,193,300 | - | 751,136 |
| Intangible assets | 3,685,745 | - | - | 3,685,745 | 3,556,450 | - | 2,044 |
| Other non-current assets | 1,318,812 | - | 399 | 1,319,211 | 1,250,748 | - | 399 |
| Inventories | 1,046,401 | - | - | 1,046,401 | 680,233 | - | 85,821 |
| Trade accounts receivable | 6,037,385 | - | - | 6,037,385 | 3,543,338 | - | 885,747 |
| Other current assets | 7,901,301 | - | 54,894 | 7,956,195 | 4,859,875 | - | 1,144,199 |
| Cash and cash equivalents | 3,250,295 | - | 57,030 | 3,307,325 | 13,201,627 | - | 405,463 |
| Assets of newly acquired subsidiary | - | 11,537,858 | - | 11,537,858 | - | 15,451,118 | - |
| Total assets of disposal groups classified as held for sale | 86,985,337 | 11,537,858 | 118,341 | 98,641,536 | 89,285,571 | 15,451,118 | 3,274,809 |
| Transfer from investments in joint ventures | - | - | - | - | - | - | 12,614,263 |
| Total non-current assets classified as held for sale | - | - | - | - | - | - | 12,614,263 |
| Total non-current assets of disposal groups classified as held for sale | 86,985,337 | 11,537,858 | 118,341 | 98,641,536 | 89,285,571 | 15,451,118 | 12,614,263 |
| Liabilities | | | | | | | |
| Borrowings | 51,808,798 | - | - | 51,808,798 | 53,560,485 | - | - |
| Finance lease payables | 1,774,264 | - | - | 1,774,264 | 1,839,073 | - | 136,052 |
| Employee benefit obligations | 418,391 | - | - | 418,391 | 418,391 | - | 36,834 |
| Deferred tax liabilities | 3,471,087 | - | - | 3,471,087 | 3,072,754 | - | 289,147 |
| Trade accounts payable | 8,050,052 | - | 188,194 | 8,238,246 | 8,561,108 | - | 767,679 |
| Other taxes | 601,357 | - | - | 601,357 | 450,065 | - | 232,428 |
| Other current liabilities | 7,057,191 | - | 2,415 | 7,059,606 | 7,898,517 | - | 247,506 |
| Liabilities of newly acquired subsidiary | - | 17,093,278 | - | 17,093,278 | - | 19,306,464 | - |
| Total liabilities of disposal groups classified as held for sale | 73,181,140 | 17,093,278 | 190,609 | 90,465,027 | 75,800,393 | 19,306,464 | 1,709,646 |
| Net assets/(liabilities) of disposal group | 13,804,197 | (5,555,420) | (72,268) | 8,176,509 | 13,485,178 | (3,855,346) | - |

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(in thousands of tenge, unless otherwise indicated)

Discontinued operations

The Group has presented the results of operations of subsidiaries 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 from discontinued operations comprise the following:

| | Six months ended 30 June | | | | | |
|--|--------------------------|------------------|-------------|-------------------|------------------|-------------|
| | 2017 (unaudited) | | | 2016 (unaudited) | | |
| | Trans-telecom JSC | Tulpar-Talgo LLP | Total | Trans-telecom JSC | Tulpar-Talgo LLP | Total |
| Revenue | 13,236,339 | - | 13,236,339 | 5,427,660 | - | 5,427,660 |
| Cost of sales | (7,753,100) | - | (7,753,100) | (2,672,133) | - | (2,672,133) |
| General and administrative expenses | (1,652,539) | (143,296) | (1,795,835) | (1,319,848) | (99,730) | (1,419,578) |
| Other income and expenses | 118,624 | 51,435 | 170,059 | 26,949 | 89,563 | 116,512 |
| Finance income | 144,012 | 8,630 | 152,642 | 301,737 | 25,336 | 327,073 |
| Finance costs | (2,998,782) | (65,007) | (3,063,789) | (3,050,267) | (78,635) | (3,128,902) |
| Foreign exchange loss | (265,607) | (203,351) | (468,958) | (4,425) | (1,016,302) | (1,020,727) |
| Profit/(loss) before income tax | 828,947 | (351,589) | 477,358 | (1,290,327) | (1,079,768) | (2,370,095) |
| Income tax expense | (574,444) | - | (574,444) | (651,887) | - | (651,887) |
| (Loss)/profit for the period | 254,503 | (351,589) | (97,086) | (1,942,214) | (1,079,768) | (3,021,982) |
| Basic earnings/(loss) per share (in tenge) | 1 | (1) | - | (4) | (2) | (6) |

