

**KAZAKHSTAN  
TEMIR ZHOLY  
NATIONAL COMPANY JSC**

Separate Financial Statements  
For the Year Ended 31 December 2017

# 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 OF THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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

In preparing separate financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's separate financial position and financial performance;
- Making an assessment of the Company'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 Company;
- Maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the separate financial position of the Company, and which enable them to ensure that the separate financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and IFRS;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- Preventing and detecting fraud and other irregularities.

The separate financial statements were authorized for issue by management on 19 March 2018, preapproved by the Audit Committee of the Board of Directors of the Company and are subject to approval by the Board of Directors and the Shareholder.

On behalf of Company management:

  
**Kanat Alpysbayev**  
President

19 March 2018



  
**Zhaslan Madiyev**  
Chief Financial Officer

19 March 2018

  
**Nazira Abilova**  
Chief Accountant

19 March 2018

## INDEPENDENT AUDITOR'S REPORT

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

### Qualified Opinion

We have audited the separate financial statements of Kazakhstan Temir Zholy National Company JSC (the "Company"), which comprise the separate statement of financial position as at 31 December 2017, and the separate statement of profit or loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the first paragraph and except for the effects of the matter described in the second paragraph of the 'Basis for Qualified Opinion' section of our report, the separate financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

### Basis for Qualified Opinion

We were not able to obtain sufficient appropriate audit evidence regarding the value of contributions to equity of certain subsidiaries made prior to 1 January 2007, which are included in the carrying value of investments in subsidiaries and amounted to 177,640,985 thousand tenge as at 31 December 2017 and 2016. We were unable to determine whether any adjustments to this amount were necessary.

In addition, in the presence of indications of impairment of certain investments in subsidiaries with a total carrying value of 75,995,732 thousand tenge and 76,109,910 thousand tenge as at 31 December 2017 and 2016, respectively, the Company did not test them for impairment, which constitutes a departure from International Accounting Standard (IAS) 36 *Impairment of Assets*. We were not able to determine the effects of this departure on the separate financial statements.

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

### Emphasis of Matter

We draw your attention to the following matters:

- As described in Note 2 to the separate financial statements, the Company also prepares consolidated financial statements of the Company and its subsidiaries. The separate financial statements should be read in conjunction with the consolidated financial statements, which were authorized for issue by the management on 13 March 2018.
- Note 30 to the separate financial statements, which disclose significant transactions of the Company with related parties.

## Key Audit Matters

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

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
<b>Potential impairment of property, plant and equipment</b>	
<p>The Company's property, plant and equipment, which is mainly represented by infrastructure, comprises 58% of the Company's total assets. Due to the existence of impairment indicators, such as a continuing economic and market downturn, increase in market interest rates and slow growth in transit freight turnover, the Company performed an impairment assessment of its property, plant and equipment.</p> <p>The recoverable amount of the cash-generating unit ("CGU") was defined as value in use based on the 2018-2022 Development Plan. Determining the recoverable amount requires management to make significant estimates concerning the future cash flows based on judgements and assumptions about future business prospects. The value in use is sensitive to the changes in key assumptions.</p> <p>In addition, the identification of the appropriate cash-generating unit requires significant management's judgement.</p> <p>Based on the above we determined the impairment of property, plant and equipment to be a key audit matter. Please refer to Note 4.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"><li>&gt; evaluating whether the methodology applied and the model used to calculate the value in use are in line with the requirements of IAS 36 <i>Impairment of Assets</i>,</li><li>&gt; evaluating the identification of the cash-generating unit,</li><li>&gt; validating assumptions applied in the determination of the discount rate and its mathematical recalculation with involvement of valuation specialists,</li><li>&gt; running a range of sensitivity tests to confirm that no impairment was required if less optimistic assumptions within the reasonably possible range had been applied with respect to the discount rate, projected foreign exchange rates, freight turnover growth in transit transportation,</li><li>&gt; challenging projected cash flows, including revenue and operating profit growth assumptions, based on historical data and the Company's 2018-2022 Development Plan. We analysed the accuracy of preceding management forecasts, validity of the assumptions used in the forecasts, and their consistency with plans approved by the Board of Directors, and</li><li>&gt; assessing the completeness and correctness of the information disclosed in financial statements.</li></ul> <p>We found that the assumptions used by management are comparable to historical and current data and Company forecasts.</p>

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**Why the matter was determined to be a key audit matter****How the matter was addressed in the audit**

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**Liquidity and the going concern principle**

As at 31 December 2017, the Company's current liabilities exceeded its current assets by KZT 11,035,011 thousand.

In addition, as discussed in Notes 18 and 29, the loans received by the Company from EBRD with a carrying value of 33,828,776 thousand tenge and loans received by its subsidiaries and associates from EBRD, HSBC France and DBK with a carrying value of 114,433,772 thousand tenge include certain financial covenants, whereby non-compliance may result in the loans becoming payable on demand.

Management prepares forecasts of the expected financial position and financial results for 2017 and concluded that the Group would not be able to meet certain financial covenants, so that, as at 31 December 2017, management had received the waivers from its creditors regarding nonapplication and reset of the financial covenants.

Due to the above matters, critical judgements are required by management in respect of the sufficiency of the Company's liquid assets to meet its current obligations. Management's plans in respect of this matter are discussed in Notes 2 and 31. Given the pervasiveness of the effect of the going concern conclusion to the financial statements, accordingly, this is considered to be a key audit matter.

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

Our audit procedures included:

- > examining the correctness of asset and liability classification as part of our audit procedures,
- > analysing events and conditions, including financial and operating, which could cast doubt on the ability to continue as a going concern,
- > analysing management's evaluation of the principles of going concern and their plans to settle current liabilities,
- > examining the reliability and reasonableness of data and assumptions applied in preparing cash flow forecasts, including the consistency of input data to other tests, such as impairment, actuarial valuation and hedge effectiveness testing,
- > analysing downside scenarios affecting the Company's liquidity and its ability to settle obligations, including to generate a sufficient level of cash flows from operating activities to serve and settle its loans, as well as the impact of possible exchange rate change on liability and revenue amounts,
- > examining the documents supporting the availability of financing sources, including credit agreements, negotiations with financial institutions, and Board of Director minutes,
- > analysing the terms of the loan agreements, including covenants, where applicable, recalculating financial covenants for mathematical accuracy,
- > examining waivers received from creditors with respect to nonapplication and reset of financial covenants as at 31 December 2017, including examining the compliance with those reset covenants, and
- > assessing the completeness and adequacy of information disclosed in the financial statements.

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

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## **Other Information Included in the Annual Report**

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

## **Responsibilities of Management and Those Charged With Governance for the Separate Financial Statements**

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

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

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

## **Auditor's Responsibilities for the Audit of the Separate Financial Statements**

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


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

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


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

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

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



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



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

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

19 March 2018



Nurlan Bekenov  
General Director  
Deloitte, LLP



# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## SEPARATE STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

(in thousands of Tenge)

	Notes	31 December 2017	31 December 2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	1,656,239,208	1,525,800,262
Intangible assets		11,454,957	9,276,445
Investments in subsidiaries	7	377,209,278	359,153,896
Investments in associates and joint ventures	8	3,667,887	3,667,887
Loans issued	9	644,324,145	643,728,243
Other non-current assets	10	32,003,759	55,868,139
<b>Total non-current assets</b>		<b>2,724,899,234</b>	<b>2,597,494,872</b>
<b>Current assets</b>			
Cash and cash equivalents	11	25,005,553	21,791,286
VAT receivable		18,284,350	35,682,842
Trade accounts receivable	12	27,329,963	34,464,427
Inventories	13	11,231,134	11,600,529
Loans issued	9	11,742,071	17,600,836
Other financial assets	14	13,274,965	7,565,683
Assets held for the benefit of the Shareholder	30	289,730	48,067,799
Other current assets	15	27,537,629	26,951,806
		134,695,395	203,725,208
Non-current assets classified as held for sale	16	3,230,533	10,097,030
<b>Total current assets</b>		<b>137,925,928</b>	<b>213,822,238</b>
<b>Total assets</b>		<b>2,862,825,162</b>	<b>2,811,317,110</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	17	1,062,635,047	993,460,480
Cash flow hedging reserve	17	(42,553,250)	(39,073,931)
Foreign currency translation reserve		184,039	93,904
Retained earnings		597,376,274	575,030,730
<b>Total equity</b>		<b>1,617,642,110</b>	<b>1,529,511,183</b>