| | Three months ended 30 June | | | | | |
|--|----------------------------|------------------|-------------|-------------------|------------------|-------------|
| | 2017 (unaudited) | | | 2016 (unaudited) | | |
| | Trans-telecom JSC | Tulpar-Talgo LLP | Total | Trans-telecom JSC | Tulpar-Talgo LLP | Total |
| Revenue | 9,105,880 | - | 9,105,880 | 2,593,229 | - | 2,593,229 |
| Cost of sales | (5,864,034) | - | (5,864,034) | (1,347,767) | - | (1,347,767) |
| General and administrative expenses | (857,991) | (32,579) | (890,570) | (736,089) | (50,375) | (786,464) |
| Other income and expenses | 13,183 | 61,721 | 74,904 | 7,133 | 101,756 | 108,889 |
| Finance income | 31,741 | 1,696 | 33,437 | 145,518 | 2,532 | 148,050 |
| Finance costs | (1,480,406) | (33,317) | (1,513,723) | (1,590,021) | (38,368) | (1,628,389) |
| Foreign exchange loss | 16,996 | (254,659) | (237,663) | (54,746) | (1,173,356) | (1,228,102) |
| Profit/(loss) before income tax | 965,369 | (257,138) | 708,231 | (982,743) | (1,157,811) | (2,140,554) |
| Income tax expense | (450,576) | - | (450,576) | (286,814) | 3,350 | (283,464) |
| Profit/(loss) for the period | 514,793 | (257,138) | 257,655 | (1,269,557) | (1,154,461) | (2,424,018) |
| Basic earnings/(loss) per share (in tenge) | 2 | (1) | 1 | (3) | (2) | (5) |

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(in thousands of tenge, unless otherwise indicated)

The cash flows from discontinued operations comprise the following:

| | Six months ended 30 June 2017 (unaudited) Transtelecom JSC | 2016 (unaudited) Transtelecom JSC |
|---|--|--|
| Net cash (used in)/ from operating activities | (4,605,265) | 6,985,771 |
| Net cash used in investing activities | (3,555,480) | (3,922,512) |
| Net cash used in financing activities | (1,713,662) | (3,840,020) |
| Net cash outflow | (9,874,407) | (776,761) |

14. SHARE CAPITAL

Contributions

Share issuance

During the six months ended 30 June 2017, the contribution to the Group's share capital comprised of 50,000 shares issuance for which cash of 50,000,000 thousand tenge was received. This contribution was received for the implementation of project *Construction of the ferry facilities in the port of Kuryk and the operation of freight-and-passenger ferries*.

Contributions to the share capital during the six months ended 30 June 2016 comprise:

1. an issue of 364,000 shares for which cash of 36,400,000 thousand tenge was received. This capital was received to finance the construction of "Zhezkazgan-Beineu" railway lines, the construction of second railway lines on sector Almaty 1- Shu, the construction of the ferry facilities in the sea port of Kuryk and operation of freight-and-passenger ferries;
2. an issue of 642 shares for which building for Group Scientific and Technical Information and Analysis Center, technical library, in Taraz city valued at 57,780 thousand tenge was received;
3. an issue of 85,804 shares for which 7 buildings of railway stations and 4 passenger platforms valued at 85,804 thousand tenge were received.

During the six months ended 30 June 2016, the Shareholder made a share capital contribution of 10,000,000 thousand tenge for the purpose of the project *Construction of the ferry facilities in the port of Kuryk and the operation of freight-and-passenger ferries* as part of the implementation of the Nurly Zhol programme. As at 30 June 2016, the Group recognized this transaction as additional paid-in capital because these shares were not registered in legal terms.

Cash flow hedging reserve

During the six months ended 30 June 2017, the effective portion of 2,230,554 thousand tenge was allocated to cash flow hedging reserve and other comprehensive income (2016: 703,022 thousand tenge). The ineffective portion of 63,696 thousand tenge was allocated to finance costs (2016: 234,628 thousand tenge).

Dividends

As at 30 June 2017 and 31 December 2016, the amount of dividends payable to the Shareholder amounted to 16,424,670 thousand tenge (Notes 17 and 24).

Other distributions

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

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(in thousands of tenge, unless otherwise indicated)

During the six months ended 30 June 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 the local authorities and recognized a decrease in the irrevocable commitment and a reversal of the distribution of 30,315 thousand tenge due to the decrease in cost of construction.

In 2016, due to a decrease in the costs of construction of the Ice Palace, the Group recognized a decrease in the irrevocable commitment and a reversal of the distribution of 869,993 thousand tenge.

During the six months ended 30 June 2017, the Group recognized an additional irrevocable commitment and the distribution of 5,733,368 thousand tenge, which represented the amount of VAT arising as a result of the transfer of the Ice Palace to the Astana Akimat (Note 24).

Change in ownership share in subsidiaries without loss of control

In June 2016, the Group sold 49% out of 100% of the shares in Transtelecom JSC to a third party, receiving a consideration of 9,000,000 thousand tenge. As a result, the Group recognized non-controlling interest of 11,425,063 thousand tenge in Transtelecom JSC, with a difference of 2,425,063 thousand tenge recognized as retained earnings of the Group.

In May 2017, the Group, as represented by its subsidiary KTZ Express JSC, enters into a sale agreement of 49% interest in KTZE-Khorgos Gateway LLP with a third party. The agreement provides principal payment and adjustment payment to be made on the date of the completion of transaction. In June 2017, the Group received the principal payment of 23,096,457 thousand tenge. The ownership share will be decreased to 51% after the completion of the transaction. As at 30 June 2017, the transaction is not completed (Note 26).