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

	Notes	31 December 2017	31 December 2016
<b>Non-current liabilities</b>			
Borrowings	18	898,715,809	892,998,120
Deferred tax liabilities	19	192,487,215	198,105,141
Employee benefit obligations	20	5,019,089	5,073,239
<b>Total non-current liabilities</b>		<b>1,096,222,113</b>	<b>1,096,176,500</b>
<b>Current liabilities</b>			
Borrowings	18	49,610,681	20,877,765
Trade accounts payable	21	51,893,162	80,012,950
Other taxes payable		3,525,586	2,416,322
Employee benefit obligations	20	395,416	413,535
Constructive obligation for the benefit of Shareholder	30	289,730	48,067,799
Other current liabilities	22	43,246,364	33,841,056
<b>Total current liabilities</b>		<b>148,960,939</b>	<b>185,629,427</b>
<b>Total liabilities</b>		<b>1,245,183,052</b>	<b>1,281,805,927</b>
<b>Total equity and liabilities</b>		<b>2,862,825,162</b>	<b>2,811,317,110</b>

On behalf of Company management:

  
Kanat Alpysbayev  
President

19 March 2018

  
Zhaslan Madiyev  
Chief Financial Officer

19 March 2018

  
Nazira Abilova  
Chief Accountant

19 March 2018

The figures below form an integral part of the separate financial statements.



# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

(in thousands of Tenge)

	Notes	2017	2016
Revenue	23	342,127,359	474,320,167
Cost of sales	24	(286,428,305)	(390,978,859)
<b>Gross profit</b>		<b>55,699,054</b>	<b>83,341,308</b>
General and administrative expenses	25	(46,508,918)	(40,964,131)
(Accrual)/reversal of impairment of assets		(135,558)	6,731,580
Finance income	26	43,842,722	43,903,382
Finance costs	27	(65,608,300)	(61,346,936)
Foreign exchange gain/(loss)		4,921,560	(441,479)
Dividend income	30	21,787,855	4,654,449
Gain on disposal of investments in subsidiaries and joint ventures	16	8,463,049	1,854,824
Other income, net		567,178	666,897
<b>Profit before tax</b>		<b>23,028,642</b>	<b>38,399,894</b>
Income tax benefit/(expense)	19	5,538,174	(4,694,896)
<b>Profit for the year</b>		<b>28,566,816</b>	<b>33,704,998</b>
<b>Other comprehensive (loss)/income, net of income tax:</b>			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Actuarial gains on post-employment and other long-term employee benefits	20	57,815	950,771
<i>Items that may be reclassified subsequently to profit or loss:</i>			
(Loss)/gain on cash flow hedging instruments	17	(3,479,319)	4,417,426
Exchange gain on translating foreign operations		90,135	295,166
<b>Other comprehensive (loss)/income for the year</b>		<b>(3,331,369)</b>	<b>5,663,363</b>
<b>Total comprehensive income for the year</b>		<b>25,235,447</b>	<b>39,368,361</b>
<b>Earnings per share in tenge</b>	28	<b>58</b>	<b>68</b>

On behalf of Company management:

  
Kanat Alpysbayev  
President

19 March 2018

  
Zhaslan Madiyev  
Chief Financial Officer

19 March 2018

  
Nazira Abilova  
Chief Accountant

19 March 2018

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

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of Tenge)

	Notes	2017	2016
<b>Cash flows from operating activities:</b>			
Profit for the year		28,566,816	33,704,998
Income tax (benefit)/expense, recognized in profit or loss	19	(5,538,174)	4,694,896
Adjustments for:			
Depreciation and amortization	24,25	57,095,168	59,316,153
Finance costs	27	65,608,300	61,346,936
Finance income	26	(43,842,722)	(43,903,382)
Accrual/(reversal) of impairment of assets		135,558	(6,731,580)
Post-employments and other long-term employee benefit expenses/(benefit)	24,25	749,343	(7,589,990)
Accrual/(recovery) of allowance for doubtful debt	25	969,593	(547,616)
Gain on disposal of investments in subsidiaries and joint ventures		(8,463,049)	(1,854,824)
Foreign exchange (gain)/loss		(4,921,560)	441,479
Dividend income		(21,787,855)	(4,654,449)
Other		3,195,737	2,002,639
Operating income before changes in working capital and other balances		71,767,155	96,225,260
Change in other current and non-current assets (including non-current VAT recoverable)		18,870,479	14,399,542
Changes in inventories		3,590,936	2,951,383
Change in trade accounts receivable		9,730,848	2,028,296
Change in employee benefit obligations		(763,797)	(584,779)
Changes in trade accounts payable		(26,716,223)	13,405,617
Changes in other taxes payable		1,992,409	1,524,710
Change in other current liabilities		8,230,776	(22,173,221)
Cash flows from operating activities		86,702,583	107,776,808
Interest paid	18	(50,530,579)	(52,922,825)
Interest received		32,206,183	34,282,851
Income tax paid		-	(1,899)
<b>Net cash flows from operating activities</b>		<b>68,378,187</b>	<b>89,134,935</b>
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment, including advances paid		(173,943,576)	(194,866,372)
Sale of other non-current assets		-	9,528,864
Sale of residential properties		1,012,135	938,056
Investments in subsidiaries		(14,579,655)	-
Sale of investments in subsidiaries		-	10,198,107
Investments in other financial assets		(20,158,494)	(22,936,169)
Proceeds from sale of shares in joint ventures	16	14,144,625	-
Proceeds from disposal of other financial assets		14,040,099	23,050,615
Loans issued		(25,516,721)	(18,443,516)
Repayment of loans issued		34,648,863	1,117,316
Dividends received		21,239,991	1,721,078
Other		199,230	(2,013,189)
<b>Net cash flows used in investing activities</b>		<b>(148,913,503)</b>	<b>(191,705,210)</b>

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

	Notes	2017	2016
<b>Cash flows from financing activities:</b>			
Contributions to share capital	17	66,852,000	127,923,000
Proceeds from borrowings	18	326,485,086	114,956,500
Repayments of borrowings	18	(307,434,260)	(129,304,596)
Purchase of assets held for the benefit of the Shareholder		-	(7,172,307)
Other distributions to the Shareholder	17	(1,387,500)	-
<b>Net cash flows from financing activities</b>		<b>84,515,326</b>	<b>106,402,597</b>
<b>Net increase in cash and cash equivalents</b>		<b>3,980,010</b>	<b>3,832,322</b>
Cash and cash equivalents, beginning of the year	11	21,791,286	18,780,572
Effects of exchange rate changes on the balance of cash held in foreign currencies		(765,743)	(821,608)
<b>Cash and cash equivalents, end of the year</b>	11	<b>25,005,553</b>	<b>21,791,286</b>
<b>Non-cash transactions:</b>			
Transfer of the Ice Palace, accounted as Assets for the benefit of the Shareholder (including VAT)	30	53,511,437	-

On behalf of Company management:

  
**Kanat Apyabayev**  
President

19 March 2018

  
**Zhaslan Madiyev**  
Chief Financial Officer

19 March 2018

  
**Nazira Abilova**  
Chief Accountant

19 March 2018

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



# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of Tenge)

	Share capital	Foreign currency translation reserve	Cash flow hedging reserve	Retained earnings	Total equity
At 1 January 2016	865,393,896	(201,262)	(43,491,357)	526,946,461	1,348,647,738
Profit for the year	-	-	-	33,704,998	33,704,998
Other comprehensive income for the year	-	295,166	4,417,426	950,771	5,663,363
Total comprehensive income for the year	-	295,166	4,417,426	34,655,769	39,368,361
Shares issue (Note 17)	128,066,584	-	-	-	128,066,584
Other distributions (Note 17)	-	-	-	657,924	657,924
Other contributions (Note 17)	-	-	-	12,770,576	12,770,576
<b>At 31 December 2016</b>	<b>993,460,480</b>	<b>93,904</b>	<b>(39,073,931)</b>	<b>575,030,730</b>	<b>1,529,511,183</b>
At 1 January 2017	993,460,480	93,904	(39,073,931)	575,030,730	1,529,511,183
Profit for the year	-	-	-	28,566,816	28,566,816
Other comprehensive Income/(loss) for the year	-	90,135	(3,479,319)	57,815	(3,331,369)
Total comprehensive Income/(loss) for the year	-	90,135	(3,479,319)	28,624,631	25,235,447
Shares issue (Note 17)	69,174,567	-	-	-	69,174,567
Other distributions (Note 17)	-	-	-	(7,120,868)	(7,120,868)
Revaluation of fixed assets contributed to the capital of subsidiaries	-	-	-	841,781	841,781
<b>At 31 December 2017</b>	<b>1,062,635,047</b>	<b>184,039</b>	<b>(42,553,250)</b>	<b>597,376,274</b>	<b>1,617,642,110</b>

On behalf of Company management:

  
Kanat Apyrbayev  
President

19 March 2018

  
Zhaslan Madiyev  
Chief Financial Officer

19 March 2018

  
Nazira Abilova  
Chief Accountant

19 March 2018

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



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of Tenge)

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#### 1. GENERAL INFORMATION

Kazakhstan Temir Zholy National Company JSC (the "Company") was organized in Kazakhstan in accordance with Resolutions of the Government of the Republic of Kazakhstan (the "Ultimate Shareholder") for the purpose of establishing a holding company for the Government's railway industry assets. The Company was registered on 15 May 2002. The address of the Company's registered office is 6, D.Kunayev St., Astana, 010000, Republic of Kazakhstan.