15. BORROWINGS

| | 30 June 2017 (unaudited) | | 31 December 2016 | |
|--|--------------------------|------------------------------------|----------------------|------------------------------------|
| | Amount | Weighted average interest rate (%) | Amount | Weighted average interest rate (%) |
| <i>Borrowings with fixed interest rate</i> | | | | |
| Loans received | 388,876,923 | 8.86 | 382,813,330 | 8.20 |
| Debt securities issued | 777,573,967 | 6.51 | 715,583,589 | 6.26 |
| <i>Borrowings with floating interest rate:</i> | | | | |
| Loans received | 107,203,697 | 11.49 | 85,525,355 | 5.88 |
| Debt securities issued | 50,940,694 | 10.42 | 55,757,500 | 16.92 |
| | <u>1,324,595,281</u> | | <u>1,239,679,774</u> | |
| Current portion of borrowings | 181,358,999 | | 141,561,817 | |
| Non-current portion of borrowings | <u>1,143,236,282</u> | | <u>1,098,117,957</u> | |
| | <u>1,324,595,281</u> | | <u>1,239,679,774</u> | |

Borrowings as at 30 June 2017 and 31 December 2016 were denominated in currencies as follows:

| | 30 June 2017 (unaudited) | 31 December 2016 |
|------------------|--------------------------|----------------------|
| US dollars | 712,838,903 | 803,503,513 |
| Tenge | 370,350,046 | 283,039,276 |
| Russian ruble | 81,922,823 | - |
| Euro | 59,746,232 | 53,664,002 |
| Other currencies | 99,737,277 | 99,472,983 |
| | <u>1,324,595,281</u> | <u>1,239,679,774</u> |

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(in thousands of tenge, unless otherwise indicated)

During the six months ended 30 June 2017 and 2016, capitalized borrowing costs amounted to 1,485,392 thousand tenge and 1,745,545 thousand tenge, respectively. The capitalization rate varied from 2.59% to 10.00% (2016: 2.59% to 8.63%).

Loans received

During the six months ended 30 June 2017, the Group received the following loans:

HSBC France

In accordance with the General Framework Agreement with HSBC France, HSBC Bank Plc and HSBC Kazakhstan SB JSC, and with support from export-credit agency COFACE, concluded on 31 May 2012 for the financing of freight and passenger electric locomotives purchase in the total amount of 880,877,000 Euro and additional agreements to them, the Group, as represented by its subsidiary KTZh-Freight Transportation JSC, drew credit funds of 25,534,947 Euro (8,777,913 thousand tenge) (including the premium paid to COFACE) during the period from January to June 2017. Interest is paid on a semiannual basis at EUR CIRR + margin 0.75%. The principal shall be repaid on a semiannual basis until fully repaid in 2026. The loan was obtained under the guarantee of the Company.

Halyk Bank of Kazakhstan JSC

On 7 March 2017 and 5 May 2017, the Group signed additional agreements with Halyk Bank of Kazakhstan JSC to the credit facility agreement dated 26 February 2015. Additional agreements provide for the inclusion of the subsidiary KTZh-Freight Transportation JSC as a co-borrower, an increase of the credit facility to 40,000,000 thousand tenge and the change in the loan purpose: investment and financing of working capital. During the period from January to June 2017 the Group borrowed funds in total amount of 36,000,000 thousand tenge at 13% interest rate due within one year.

EBRD

In February 2017, the Group, as represented by the Company and its subsidiary, Kaztemirtrans JSC converted portion of the debt of 170,000,000 US dollars into tenge under the loans restructuring agreement with EBRD dated 22 December 2016 for the total amount of 180,913,719 US dollars. Due to a significant change in the terms of loan, the Group recognized the loan conversion transaction as derecognition of the initial financial liability and the recognition of a new financial liability. As a result, as at the date of conversion the new financial liability amounted to 54,983,100 thousand tenge and 10,913,719 US dollars. Interest is paid on a semi-annual basis at 6 months LIBOR + 4.35% per annum for US dollar tranche and all-in-cost² + 4.35% for tenge tranche.

CitiBank of Kazakhstan JSC

For the period from January to June 2017, under the General Loan Agreement dated 30 November 2009, the Group, as represented by its subsidiary KTZh-Freight Transportation JSC obtained loans from CitiBank of Kazakhstan JSC in the amount of 8,100,000 thousand tenge at interest rate of 13% due within one year

² 'all-in-cost' means the all-in costs to EBRD (expressed as a rate per annum) from any source EBRD selects in its sole discretion and includes all fees, interest, charges, commissions and expenses, provided that if any such amounts are incurred in other than KZT, such amounts shall be redenominated into KZT at the foreign exchange rate available to EBRD for the redenomination of the relevant amounts on the relevant date, or such other rate as determined by EBRD acting reasonably.