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

The Company operates a Government regulated nationwide railway system providing maintenance of railway infrastructures within the Republic of Kazakhstan. As part of the regulation of the rail industry in Kazakhstan, the Government sets the tariffs, which the Company charges with respect to railway network services. These regulated tariffs differ based on the type of transportation provided.

The Committee for the Regulation of Natural Monopolies, protecting Competition and Consumer Rights of the Ministry of the National Economy of the Republic of Kazakhstan ("CRNM") has approved railway network tariffs for 2016-2020 with annual increases of 4%.

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2016, the oil price decreased significantly, which led to significant decrease in national export revenue.

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

The Government controls the Company and establishes the long-term strategy of the railway operations in the Republic of Kazakhstan. Since 1997, the Government has been in the process of restructuring the rail system in the Republic of Kazakhstan, which includes the segregation of freight transportation and infrastructure and the associated tariffs, as well as subsidies of the passenger transportation. In accordance with the Group of companies Kazakhstan Temir Zholy National Company JSC (the "Group") Development strategy until 2025, Locomotive JSC was reorganised into KTZh-Freight Transportation JSC, transporting freight from 1 July 2016. From 1 July 2016, KTZh-Freight Transportation JSC has started its operations on freight transportation. In September 2017, KTZh-Freight Transportation JSC was given the status of national freight carrier by government resolution.

## **KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC**

### **NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)** *(in thousands of Tenge)*

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## **2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

### **Statement of compliance**

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

These separate financial statements are financial statements of the parent Kazakhstan Temir Zholy National Company JSC. Subsidiaries were not consolidated to these separate financial statements. Investments in subsidiaries, associates and joint ventures were accounted for at cost. The separate financial statements should be read in conjunction with the consolidated financial statements, which were authorized for issue by the management of the Company on 19 March 2018.

The consolidated financial statements of Kazakhstan Temir Zholy National Company JSC prepared in accordance with IFRS were made available for public use in accordance with the legislation of the Republic of Kazakhstan and is available on the Company's corporate web page [www.railways.kz](http://www.railways.kz).

### **Going concern**

The separate financial statements have been prepared on a going concern basis. This assumes the sale of assets and settlement of liabilities in the normal course of business in the foreseeable future. As at 31 December 2017, current liabilities of the Company exceeded current assets by 11,035,011 thousand tenge. The Company historically financed large investment projects through the capital contributions received from the Government, and external borrowings, in addition to cash flows from operating activities. As at 31 December 2017, the Company's borrowings of 49,610,681 thousand tenge are payable within twelve months from the reporting date. The Company has assessed its needs for cash, including its scheduled debt repayments and its development plans and believes that it will have sufficient cash flows taking into account available cash to settle its liabilities (Note 31). In assessing its going concern basis, management have considered the Company's financial position, expected future performance, its borrowings, available credit facilities, its capital expenditure commitments, considerations of tariffs, currency exchange rates and other risks facing the Company. After making appropriate enquiries, management 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 separate financial statements.

### **Basis for measurement**

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

### **Functional and presentation currency**

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

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



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

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

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

	31 December 2017	31 December 2016
USD	332.33	333.29
Euro (EUR)	398.23	352.42
Swiss francs (CHF)	340.61	328.14
Russian Roubles (RUR)	5.77	5.43

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### Adoption of new and revised standards

In 2017, the Company applied a number of amendments to IFRSs published by the International Accounting Standards Board (the IASB), which are mandatory for the reporting period beginning on or after 1 January 2017.

#### *Amendments to IAS 7 Disclosure Initiative*

The Company has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Company's liabilities arising from financing activities consist of borrowings (Note 18). A reconciliation between the opening and closing balances of these items is provided in Note 18. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 18, the application of these amendments has had no impact on the Company's separate financial statements.

#### *Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses*

The Company has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Company's standalone financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

#### New and revised IFRSs in issue but not yet effective:

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 *Financial Instruments*<sup>1</sup>;
- IFRS 15 *Revenue from Contracts with Customers* (and the related Clarifications)<sup>1</sup>;
- IFRS 16 *Leases*<sup>2</sup>;
- Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*<sup>3</sup>;
- Amendments to IAS 40 – *Transfers of Investment Property*<sup>1</sup>;
- Annual Improvements to IFRSs 2014-2016 Cycle<sup>1</sup>;
- Annual Improvements to IFRSs 2015-2017 Cycle<sup>2</sup>;
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*<sup>1</sup>;
- IFRIC 23 *Uncertainty Over Income Tax Treatments*<sup>2</sup>.

<sup>1</sup>Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

<sup>2</sup>Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

<sup>3</sup>Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

#### IFRS 9 *Financial Instruments*

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

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- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. There is a "three-step" approach based on changing the credit quality of financial assets at initial recognition. In practice, the new regulations mean that organizations, upon initial recognition of financial assets, will immediately recognize losses in the amount of expected loan losses for the 12 months that are not loan impairment losses (or in the amount of expected credit losses for the entire period of the financial instrument for trade receivables). If there has been a significant increase in credit risk since the initial recognition, the impairment is estimated based on the expected credit losses until the maturity of the financial instrument. The model provides a simplified approach for trade receivables, contract assets and finance lease receivables.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.
- **Accounting treatment of modification or the exchange of debt liabilities that do not lead to derecognition.** The new standard introduces a requirement for the accounting treatment of modifications or the exchange of debt liabilities that do not lead to derecognition. Income or expenses arising from the modification of a financial liability carried at amortised cost should be recognised in profit or loss. Income or expenses are calculated between initial cash flows and the contractual net present value of future cash flows discounting them, together with the initial effective interest rate of the financial instrument

The Company has elected to apply the modified retrospective approach upon the application of IFRS 9 as of 1 January 2018. Accordingly, comparative amounts will not be restated and the cumulative adjustment will be recognised as of 1 January 2018.

According to an analysis and current estimate of the Company's financial assets and liabilities as at 31 December 2017 and based on the facts and circumstances existing as at that date, Company management expects that the application of the new standard from 1 January 2018 will have an overall cumulative effect on its separate financial statements with the adjustment to retained earnings of KZT 16,679,855 thousand, which is described in details below.

The Company does not expect any significant changes with respect to the classification and estimate of financial assets and liabilities.

The new impairment model requires the recognition of expected credit losses (rather than incurred credit losses as per IAS 39) on financial assets carried at amortised cost, debt instruments carried at fair value through other comprehensive income, contractual assets and financial guarantee contracts. Company management have decided to apply the simplified approach to recognize lifetime expected credit losses for its trade receivables. For the loans issued to related parties and entities under trust management and other financial assets, including cash and cash equivalents, 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. After analysis, the Company expects a small increase in the allowance for doubtful debts for trade and other receivables of 437,998 thousand tenge, for debt financial assets accounted for at amortised cost of 1,605,690 thousand tenge, for funds in credit institutions (banks), including cash and cash equivalents, restricted cash and other financial assets, of 139,479 thousand tenge, for financial guarantees issued of 10,851,254 thousand tenge. Management does not expect significant changes to these estimates.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

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The Company estimated the effect of modification or the exchange of debt liabilities that did not result in derecognition under the new requirements of IFRS 9. Based on management estimates, the difference between the carrying amount of financial liabilities arising from application of IFRS 9 being recognised through retained earnings as at 1 January 2018 will amount to 3,645,434 thousand tenge.

The Company does not expect significant changes relating to the accounting treatment for hedging instruments designated in a hedge relationship and will continue to apply IAS 39 to existing cash flow hedging of transit traffic revenue as allowed by transitional provisions of IFRS 9.