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(in thousands of tenge, unless otherwise indicated)

Debt securities issued

| | Maturity date | Markets | 30 June 2017 (unaudited) | 31 December 2016 |
|--|----------------|-----------|--------------------------------|---------------------|
| Debt securities issued at price | | | | |
| 6.95% Eurobonds (105.521%) | 10 July 2042 | LSE/KASE | 370,987,374 | 383,857,203 |
| 6.375% Eurobonds (100%) | 6 October 2020 | LSE | 228,834,221 | 236,673,280 |
| 8.75% Bonds | 7 June 2022 | MOEX | 81,922,823 | - |
| 3.638% Eurobonds (100%) | | SIX Swiss | | |
| | 20 June 2022 | Exchange | 62,204,721 | 61,813,397 |
| Bonds (inflation +2.52%) | 25 April 2026 | KASE | 50,940,694 | 55,757,500 |
| 2.59% Eurobonds (100%) | | SIX Swiss | | |
| | 20 June 2019 | Exchange | 33,624,828 | 33,239,709 |
| | | | <u>828,514,661</u> | <u>771,341,089</u> |
| Current portion of debt securities | | | 4,133,192 | 10,270,037 |
| Non-current portion of debt securities | | | <u>824,381,469</u> | <u>761,071,052</u> |
| | | | <u>828,514,661</u> | <u>771,341,089</u> |

Fair value of the borrowings is disclosed in Note 25.

On 13 June 2017, the Group, as represented by the subsidiary, KTZ Finance LLP, issued and placed bonds of 15,000,000,000 Russian rubles (83,100,000 thousand tenge) on Moscow Stock Exchange MMTB-RTS PJSC for 5 years with a coupon rate of 8.75 % per annum. Coupon payment – twice a year. The maturity of the principal is 7 June 2022.

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 events, as defined by the Eurobond indenture, investors are entitled to require repayment of the Eurobonds.

Bonds (inflation rate +2.52% as of 25 April 2016) contain covenants that place certain limitations on disposal of property, limitations on change in the legal status, limitations on changes in Company's principal activity.

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 quarterly under EBRD agreement and semi-annually and annually under HSBC France agreement.

To avoid the non-compliance on obligations to creditors as at 30 June 2017, the Group negotiated with creditors to change thresholds for the financial covenants. As at 30 June 2017, waivers were received on credit agreements concluded with EBRD and HSBC France.

16. TRADE ACCOUNTS PAYABLE

| | 30 June 2017 (unaudited) | 31 December 2016 |
|--|--------------------------------|---------------------|
| Accounts payable for services | 44,218,598 | 38,204,408 |
| Accounts payable for property, plant and equipment | 25,896,668 | 53,630,962 |
| Accounts payable for inventory | 24,221,910 | 32,099,886 |
| Other accounts payable | 864,782 | 518,543 |
| | <u>95,201,958</u> | <u>124,453,799</u> |

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(in thousands of tenge, unless otherwise indicated)

As at 30 June 2017 and 31 December 2016, trade accounts payable were denominated in the following currencies:

| | 30 June 2017 (unaudited) | 31 December 2016 |
|------------------|--------------------------------|---------------------|
| Tenge | 81,991,130 | 103,845,042 |
| US dollars | 6,241,199 | 16,746,337 |
| Russian ruble | 5,023,129 | 869,668 |
| Euro | 1,466,746 | 2,548,278 |
| Other currencies | 479,754 | 444,474 |
| | <u>95,201,958</u> | <u>124,453,799</u> |

17. OTHER LIABILITIES

| | 30 June 2017 (unaudited) | 31 December 2016 |
|---|--------------------------------|---------------------|
| Advances received | 74,304,279 | 36,531,256 |
| Dividends payable (Note 14) | 16,424,670 | 16,424,670 |
| Salaries payable | 14,800,958 | 14,687,152 |
| Unused vacation provision | 11,252,832 | 9,897,257 |
| Deferred income | 8,551,614 | 5,935,882 |
| Obligatory pension and social contributions | 4,577,258 | 4,440,239 |
| Liabilities under financial guarantee contracts | 4,271,655 | 4,399,245 |
| Other liabilities | 8,715,834 | 4,351,172 |
| | <u>142,899,100</u> | <u>96,666,873</u> |
| Current portion of other liabilities | 138,627,445 | 92,267,628 |
| Non-current portion of other liabilities | 4,271,655 | 4,399,245 |
| | <u>142,899,100</u> | <u>96,666,873</u> |

18. COST OF SALES

| | Three months ended 30 June | | Six months ended 30 June | |
|---|-------------------------------|---------------------|-----------------------------|---------------------|
| | 2017 (unaudited) | 2016 (unaudited) | 2017 (unaudited) | 2016 (unaudited) |
| Personnel costs, including taxes, contributions and unused vacation provision | 58,071,013 | 55,937,240 | 117,827,363 | 112,680,681 |
| Depreciation and amortization | 26,736,317 | 26,666,090 | 53,417,147 | 54,026,470 |
| Fuels and lubricants | 20,384,837 | 15,730,317 | 41,524,348 | 31,339,952 |
| Repair and maintenance | 24,408,466 | 18,343,083 | 41,400,097 | 36,741,301 |
| Works and production services | 7,401,005 | 10,945,252 | 22,359,351 | 20,526,824 |
| Electricity | 9,915,152 | 8,856,575 | 22,104,267 | 19,610,066 |
| Materials and supplies | 11,096,705 | 8,973,745 | 19,161,186 | 15,270,505 |
| Taxes | 4,386,580 | 3,437,378 | 8,540,512 | 6,838,629 |
| Communication services | 926,214 | 748,914 | 2,084,080 | 1,244,817 |
| Utilities and building maintenance | 574,945 | 498,671 | 1,496,493 | 1,430,630 |
| Business trip expenses | 792,051 | 550,993 | 1,394,963 | 1,057,331 |
| Operating lease expenses | 1,153,047 | 312,109 | 1,363,823 | 676,130 |
| Insurance | 342,783 | 271,178 | 939,547 | 543,235 |
| Employee benefit expense | 261,642 | 352,810 | 515,728 | 708,526 |
| Transportation services | 218,616 | 275,343 | 378,105 | 479,910 |
| Other | 5,001,322 | 4,795,133 | 7,794,761 | 9,135,455 |
| | <u>171,670,695</u> | <u>156,694,831</u> | <u>342,301,771</u> | <u>312,310,462</u> |

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017 (CONTINUED)

(in thousands of tenge, unless otherwise indicated)

19. GENERAL AND ADMINISTRATIVE EXPENSES

| | Three months ended 30 June | | Six months ended 30 June | |
|---|-------------------------------|---------------------|-----------------------------|---------------------|
| | 2017 (unaudited) | 2016 (unaudited) | 2017 (unaudited) | 2016 (unaudited) |
| Personnel costs, including taxes, contributions and unused vacation provision | 10,408,293 | 8,777,867 | 20,537,319 | 17,509,952 |
| Taxes | 3,252,776 | 2,654,994 | 5,925,406 | 6,790,417 |
| Depreciation and amortization | 1,267,744 | 1,050,487 | 2,492,866 | 2,090,933 |
| Consulting, audit and legal services | 1,122,947 | 1,913,484 | 1,778,015 | 2,496,544 |
| Allowances for doubtful debts | 724,112 | 768,264 | 1,209,838 | 842,802 |
| Business trip expenses | 379,511 | 334,373 | 697,086 | 562,454 |
| Operating lease expenses | 356,818 | 313,120 | 651,361 | 511,656 |
| Advertising expenses | 423,679 | 214,174 | 481,650 | 350,064 |
| Other third party services | 133,194 | 106,532 | 462,627 | 172,966 |
| Bank services | 208,211 | 367,202 | 432,471 | 539,935 |
| Utilities and building maintenance | 197,622 | 180,450 | 411,333 | 373,556 |
| Materials | 183,821 | 108,674 | 297,785 | 240,905 |
| Social sphere objects maintenance | 86,024 | 84,067 | 244,013 | 227,831 |
| Expenses on holiday and cultural events | 171,559 | 125,387 | 243,550 | 191,332 |
| Insurance | 69,919 | 52,912 | 151,802 | 110,061 |
| Employee benefit expenses | 55,197 | 59,304 | 109,581 | 118,708 |
| Professional trainings and qualifications | 67,102 | 70,214 | 100,156 | 116,950 |
| Repair and maintenance | 8,476 | 42,075 | 60,907 | 81,641 |
| Other | 1,655,242 | 1,462,699 | 2,346,917 | 2,634,212 |
| | <u>20,772,247</u> | <u>18,686,279</u> | <u>38,634,683</u> | <u>35,962,919</u> |

20. FINANCE COSTS

| | Three months ended 30 June | | Six months ended 30 June | |
|--|-------------------------------|---------------------|-----------------------------|---------------------|
| | 2017 (unaudited) | 2016 (unaudited) | 2017 (unaudited) | 2016 (unaudited) |
| Interest expense on borrowings | 21,751,044 | 19,538,175 | 41,715,205 | 38,782,550 |
| Finance leasing interest | - | 17,712 | - | 35,887 |
| Ineffective part on hedging instruments | (14,261) | 234,628 | 63,696 | 234,628 |
| Other finance cost | 1,756,205 | 442,351 | 6,118,914 | 844,176 |
| | <u>23,492,988</u> | <u>20,232,866</u> | <u>47,897,815</u> | <u>39,897,241</u> |

21. INCOME TAX

Corporate income tax for the three and the six months ended 30 June 2017 was estimated at the average effective rate of 59.98% and 59.98%, respectively (the three and the six months ended 30 June 2016: 28.84% and 28.84%, respectively). The average effective rate increase for the six months ended 30 June 2017 is caused by the increase in the permanent differences due accrual of an allowance for the impairment of financial aid provided (Note 10).

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017 (CONTINUED)

(in thousands of tenge, unless otherwise indicated)

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 30 June 2017 and 31 December 2016, there were no dilutive instruments outstanding.

| | Three months ended 30 June | | Six months ended 30 June | |
|---|----------------------------|---------------------|--------------------------|---------------------|
| | 2017 (unaudited) | 2016 (unaudited) | 2017 (unaudited) | 2016 (unaudited) |
| Weighted average number of common shares | 496,079,105 | 495,072,115 | 496,071,455 | 494,926,498 |
| Profit/(loss) for the period attributable to the Shareholder (thousand tenge) | (20,572,680) | 22,050,338 | 5,492,683 | 5,206,158 |
| Earnings/(loss) per common share (tenge) | (41) | 45 | 11 | 11 |
| Profit/(loss) from continued operations for the period attributable to the Shareholder (thousand tenge) | (20,830,335) | 24,474,356 | 5,589,769 | 8,228,140 |
| Earnings/(loss) per common share from continued operations (tenge) | (42) | 50 | 11 | 17 |