#### *IFRS 15 Revenue from contracts with customers*

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

- Step 1: Identify the contract with the customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contracts
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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

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

Based on an analysis of the Company's regular revenue streams for the year ended 31 December 2017, individual terms of revenue agreements and other facts and conditions existing at the reporting date, Company management anticipates that the application of IFRS 15 will not have a material impact on the recognition and measurement of revenue in the separate financial statements. Disclosures required by the new standard will, however, be expanded to provide users with greater information regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

#### *IFRS 16 Leases*

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

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

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

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

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

Furthermore, extensive disclosures are required by IFRS 16.

The Company management anticipates that the application of IFRS 16 in the future may have a significant impact on the amount of assets and liabilities due to recognition of assets and liabilities for all leases for contracts where the Company is a lessee, except those that meet the criteria of a short-term lease or low-value assets in accordance with IFRS 16.

Management is still in the process of assessing the full impact of the application of IFRS 16 on the Company's standalone financial statements and it is not practicable to provide a reasonable financial estimate of the effect until management completes its detailed review. Management expects to be able to provide more precise information in the separate statements for the year ended 31 December 2018.

Company's management expects that the application of other standards, amendments and interpretations effective from 1 January 2018 will not have a material effect on the separate financial statements in the periods they are applied.

#### **Property, plant and equipment**

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

##### *Subsequent costs*

Maintenance expenses incurred during an asset's useful life (regular maintenance to ensure the asset remains in a working condition) and repair expenses (technical inspections, maintenance contracts, etc.) are recorded as operating expenses.

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

##### *Construction-in-progress*

Construction-in-progress comprises costs directly related to the acquisition and construction of property, plant and equipment, including the appropriate allocation of directly attributable variable overheads incurred during construction. Depreciation is charged on the same basis as for other assets and starts once the asset becomes available for its intended use. The carrying value of construction-in-progress is regularly reviewed for impairment.

#### **Borrowing costs**

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

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

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

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

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

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

#### **Inventories**

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

#### **Equity**

##### *Share capital*

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

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

##### *Other contributions*

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

##### *Other distributions*

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

#### **Financial instruments**

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

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

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

#### **Hedge accounting**

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

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

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

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#### *Cash flow hedges*

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

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

Hedge accounting is discontinued:

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

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

#### **Revenue recognition**

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

#### **4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

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

#### **Critical judgments in applying accounting policies**

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

#### *Identification of controls*

Subsidiaries are those enterprises controlled by the Company. The Company controls a subsidiary when it is exposed to risks related to variable income from participating in an investment target or has the right to receive such income, and has the opportunity to use its authority in relation to that enterprise to influence the value of that income (Note 7).

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

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

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#### *Loans at a rate below the market interest rate*

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

#### *Assets classified as held for sale*

In December 2015, the Kazakhstan Government approved the 'Comprehensive Privatisation Plan for 2016-2020', whereby Company management approved a list of subsidiaries, associates and joint ventures to be sold. IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations* requires management to apply judgements regarding the high probability of an asset's sale. As at the reporting date, Company management assessed the status of the Plan and classified assets/liabilities as disposal groups held for sale as those meeting IFRS 5 criteria (Note 16).

#### **Key sources of estimation uncertainty**

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

#### *Impairment of tangible assets*

At the end of each reporting period, the Company reviews the carrying amounts of its tangible 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 based on a number of factors, such as change in expectations of growth in the railway industry, estimates of future cash flows, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances.

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

Due to existing indicators, the Company performed an impairment test as at 31 December 2017.

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

Additionally, a number of subjective factors, both operational and financial, using the best evidence available, are used to estimate cash flows.



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

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

Financial assumptions include significant estimates associated with tariff forecasts and growth rates, discounts, and projected KZT to US\$ and Swiss Franc exchange rates. The key long-term assumptions used in the calculation were annual tariff growth of 4% in freight and passenger transportation, an exchange rate of 340 KZT/US\$ and a discount rate of 13.21%. These assumptions are presented in real terms.

As at 31 December 2017, no impairment has been identified based on the estimated value in use of the Group's property, plant and equipment. However, the value in use estimate is sensitive particularly to the following assumptions:

- discount rate
- transit freight transportation traffic
- foreign currency exchange rates, including to the Swiss Franc and US\$

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

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

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

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

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

#### *Taxation*

Kazakhstan legislative acts and regulations are not always clearly written. Instances of inconsistent opinions between local, regional and national tax authorities are possible. Where additional taxes are imposed by the tax authorities, penalties and interest applied are significant; penalties are generally assessed at 50% of the additional taxes accrued, and interest is assessed at 12.19% of taxes not settled on a timely basis. As a result, penalties and interest can exceed the amount of additional accrued taxes.

Because of the uncertainties disclosed above, the ultimate amount of taxes, penalties and interest, if any, imposed may be in excess of the amount expensed to date and accrued as at 31 December 2017. Any difference between the estimated amount and the actual amount paid, if any, could have a significant impact on future operating results.

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

### 5. CHANGES IN CLASSIFICATION AFFECTING COMPARATIVE INFORMATION

For better presentation and clarity of the separate financial statements, the Company has reclassified certain items in the separate statement of the financial position as at the reporting date and a cash flow statement. Accordingly, the comparative data as of 31 December 2016 and for the year then ended were restated.

As at 31 December 2016, the Company had accounts payable to KTZh-Freight Transportation JSC of 23,107,316 thousand tenge, 18,617,998 thousand tenge of which were classified as advances received.

As at 31 December 2017, the Company revised and reclassified the balance sheet items *Trade Accounts Payable* and *Other Current Liabilities* in respect of advances received as at 31 December 2016 in the amount of 18,617,998 thousand tenge. As of 1 January 2016, the Company did not have trade payables to KTZh-Freight Transportation JSC.

*Effect on separate statement of financial position*

	<u>Before corrections</u>	<u>Reclassification</u>	<u>Recalculated</u>
<b>At 31 December 2016</b>			
<b>EQUITY AND LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade accounts payable	61,394,952	18,617,998	80,012,950
Other current liabilities	52,459,054	(18,617,998)	33,841,056
<b>Total current liabilities</b>	<b>185,629,427</b>	<b>-</b>	<b>185,629,427</b>

*Effect on separate statement of cash flows*

	<u>Before corrections</u>	<u>Reclassification</u>	<u>Recalculated</u>
<b>2016</b>			
<b>Cash flows from operating activities</b>			
Change in trade accounts payable	(5,212,381)	18,617,998	13,405,617
Change in other current liabilities	(3,555,223)	(18,617,998)	(22,173,221)
<b>Cash flows from operating activities</b>	<b>107,776,808</b>	<b>-</b>	<b>107,776,808</b>
<b>Net cash flows from operating activities</b>	<b>89,134,935</b>	<b>-</b>	<b>89,134,935</b>