Carrying amount per share as at 30 June 2017 and 31 December 2016 is presented below:

| | 30 June 2017 (unaudited) | 31 December 2016 |
|---|--------------------------------|---------------------|
| Net assets, excluding intangible assets and non-controlling interests | 1,193,312,548 | 1,145,408,597 |
| Number of common shares in issue | 496,113,720 | 496,063,720 |
| Carrying amount per share, tenge ³ | 2,405 | 2,309 |

23. FINANCIAL AND CONTINGENT LIABILITIES

Capital commitments

As at 30 June 2017, the Group had capital commitments for the construction of "Zhezkazgan – Beineu" and "Arkalyk – Shubarkol" railway lines, purchase of long rails, development of the railway junction of Astana station, including construction of a station complex, as well as liabilities on project *Construction of ferry facilities in sea port Kuryk, development of freight-and-passenger ferries*, and acquisition of freight and passenger electric locomotives, freight and passenger diesel locomotives totaling 994,208,244 thousand tenge (31 December 2016: 1,136,590,240 thousand tenge).

Other contractual obligations

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

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

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017 (CONTINUED)

(in thousands of tenge, unless otherwise indicated)

During the six months ended 30 June 2017, the Group, as represented by KTZ Express JSC, failed to perform obligation before Continental Logistics LLP to purchase minimum volume of freight storage services under agreement dated 20 November 2015. However, the Group does not expect that it will incur any losses due to failure to perform obligation to purchase minimum volumes of services for storage of goods, as it received confirmation that Continental Logistics LLP does not have claims and is not going to claim the Group on performance of the obligations under this agreement.

Based on the assessment made, management of the Group believes that there is no high probability of non-performance of the obligation to purchase minimum volumes of services for storage of goods in future and, therefore, the Group has not provided for potential liability as at 30 June 2017 and 31 December 2016.

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.

Kazakhstan taxation contingencies

As at 30 June 2017, Kazakhstan taxation related contingencies included the following:

During the thematic tax audit of the Company of VAT refund carried out for the periods from 2009 to 2012, the tax authorities revealed VAT amounts of 4,443,986 thousand tenge claimed for a refund, but not confirmed by counter check of suppliers, and assessed a penalty of 3,677,177 thousand tenge. As a result of legal proceedings, the Company returned 4,620,421 thousand tenge to the budget, and successfully appealed 1,601,413 thousand tenge. As at 30 June 2017, the amount of contingent liabilities is 1,899,329 thousand tenge.

As at 30 June 2017, the Group did not accrue provisions for these amounts, since the Group believes that actions of tax authorities contradict tax laws and the Group intends to defend its position in the court and the state bodies.

Due to the uncertainties inherent to 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 30 June 2017. It is not practicable to determine the amount of any potential claims that may arise, 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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(in thousands of tenge, unless otherwise indicated)

Guarantees

As at 30 June 2017, Guarantees comprised the following:

| | Guarantee purpose | Guarantee issued date | Guarantee maturity | Guarantee amount, thousand tenge |
|------------------------------------|---|--------------------------|-----------------------|--|
| 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 |
| 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 | 24,148,807 |

In the Note 17, a fair value of these guarantees is disclosed. As at 30 June 2017 and 31 December 2016, the Group did not have a liability in relation to the above listed guarantees, which would require recognition of provisions for these guarantees.

Finance lease

In December 2016, the Group, as represented by the subsidiary, Passenger Transportation JSC, concluded finance lease agreement with DBK-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. Grace period for principal repayment is 6 years. The Group will be a lessee in the arrangement. The inception of lease is expected in December 2017.

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017 (CONTINUED)

(in thousands of tenge, unless otherwise indicated)

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 30 June 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 | 15,470,462 | 471,127 | 1,296,927 | - |
| | 2016 | - | 9,580,245 | 7,397,824 | 1,656,854 | - |
| <i>including allowance on doubtful debt</i> | 2017 | - | (12,136) | (24,941) | (36,246) | - |
| | 2016 | - | (16,763) | (191,312) | (33,552) | - |
| Debt to related parties for goods, services and non-current assets | 2017 | - | 4,065,804 | 2,397,540 | 4,018,525 | 118,188 |
| | 2016 | - | 1,619,534 | 4,299,385 | 3,816,564 | - |
| Current accounts and contributions | 2017 | - | - | - | - | 298 |
| | 2016 | - | - | - | - | 309 |
| Restricted cash | 2017 | - | - | - | - | 349,161 |
| | 2016 | - | - | - | - | 357,811 |
| Loans issued | 2017 | - | - | - | - | - |
| | 2016 | - | - | 99,428 | - | - |
| <i>including allowance for impairment provision</i> | 2017 | - | - | - | - | - |
| | 2016 | - | - | (590,075) | - | - |
| Loans received | 2017 | 154,067,939 | - | - | - | 39,664,103 |
| | 2016 | 152,960,581 | - | - | - | 43,813,136 |
| Finance lease liabilities | 2017 | - | - | - | - | - |
| | 2016 | - | - | - | - | 136,052 |
| Dividends receivable | 2017 | - | - | - | - | - |
| | 2016 | - | - | 1,663,776 | - | - |
| Dividends payable | 2017 | 16,424,670 | - | - | - | - |
| | 2016 | 16,424,670 | - | - | - | - |