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

### 6. PROPERTY, PLANT AND EQUIPMENT

	Railway infrastructure	Buildings and construction	Machinery and equipment	Transport	Land	Other	Construction in progress	Total
<b>Carrying value at 1 January 2016</b>	926,196,009	51,988,932	145,782,759	26,935,367	1,046,016	8,534,368	240,492,047	1,400,975,498
Additions	69,787	177,187	37,385	9,347	4,161	22,241	189,414,355	189,734,463
Disposals	(814,518)	(2,750,866)	(2,926,293)	(323,559)	(127)	(576,205)	-	(7,391,568)
Depreciation charge	(23,801,178)	(8,405,689)	(21,008,441)	(2,963,627)	-	(1,260,214)	-	(57,439,149)
Depreciation on disposal	445,260	257,309	2,204,183	315,576	-	498,710	-	3,721,038
(Accrual)/reversal of impairment	(30,688)	279,059	(10,160)	16,890	-	(76,337)	(1,891,678)	(1,712,914)
Transfers to non-current assets classified as held for sale, including to the Government	(9,277)	2,382,711	(57,449)	-	(50)	-	-	2,315,935
Other movements, transfers and regroupings	85,642,017	10,987,549	81,929,761	1,572,475	-	480,213	(185,015,056)	(4,403,041)
<b>Carrying value at 31 December 2016</b>	<b>987,697,412</b>	<b>54,916,192</b>	<b>205,951,745</b>	<b>25,562,469</b>	<b>1,050,000</b>	<b>7,622,776</b>	<b>242,999,668</b>	<b>1,525,800,262</b>
Cost	1,155,370,063	82,073,785	311,875,079	51,575,243	1,050,000	14,442,663	250,863,436	1,867,250,269
Accumulated depreciation and impairment	(167,672,651)	(27,157,593)	(105,923,334)	(26,012,774)	-	(6,819,887)	(7,863,768)	(341,450,007)
<b>Carrying value at 1 January 2017</b>	987,697,412	54,916,192	205,951,745	25,562,469	1,050,000	7,622,776	242,999,668	1,525,800,262
Additions	2,316,150	15,474	152,876	-	8,697	3,704	187,379,865	189,876,766
Disposals	(103,417)	(127,674)	(573,280)	(93,739)	(26,370)	(286,087)	-	(1,210,567)
Depreciation charge	(24,710,903)	(4,778,304)	(20,721,553)	(2,956,614)	-	(1,288,551)	-	(54,455,925)
Depreciation on disposal	90,901	119,504	570,768	93,538	-	285,625	-	1,160,336
(Accrual)/reversal of impairment	(30,701)	19,304	14,024	64,753	-	(2,059)	(787,380)	(722,059)
Contribution to charter capital of subsidiaries	-	(678,416)	(79,808)	(24,786)	(77,193)	(8,226)	-	(868,429)
Other movements, transfers and regroupings	55,079,504	174,775,587	37,166,881	1,781,336	-	2,018,767	(274,163,251)	(3,341,176)
<b>Carrying value at 31 December 2017</b>	<b>1,020,338,946</b>	<b>224,261,667</b>	<b>222,481,653</b>	<b>24,426,957</b>	<b>955,134</b>	<b>8,345,949</b>	<b>155,428,902</b>	<b>1,656,239,208</b>
Cost	1,211,649,801	255,411,331	348,730,832	53,135,744	955,134	16,058,008	164,080,050	2,050,020,900
Accumulated depreciation and impairment	(191,310,855)	(31,149,664)	(126,249,179)	(28,708,787)	-	(7,712,059)	(8,651,148)	(393,781,692)

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) *(in thousands of Tenge)*

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In 2017, the Company received property, plant and equipment of 2,322,567 thousand tenge from the Shareholder/Ultimate Shareholder (2016: 143,584 thousand tenge) which have been recognized as a contribution to share capital and other contributions in the separate statement of changes in equity (Note 17).

As at 31 December 2017, capital construction in progress primarily comprises project costs for the construction of railway lines Zhezkazgan-Beineu, Arkalyk-Shubarkol and Almaty-Shu of 70,829,526 thousand tenge (2016: 66,293,483 thousand tenge), for the construction of ferry complex Port Kuryk of 35,293,745 thousand tenge (2016: 18,025,640 thousand tenge) and the development of a railway junction at Astana station, including construction of a railway station of 31,286,106 thousand tenge (2016: 125,070,257 thousand tenge).

During 2017, construction was completed for 320,768,072 thousand tenge, which included the partial commissioning of the Astana station complex for 163,012,749 thousand tenge.

As at 31 December 2017 and 2016, the Company has no property, plant and equipment pledged as collateral for its borrowings.

As at 31 December 2017 and 2016, the cost of fully depreciated property, plant and equipment which was still in use amounted to 225,439,307 thousand tenge and 210,784,478 thousand tenge, respectively.

For the years ended 31 December 2017 and 2016, capitalised borrowing costs amounted to 2,342,001 thousand tenge and 2,281,367 thousand tenge, respectively. The average capitalisation rate for the Company ranges between 5.58% and 8.63% in 2017 and in 2016, respectively.

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

### 7. INVESTMENTS IN SUBSIDIARIES

Name	Principal activity	Country of residence	31 December 2017		31 December 2016	
			Carrying value	Ownership interest	Carrying value	Ownership interest
Passenger Transportation JSC	Passenger transportation and freight transportation	Kazakhstan	110,854,279	100%	110,854,279	100%
KTZh-Freight Transportation JSC	Locomotive haul services	Kazakhstan	65,833,774	100%	50,049,439	100%
Kaztemirtrans JSC	Operation of cargo wagons	Kazakhstan	61,175,767	100%	61,725,775	100%
KTZ Express JSC	Multimodal freight services	Kazakhstan	48,408,102	100%	45,978,399	100%
Aktau International Sea Commercial Port National Company JSC <sup>1</sup>	Sea port services, loading, unloading vessels servicing	Kazakhstan	26,233,840	100%	26,233,840	100%
Rem locomotive JSC	Production of rolling stocks	Kazakhstan	16,993,514	100%	17,161,192	100%
Vokzal-service JSC	Railway stations activities	Kazakhstan	14,153,746	100%	14,153,746	100%
Kazakh Academy of Transport and Communications named after M. Tynyshpaev JSC	Education, training and employees requalification	Kazakhstan	11,221,726	100%	11,221,726	100%
Kamkor Repair Corporation LLP	Production of machinery	Kazakhstan	10,441,539	100%	10,388,039	100%
Temirzholsu JSC	Utilities	Kazakhstan	8,173,093	100%	8,173,093	100%
Transtelecom JSC	Telecommunication services	Kazakhstan	3,106,283	51%	3,106,283	51%
	Issuance of bonds for the purpose of projects and operations financing of participants among the companies of NC KTZH JSC	Russian Federation	435,030	62.16%	-	-
KTZh Finance LLC	Security services	Kazakhstan	176,944	100%	106,444	100%
Militarized Railway Guard JSC	Transfer of cargo and vessels servicing	Kazakhstan	1,641	100%	1,641	100%
Port Kuryk LLP						
			<b>377,209,278</b>		<b>359,153,896</b>	

<sup>1</sup> In November 2013, the Shareholder transferred its 100% ownership of Aktau International Sea Trade Port National Company JSC to the trust management of the Company. Aktau International Sea Trade Port National Company JSC is recognized as a subsidiary of the Company, although the Company does not legally own its shares.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

During 2016, 49% of shares of Transtelecom JSC were sold to a third party. The Company retained control over the subsidiary owning 51% of shares. As part of privatization plan, the ownership interest (26% less 1 share) of the Company in Transtelecom JSC of 3,230,533 thousand tenge was classified as non-current assets held for sale (Note 16).

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

During 2017, the Company issued interest-free repayable financial aid of 25,516,721 thousand tenge to KTZ Express JSC and Kamkor Repair Corporation LLP, the subsidiaries and recognized fair value adjustment of 3,104,004 thousand tenge less deferred tax of 620,801 thousand tenge in investments (Note 9).

In 2016, the Company provided a loan at below market interest rate to Passenger Transportation JSC and recognized fair value adjustment of 3,986,964 thousand tenge less deferred tax of 797,393 thousand tenge in investments.

During 2016, KTZh-Freight Transportation JSC and KTZ Express JSC, the subsidiaries were reorganized by merges with Locomotive Service Center JSC and Kaztransservice JSC, the subsidiaries, respectively.

#### 8. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Name	Principal activity	31 December 2017		31 December 2016	
		Value	Owner-ship interest	Value	Owner-ship interest
Doszhan Temir Zholy JSC	Construction and exploitation of a new railway line 'Shar – Ust-Kamenogorsk'	5,458,000	46.02%	5,458,000	46.02%
Logistic System Management B.V.	Forwarding services, handling rolling stock, terminal service	3,667,887	50.00%	3,667,887	50.00%
		9,125,887		9,125,887	
Allowance for impairment of Investments		(5,458,000)		(5,458,000)	
		<u>3,667,887</u>		<u>3,667,887</u>	

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

### 9. LOANS ISSUED

	31 December 2017	31 December 2016
<b>Short-term loans:</b>		
KTZ Express JSC	5,332,790	2,907,219
KTZh-Freight Transportation JSC	-	6,686,333
Wagon-service JSC (subsidiary of Passenger Transportation JSC)	-	1,855,169
Kamkor Repair Corporation LLP	-	803,662
Other	150,966	374,370
<b>Long-term loans:</b>		
Kaztemirtrans JSC	428,963,279	430,350,808
KTZ Express JSC	98,687,259	95,634,774
KTZh-Freight Transportation JSC	84,301,650	84,677,688
Passenger Transportation JSC	38,630,272	38,039,056
	<b>656,066,216</b>	<b>661,329,079</b>
Current portion of loans	11,742,071	17,600,836
Non-current portion of loans	644,324,145	643,728,243
	<b>656,066,216</b>	<b>661,329,079</b>

#### Financial aid

During 2017, the Company provided unsecured interest-free repayable financial aid totalling 25,516,721 thousand tenge to KTZ Express JSC and Kamkor Repair Corporation LLP, the subsidiaries, to finance working capital. The financial aid is due within one year. In accounting for the interest-free aid, the Company recognized a fair value adjustment of 3,104,004 thousand tenge, less deferred tax of 620,801 thousand tenge in the investments in subsidiaries (Note 7). To determine fair value of the financial aid, the Company applied effective interest rates of 13.9%-15.2% using market rates for similar loans.