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017 (CONTINUED)

(in thousands of tenge, unless otherwise indicated)

Transactions with related parties for the six months ended 30 June were as follows:

| | | 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 | 4,572 | 610,603 | 12,163,315 | 7,336,171 | - |
| | 2016 | - | 303,904 | 17,842,709 | 7,266,291 | - |
| (Accrual)/recovery of allowance on doubtful debt | 2017 | - | 4,627 | (1,045) | (2,693) | - |
| | 2016 | - | - | (189,181) | 304,762 | - |
| Purchase of goods, services and non- current assets | 2017 | 99 | 20,166,159 | 561,323 | 7,315,860 | 114 |
| | 2016 | - | 11,843,190 | 1,628,185 | 5,452,015 | 124,509 |
| Loans given / (repayment of loans given) | 2017 | - | - | 12,512 | - | - |
| | 2016 | - | - | 65,565 | - | - |
| Loans received | 2017 | - | - | - | - | - |
| | 2016 | - | - | - | - | 508,367 |
| Repayment of loans received | 2017 | - | - | - | - | 3,733,397 |
| | 2016 | - | - | - | - | 3,747,045 |
| Finance income | 2017 | - | - | 13,949 | - | - |
| | 2016 | - | - | 116,534 | - | - |
| Finance costs | 2017 | 3,693,921 | - | 872 | - | 1,437,024 |
| | 2016 | 4,366,938 | - | 1,053 | - | 1,798,922 |
| Dividends receivable | 2017 | - | - | - | - | - |
| | 2016 | - | - | 1,303,264 | - | - |
| Contributions to charter capital | 2017 | 50,000,000 | - | - | - | - |
| | 2016 | 36,543,584 | - | - | - | - |

As at 30 June 2017 and 31 December 2016, certain Group's borrowings of 2,823,898 thousand tenge and 3,285,544 thousand tenge, respectively, were guaranteed by the Government of the Republic of Kazakhstan.

As at 30 June 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 are 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 railway transportation services to the associates and joint ventures of the Shareholder.

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017 (CONTINUED)

(in thousands of tenge, unless otherwise indicated)

As at 30 June, the Group recognized constructive obligations for the construction of the following objects for the benefit of the Shareholder:

| | Current liabilities | | | | | Non-current liabilities |
|-------------------------------|-----------------------------|--------------------------|------------------------|--------------|-------------------|-------------------------|
| | Teleradio complex equipment | Mangistau municipalities | Kindergarten in Astana | Ice palace | Total | Total Ice palace |
| At 1 January 2016 | 28,238,638 | 247,276 | 1,702,660 | - | 30,188,574 | 48,601,265 |
| Additions for the period | - | - | 195,587 | - | 195,587 | - |
| Decrease in liabilities | - | - | (30,315) | - | (30,315) | (869,993) |
| Written-off during the period | - | - | (1,825,478) | - | (1,825,478) | - |
| At 30 June 2016 | <u>28,238,638</u> | <u>247,276</u> | <u>42,454</u> | <u>-</u> | <u>28,528,368</u> | <u>47,731,272</u> |
| At 1 January 2017 | - | 247,276 | 42,454 | 47,778,069 | 48,067,799 | - |
| Additions for the period | - | - | - | 5,733,368 | 5,733,368 | - |
| Written-off during the period | - | - | - | (53,511,437) | (53,511,437) | - |
| At 30 June 2017 | <u>-</u> | <u>247,276</u> | <u>42,454</u> | <u>-</u> | <u>289,730</u> | <u>-</u> |

As at 30 June, the group incurred the following costs related to the construction of the objects for the benefit of the shareholder under abovementioned constructive obligations:

| | Current assets | | | | | Non-current liabilities |
|--------------------------|-----------------------------|--------------------------|------------------------|--------------|-------------------|-------------------------|
| | Teleradio complex equipment | Mangistau municipalities | Kindergarten in Astana | Ice palace | Total | Total Ice palace |
| At 1 January 2016 | 28,238,638 | 247,276 | 1,672,345 | - | 30,158,259 | 41,268,374 |
| Additions | - | - | - | - | - | 4,535,331 |
| Disposals | - | - | (1,629,891) | - | (1,629,891) | - |
| At 30 June 2016 | <u>28,238,638</u> | <u>247,276</u> | <u>42,454</u> | <u>-</u> | <u>28,528,368</u> | <u>45,803,705</u> |
| At 1 January 2017 | - | 247,276 | 42,454 | 47,778,069 | 48,067,799 | - |
| Disposals | - | - | - | (47,778,069) | (47,778,069) | - |
| At 30 June 2017 | <u>-</u> | <u>247,276</u> | <u>42,454</u> | <u>-</u> | <u>289,730</u> | <u>-</u> |

Ice Palace recognized as Assets for the benefit of the Shareholder was transferred to the Astana Akimat on a free-of-charge basis in May 2017 in accordance with the decision of the Ultimate Shareholder (Note 14).