As at 31 December 2017 and 2016, all loans issued were denominated in KZT.

### 10. OTHER NON-CURRENT ASSETS

	31 December 2017	31 December 2016
Advances to suppliers of property, plant and equipment	27,020,494	43,716,667
Loans to employees	3,564,536	4,033,680
Residential properties	65,466	415,979
Prepaid expenses	5,978	166,622
VAT recoverable	-	8,070,058
Other	2,549,205	1,255,373
	33,205,679	57,658,379
Less: allowance for advances to suppliers for property, plant and equipment	(1,201,920)	(1,790,240)
	<b>32,003,759</b>	<b>55,868,139</b>

As at 31 December 2017, advances paid for property, plant and equipment mostly included advances paid for construction of railway lines Zhezkazgan-Beineu and Arkalyk-Shubarkol of 902,528 thousand tenge (2016: 2,401,224 thousand tenge), construction of a railway station in Astana of 412,187 thousand tenge (2016: 20,278,582 thousand tenge), construction of ferry complex in sea port Kuryk and development of multi-purpose freight-passenger ferries of 22,276,150 thousand tenge (2016: 9,020,197 thousand tenge).

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

### 11. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Cash in current accounts in tenge	20,551,181	6,652,166
Short-term bank deposits in tenge	4,265,393	14,776,789
Cash in current accounts in banks in US Dollars	124,122	272,364
Cash in current accounts in banks in other currencies	63,534	2,822
Petty cash	1,323	2,980
Short-term bank deposits in other currencies	-	84,165
	<b>25,005,553</b>	<b>21,791,286</b>

As at 31 December 2017, the weighted average interest rate on cash on current accounts in tenge was 1.57% (2016: 9.36%).

Short-term bank deposits in tenge and in other foreign currency are placed for varying periods of up to three months depending on the Company's immediate cash requirements. As at 31 December 2017, weighted average interest rate on short-term bank deposits was 7.93% in tenge (2016: 10.50%) and no deposits in Russian roubles (2016: 7.06%).

### 12. TRADE ACCOUNTS RECEIVABLE

	31 December 2017	31 December 2016
Trade accounts receivable from related parties	32,290,018	39,418,682
Trade accounts receivable from third parties	6,798,682	6,832,513
	39,088,700	46,251,195
Less: allowance for doubtful debts	(11,758,737)	(11,786,768)
	<b>27,329,963</b>	<b>34,464,427</b>

As at 31 December 2017, seven debtors represented 50% of the Company's trade accounts receivable (2016: seven debtors - 73%).

As at 31 December 2017 and 2016, the allowance for doubtful debts included the allowance for the accounts receivable from the subsidiary Temirzholsu JSC of 5,341,940 thousand tenge.

As at 31 December 2017 and 2016, trade accounts receivable were mainly denominated in tenge.

### 13. INVENTORIES

	31 December 2017	31 December 2016
Permanent railway materials	5,569,411	3,352,174
Materials and supplies	4,165,421	6,353,613
Fuel	842,602	683,228
Spare parts	247,445	336,902
Construction materials	145,222	631,849
Other	294,718	288,333
	11,264,819	11,646,099
Less: allowance for obsolete and slow-moving inventories	(33,685)	(45,570)
	<b>11,231,134</b>	<b>11,600,529</b>



# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

### 14. OTHER FINANCIAL ASSETS

As at 31 December 2017, other financial assets were presented by funds denominated in USD and KZT, placed in credit institutions with ratings from B+(B1) to B-(B3) of 13,065,771 thousand tenge (2016: 7,565,683 thousand tenge) and 209,194 thousand tenge (2016: nil), respectively. As at 31 December 2017, the weighted average interest rate was 3.5% in USD (2016: 4.5%) and 11.5% in tenge.

### 15. OTHER CURRENT ASSETS

	31 December 2017	31 December 2016
Other taxes prepaid	19,482,458	14,548,919
Claims, fines and penalties	5,403,131	5,470,368
Other	2,652,040	6,932,519
	<b>27,537,629</b>	<b>26,951,806</b>

### 16. NON-CURRENT ASSETS HELD FOR SALE

	31 December 2017	31 December 2016
Investments in subsidiaries including: shares of Transtelecom JSC	3,230,533 3,230,533	3,230,533 3,230,533
Investments in joint ventures including: shares of Locomotive Kurastyru Zauyty JSC	- -	6,866,497 6,866,497
	<b>3,230,533</b>	<b>10,097,030</b>

Comprehensive Privatization Plan for 2016-2020 was approved by the Government of the Republic of Kazakhstan in December 2015. The Company's management approved the list of subsidiaries, associated and joint ventures subject to disposal. As at 31 December 2017 and 2016, investments in subsidiaries and joint ventures satisfying recognition criteria were classified as non-current assets held for sale.

During 2016, 49% of shares of Transtelecom JSC were sold to a third party. The Company retained control over the subsidiary owning 51% of shares. As part of privatization plan, the ownership interest (26% less 1 share) of the Company in Transtelecom JSC of 3,230,533 thousand tenge was classified as non-current assets held for sale (Note 7). The first stage of the tender was completed on 30 December 2016. The second stage of the tender was completed on 10 February 2017, where the buyer was identified and sale price was agreed. Management expects the sale to be completed within the 12 months period after the reporting date.

In April 2017, the Company completed a transaction to sell a 50% share of the joint venture Locomotive Kurastyru Zauyty JSC to a third party. The sale price and the gain on disposal amounted to 15,716,250 thousand tenge and 8,463,049 thousand tenge, respectively. In April 2017, 90% of the sale price amounting to KZT 14,144,625 thousand was received. The contract stipulates a deferred payment of the outstanding 10%, which will be paid within two years. The Company calculated the net present value of the consideration receivable using a market rate of 15.1% and recognised the difference between the consideration receivable and its present value of KZT 386,704 thousand within the gain from disposal of investments in joint ventures. As a result of the sale, the Company lost its joint control over Locomotive Kurastyru Zauyty JSC.

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

### 17. EQUITY

	Number of shares authorized	Number of shares issued	Share capital
<b>At 1 January 2016</b>	<b>502,040,458</b>	<b>494,698,044</b>	<b>865,393,896</b>
New shares issued	-	1,365,676	128,066,584
<b>At 31 December 2016</b>	<b>502,040,458</b>	<b>496,063,720</b>	<b>993,460,480</b>
<b>At 1 January 2017</b>	<b>502,040,458</b>	<b>496,063,720</b>	<b>993,460,480</b>
New shares issued	-	93,852	69,174,567
<b>At 31 December 2017</b>	<b>502,040,458</b>	<b>496,157,572</b>	<b>1,062,635,047</b>

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

#### Contributions

##### *Contributions to share capital*

During 2017, additions to share capital were as follows:

- An issue of 66,852 shares for which cash of 66,852,000 thousand tenge was received. This capital was received for Construction of ferry in sea port Kuryk and development of multi-purpose freight-passenger ferries;
- An issue of 27,000 shares for which the property was received (Karabatan railway station (the development of railways and auxiliary facilities)) and land usage rights for two land properties in the total amount of 2,322,567 thousand tenge.

During 2016, additions to share capital were as follows:

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

#### Other contributions

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

	2017	2016
Fair value adjustment of loans received at below market interest rate	-	3,189,571
Early extinguishment of loans received from the Shareholder	-	9,581,005
	-	<b>12,770,576</b>

During 2016, there was a fair value adjustment with respect to loans received at below market interest rate of 3,986,964 thousand tenge less deferred tax effect of 797,393 thousand tenge.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

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

#### **Foreign currency translation reserve**

Foreign currency translation reserve is used for accounting for exchange differences occurred due to recalculation of financial statements of structural subdivisions of the Company, whose functional currency is not tenge.

#### **Cash flow hedging reserve**

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

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

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

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

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

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

For the year ended 31 December 2017, the effective part of 3,479,319 thousand tenge was recorded in other comprehensive income in the cash flow hedging reserve (2016: in other comprehensive expense in the cash flow hedging reserve of 4,417,426 thousand tenge). Ineffective part of 74,631 thousand tenge was recorded in finance costs (2016: 45,526 thousand tenge).

#### **Dividends**

As at 31 December 2017, the amount of dividends payable to the Shareholder was 16,424,670 thousand tenge (2016: 16,424,670 thousand tenge) (Notes 22 and 30).

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

### Other distributions

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

During 2017, the Company recognised an additional irrevocable commitment of 5,733,368 thousand tenge, which represented the amount of VAT arising as a result of the transfer of the Ice Palace to Astana city administration (Note 30).

During 2017, the Company entered into an irrevocable commitment to finance the restoration works of the Trade and Exhibition Center of the Republic of Kazakhstan in Moscow and, as a result, recognized the distribution to the Shareholder of 1,387,500 thousand tenge.

### 18. BORROWINGS

	31 December 2017		31 December 2016	
	Amount	Weighted average effective interest rate (%)	Amount	Weighted average effective interest rate (%)
<i>Borrowings with fixed interest rate</i>				
Loans	107,284,068		108,417,774	
- in tenge	101,304,849	7.02	83,875,236	6.52
- in USD	2,548,016	2.55	20,122,661	5.06
- in other currencies	3,431,203	4.00	4,419,877	3.49
Debt securities	753,667,952		715,583,589	
- in tenge	25,511,806	11.00	-	-
- in USD	629,468,887	6.86	620,530,483	6.74
- in CHF	98,687,259	3.35	95,053,106	3.35
<i>Borrowings with floating interest rate:</i>				
Loans	33,828,776		34,117,022	
- in tenge	30,213,889	11.96	-	-
- in USD	3,614,887	5.64	34,117,022	5.66
Debt securities	53,545,694		55,757,500	
- in tenge	53,545,694	10.42	55,757,500	16.92
	<b>948,326,490</b>		<b>913,875,885</b>	
Current portion of borrowings	49,610,681		20,877,765	
Non-current portion of borrowings	898,715,809		892,998,120	
	<b>948,326,490</b>		<b>913,875,885</b>	

Borrowings, excluding debt securities, are repayable as follows:

	31 December 2017	31 December 2016
Within 1 year	30,272,972	10,607,728
1 to 2 years	4,157,115	8,714,847
2 to 3 years	4,055,640	8,609,408
3 to 4 years	2,805,106	8,507,932
4 to 5 years	2,083,092	5,213,065
Over 5 years	97,738,919	100,881,816
	<b>141,112,844</b>	<b>142,534,796</b>

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

#### Early extinguishment of debt

On 26 October 2017, the Company made an early repayment of a long-term loan issued by Halyk Bank JSC under a loan agreement dated 26 April 2016, in the amount of 50,000,000 US dollars (16,647,000 thousand tenge). The early extinguishment of the debt did not result in additional finance costs.

#### Loans received

During 2017, the Company received the following loans:

##### *European Bank for Reconstruction and Development (EBRD)*

In February 2017, the Company and its subsidiary, Kaztemirtrans JSC within the framework of a loan restructuring agreement with the EBRD dated 22 December 2016 for 180,913,719 US dollars, converted 170,000,000 US dollars into tenge. Due to a substantial change in loan terms, the Company recognised the transaction as a derecognition of the original financial liability and recognition of a new financial liability. As a result, the new financial liability as at the conversion date was 28,365,765 thousand tenge and 5,630,384 US dollars. Interest is paid semi-annually at 6 months LIBOR + 4.35% per annum for US dollar tranche and all-in-cost<sup>3</sup> + 4.35% for tenge tranche.

##### *Halyk Bank JSC*

On 7 March and 5 May 2017, addendums were signed with Halyk Bank JSC to the credit facility agreement signed on 26 February 2015. The addendum stipulates the inclusion of subsidiary KTZh-Freight Transportation JSC as a co-borrower, the increase of the credit line to KZT 40,000,000 thousand and a change to the lending purpose to investment and replenishment of working capital. In 2017 the Company borrowed 31,000,000 thousand tenge at interest of 13% to be repaid within one year. In accordance with addendum dated 15 November 2017, repayment period was extended until 2018 and interest rate was changed from 13% to 12%. The Company made a partial early repayment of loans received of 13,500,000 thousand tenge.

#### Debt securities

Debt securities issued as at 31 December comprised the following:

	Maturity date	Markets	31 December 2017	31 December 2016
<b>Bonds issued at price</b>				
6.95% USD Eurobonds (105.521%)	10 July 2042	LSE/KASE	395,123,162	383,857,203
4.85% USD Eurobonds (100.393%)	17 November 2027	ISE/KASE SIX Swiss Exchange	234,345,725	236,673,280
3.638% CHF Eurobonds (100%)	20 June 2022	Exchange	64,174,429	61,813,397
Inflation rate +2.52% (10.42%) KZT Bonds (100%)	25 April 2026	KASE SIX Swiss Exchange	53,545,694	55,757,500
2.59% CHF Eurobonds (100%)	20 June 2019	Exchange	34,512,830	33,239,709
11% KZT Bonds (100%)	23 July 2027	KASE	25,511,806	-
<b>Total debt securities issued</b>			<b>807,213,646</b>	<b>771,341,089</b>
Current portion of debt securities			19,337,709	10,270,037
Long-term portion of debt securities			787,875,937	761,071,052
			<b>807,213,646</b>	<b>771,341,089</b>

<sup>3</sup> "All-in cost" means the total cost of raising funds for the EBRD (expressed as an annual rate) from any source determined by the EBRD at its discretion and includes all fees incurred in another currency available to the EBRD for the denomination of the relevant amounts as of the relevant date, or at a different rate determined reasonably by the EBRD.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

On 24 October 2017, the Company placed debt securities on Kazakhstan Stock Exchange (KASE) of 25,000,000 thousand tenge at coupon rate 11% per annum to refinance existing loans. Coupon is paid semi-annually. The maturity of debts is 23 July 2027.

On 17 November 2017, the Company issued Eurobonds on the Irish Stock Exchange and KASE for 780,000,000 US dollars with coupon rate of 4.85% per annum and maturity in 2027 to refinance bonds of 700,000,000 US dollars issued in 2014 at 6.375% interest per annum and maturity in 2020. The coupon is repaid semi-annually. The Eurobonds are guaranteed by the subsidiaries Kaztemirtrans JSC and KTZh-Freight Transportation JSC. The transaction was accounted for as a debt modification for the portion of 84.17%, which represented an exchange of the debt among the existing bondholders, while the remaining 15.83% is recognised as the extinguishment of the original liability and the recognition of a new liability.

Fair value of the borrowings is disclosed in Note 31.

#### Covenants and breach of loan agreements

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

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

As at 31 December 2017, the Company negotiated with EBRD to reset its financial covenant thresholds as to avoid a breach of obligations to creditors. The Company was in compliance with changed requirements.

As of 31 December 2016, the Company was in compliance with the requirements of loan agreements with the EBRD.

#### Reconciliation of changes in liabilities and cash flows from financing activities

	<b>Loans and bonds issued</b>
<b>At 1 January 2017</b>	<b>913,875,885</b>
<b>Changes in cash flows from financing activities</b>	
Repayment of borrowings	(307,434,260)
Proceeds from borrowings	326,485,086
<b>Total changes in cash flow from financing activities</b>	<b>19,050,826</b>
<b>Other changes</b>	
Effect of changes in foreign currency exchange rates	(3,728,381)
Cash flows hedge	3,553,950
Finance costs (Note 27)	58,347,924
Interest paid	(50,530,579)
Amortization of discount(Note 27)	5,703,754
Other changes	2,053,111
<b>Total other changes, related to financial liabilities</b>	<b>15,399,779</b>
<b>At 31 December 2017</b>	<b>948,326,490</b>

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

### 19. INCOME TAX

	2017	2016
Adjustment in respect of prior years	(361,627)	(125,725)
Deferred income tax (benefit)/expense	(5,176,547)	4,820,621
	<b>(5,538,174)</b>	<b>4,694,896</b>

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

	2017	2016
Profit before tax	23,028,642	38,399,894
Statutory tax rate	20%	20%
Theoretical tax expense at the statutory rate	4,605,728	7,679,979
<i>Tax effect of income that are not taxable for tax purposes and other effects:</i>		
Adjustment in respect of prior years	(361,627)	(125,725)
Non-taxable income	(9,782,275)	(2,859,358)
<b>Income tax (benefit)/expenses recognized in profit or loss</b>	<b>(5,538,174)</b>	<b>4,694,896</b>