Compensation of key management personnel

Key management personnel comprise members of the Group's Management Board, Board of Directors totaling 15 persons as at 30 June 2017 (30 June 2016: 14 persons). Total amount of the compensation to key management personnel, included in the personnel costs comprised 145,164 thousand tenge for the six months ended 30 June 2017 (30 June 2016: 157,495 thousand tenge). Compensation to key management personnel is mainly consists of expenses related to salary based on agreements, and bonuses based on operational results.

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017 (CONTINUED)

(in thousands of tenge, unless otherwise indicated)

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 amount 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 amount 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 period-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. Interest rates for such loans, even though they are lower than the interest rates of the financial institutions in the Republic of Kazakhstan, are considered to be 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.

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

As at 30 June 2017 and 31 December 2016, the fair value of financial assets and financial liabilities, except for borrowings and the debt securities issued, was not significantly different from its carrying amount. Carrying amount and fair value of the long-term loans and debt securities issued, as at 30 June 2017 and 31 December 2016 was presented as follows:

| | 30 June 2017 | | 31 December 2016 | |
|------------------------|-----------------|-------------|------------------|-------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Loans issued | 13,424,433 | 13,424,433 | 969,745 | 969,745 |
| Other financial assets | 8,685,393 | 8,685,393 | 17,549,976 | 17,549,976 |
| Borrowings | 496,080,620 | 489,463,660 | 468,338,685 | 451,931,634 |
| Debt securities | 828,514,661 | 885,917,710 | 771,341,089 | 790,399,781 |
| Financial guarantees | 4,271,655 | 4,271,655 | 4,399,245 | 4,399,245 |

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017 (CONTINUED) (in thousands of tenge, unless otherwise indicated)

Fair value hierarchy as at 30 June 2017

| | Level 1 | Level 2 | Level 3 | Total |
|---|-------------|-------------|-----------|---------------|
| Financial assets | | | | |
| Loans issued | - | 13,424,433 | - | 13,424,433 |
| Other financial assets | - | 8,685,393 | - | 8,685,393 |
| Total | - | 22,109,826 | - | 22,109,826 |
| Financial liabilities | | | | |
| Financial liabilities held at amortized cost: | | | | |
| - debt securities issued | 885,917,710 | - | - | 885,917,710 |
| - bank loans | - | 314,459,755 | 6,731,626 | 321,191,381 |
| - loans from related parties | - | 168,272,279 | - | 168,272,279 |
| - financial guarantees | - | 4,271,655 | - | 4,271,655 |
| Total | 885,917,710 | 487,003,689 | 6,731,626 | 1,379,653,025 |

Fair value hierarchy as at 31 December 2016

| | Level 1 | Level 2 | Level 3 | Total |
|---|-------------|-------------|-----------|---------------|
| Financial assets | | | | |
| Loans issued | - | 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 issued | 790,399,781 | - | - | 790,399,781 |
| - bank loans | - | 277,311,629 | 7,705,421 | 285,017,050 |
| - loans from related parties | - | 166,914,584 | - | 166,914,584 |
| - financial guarantees | - | 4,399,245 | - | 4,399,245 |
| 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. Herewith, the most significant input being the discount rate that reflects the credit risk of counterparties.

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

For the six months ended 30 June 2017, there were no transfers between the hierarchy levels.

26. EVENTS AFTER THE REPORTING DATE

Change in ownership share in subsidiaries without loss of control

In July 2017 the Group, as represented by its subsidiary KTZ-Express JSC, registered transfer of 49% ownership in KTZE-Khorgos Gateway LLP to the Buyer. The transaction will be completed after the adjustment payment (Note 14).

Financial lease

In July 2017 the Group, as represented by its subsidiary Passenger Transportation JSC, entered into a financial lease agreement with DBK-Leasing JSC for the lease of 62 passenger wagons produced by Tulpar Talgo LLP of 18,891,579 thousand tenge for 20 years and interest rate at 1.75% per annum. Grace period for the payment of principal amount is 6 years. The Group acts as a lessee. The beginning of the financial lease is expected in December 2018.

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Borrowings

On 3 August 2017, the Group made an early repayment of short-term loan given by Halyk Bank of Kazakhstan JSC of 5,000,000 thousand tenge (Note 15).

On 7 August 2017, the Group, as represented by its subsidiaries Kaztemirtrans JSC and KTZ-Freight Transportation JSC signed supplemental agreement for loan agreement dated 13 April 2011 with Shareholder. The supplemental agreement provides exclusion of commission for early repayment of the principal amount of debt. On 7 and 8 August 2017, the Group, as represented by its subsidiaries KTZ-Freight Transportation JSC and Kaztemirtrans JSC, made early repayment of the loan of 75,000,000 thousand tenge to the Shareholder under the stated loan agreements.

Approval of financial statements

These condensed interim consolidated financial statements of the Group for the six months ended 30 June 2017 have been authorized for issue by the management on 14 August 2017.