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

	31 December 2017	31 December 2016
<b>Deferred tax assets:</b>		
Tax losses carried forward	51,771,157	42,244,488
Fair value adjustments of loans issued	7,660,928	8,187,182
Other	5,548,292	5,402,751
	<b>64,980,377</b>	<b>55,834,421</b>
<b>Deferred tax liabilities:</b>		
Property, plant and equipment and other non-current assets	(213,515,879)	(209,002,695)
Fair value adjustment of loans received	(43,910,087)	(44,424,567)
Prepaid expenses	(41,626)	(512,300)
	<b>(257,467,592)</b>	<b>(253,939,562)</b>
<b>Total net deferred tax liabilities</b>	<b>(192,487,215)</b>	<b>(198,105,141)</b>

Movements in deferred tax liabilities for the years ended December 31 were as follows:

	2017	2016
Net deferred tax liabilities as at the beginning of the year	(198,105,141)	(198,696,248)
Recorded in investments in subsidiaries	441,379	1,114,119
Recorded in profit or loss	5,176,547	(4,820,621)
Recorded in the separate statement of changes in equity	-	4,297,609
<b>Net deferred income tax liability as at the end of the year</b>	<b>(192,487,215)</b>	<b>(198,105,141)</b>

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

### 20. EMPLOYEE BENEFIT OBLIGATIONS

#### Defined benefits scheme and other non-current employee benefits

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

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

- One-time retirement grant;
- Annual financial support to pensioners;
- Free train passenger tickets;
- Funeral aid to pensioners;
- Jubilees of workers and pensioners;
- Financial assistance on denture treatment; and
- Other benefits.

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

	2017	2016
Total liability at the beginning of the year	5,486,774	14,612,314
Current service cost	202,463	245,453
Past service cost	-	(8,244,148)
Interest cost	526,730	464,288
Actuarial remeasurement recognized in other comprehensive income	(57,815)	(950,771)
Benefits paid during the year	(763,797)	(584,779)
Actuarial loss/(gain) recognized in profit and loss during the year	20,150	(55,583)
<b>Total liability at the end of the year</b>	<b>5,414,505</b>	<b>5,486,774</b>
Liabilities due within one year	395,416	413,535
Liabilities due after one year	5,019,089	5,073,239
	<b>5,414,505</b>	<b>5,486,774</b>

The total amounts recognized in profit and loss in respect to these defined benefit obligations and other long term benefits during 2017 and 2016 were as follows:

	2017	2016
Cost of sales (Note 24)	614,506	(6,424,747)
General and administrative expenses (Note 25)	134,837	(1,165,243)
<b>Recognized in profit and loss during the year</b>	<b>749,343</b>	<b>(7,589,990)</b>

The estimates of the Company's obligations were made based on the published statistical data regarding mortality and the actual Company's data concerning the number, age, sex and years of service of the employees and pensioners and the Company's turnover statistics.

Other significant assumptions at the date of the statement of financial position were as follows:

	2017	2016
Discount rate	9%	9.6%
Expected rate of future annual material assistance increases	4% (average)	4.5% (average)
Expected rate of future annual minimum salary increases	4.3% (average)	4.5% (average)
Expected rate of future annual railway ticket price increases	6.6% (average)	7% (average)

Based on sensitivity analysis made by the actuary, the maximum increase in employee benefits obligation is 9.2%, which may result in case of inflation rate increase by 1%.



# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

### 21. TRADE ACCOUNTS PAYABLE

	31 December 2017	31 December 2016
Trade accounts payable to third parties	41,661,327	47,250,600
Trade accounts payable to related parties	10,231,835	32,762,350
	<b>51,893,162</b>	<b>80,012,950</b>

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

	31 December 2017	31 December 2016
Tenge	51,203,514	79,769,742
US Dollars	602,795	34,340
Swiss Francs	48,406	45,445
Other currencies	38,447	163,423
	<b>51,893,162</b>	<b>80,012,950</b>

The average credit period taken for trade purchases is 71 days in 2017 (2016: 52 days).

### 22. OTHER CURRENT LIABILITIES

	31 December 2017	31 December 2016
Dividends payable (Note 17)	16,424,670	16,424,670
Advances received	7,071,922	3,299,725
Salaries payable	6,230,178	6,405,509
Unused vacation provision	3,865,869	3,606,785
Obligatory pension and social contributions	2,057,261	2,028,410
Other liabilities	7,596,464	2,075,957
	<b>43,246,364</b>	<b>33,841,056</b>

As at 31 December 2017 and 2016, other liabilities were mainly denominated in tenge.

### 23. REVENUE

	2017	2016
Revenue from sale of services	338,512,964	472,851,832
Fines charged to customers	536,158	450,981
Other revenue from sales to third parties	3,078,237	1,017,354
	<b>342,127,359</b>	<b>474,320,167</b>

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

### 24. COST OF SALES

	2017	2016
Personnel costs, including taxes, contributions and unused vacation provision	90,300,400	109,440,015
Services	63,896,244	156,607,635
Depreciation and amortization	53,733,379	56,531,735
Materials and supplies	20,507,728	22,830,125
Taxes	15,595,990	12,349,785
Telecommunication services	11,803,143	11,891,955
Electricity	6,922,893	6,744,866
Fuels and lubricants	5,123,095	4,354,778
Repair and maintenance	3,692,561	2,866,386
Utilities and building maintenance	3,277,572	2,412,677
Security services	2,383,752	5,921,028
Business trip expenses	1,247,953	985,399
Insurance	802,633	554,254
Expenses/(benefit) from post-employment and other long-term employee benefits (Note 20)	614,506	(6,424,747)
Other expenses	6,526,456	3,912,968
	<b>286,428,305</b>	<b>390,978,859</b>

### 25. GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Personnel costs, including taxes, contributions and unused vacation provision	19,225,318	20,239,468
Property tax and other taxes	11,205,645	7,350,344
Depreciation and amortization	3,361,789	2,784,418
Advertising expenses	1,619,102	522,610
Consulting, audit and legal fees	1,430,479	2,643,558
Accrual/(recovery) of allowance for doubtful debts	969,593	(547,616)
Other services of third parties	935,196	734,070
Social sphere expenses	608,758	630,648
Business trip, entertainment	580,419	733,956
Utilities and building maintenance	550,154	649,258
Expenses on holiday and cultural events	478,015	518,306
Telecommunication services	442,073	671,170
Materials	396,836	424,528
Expenses/(benefit) from post-employment and other long-term employee benefits (Note 20)	134,837	(1,165,243)
Other expenses	4,570,704	4,774,656
	<b>46,508,918</b>	<b>40,964,131</b>

### 26. FINANCE INCOME

	2017	2016
Interest income on loans issued	42,254,540	41,197,491
Interest income on cash and cash equivalents	1,020,307	2,157,466
Interest income on amounts in credit institutes (short-term financial investments)	132,813	408,177
Other finance income	435,062	140,248
	<b>43,842,722</b>	<b>43,903,382</b>

### 27. FINANCE COSTS

	2017	2016
Interest expense on borrowings	64,051,678	61,301,410
Other finance costs	1,556,622	45,526
	<b>65,608,300</b>	<b>61,346,936</b>

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

#### 28. EARNINGS PER SHARE

Basic earnings per share are calculated based on the weighted average number of common shares outstanding during the year. Basic and diluted per share data are the same, as there are no dilutive instruments outstanding. During 2017 and 2016, there were no antidilutive instruments outstanding.

	2017	2016
Profit for the year (in thousands of tenge)	28,566,816	33,704,998
Weighted average number of common shares	496,098,049	495,218,425
<b>Earnings per common share in tenge</b>	<b>58</b>	<b>68</b>
Net assets, excluding intangible assets	1,606,187,153	1,520,234,738
Number of common shares issued	496,157,572	496,063,720
<b>Carrying value per share, tenge</b>	<b>3,237</b>	<b>3,065</b>

#### 29. FINANCIAL AND CONTINGENT LIABILITIES

##### Capital commitments

As at 31 December 2017, the Company had capital commitments for the construction of railway lines Zhezkazgan-Beineu and Arkalyk-Shubarkol, purchase of long rails, development of a railway junction at Astana station, including the construction of a railway station as well as the commitments for the construction of ferry complex in sea port Kuryk and development of multi-purpose freight-passenger ferries totalling 301,887,911 thousand tenge (2016: capital commitments for the construction of railway lines Zhezkazgan-Beineu and Arkalyk-Shubarkol, purchase of long rails, development of a railway junction at Astana station, including the construction of a railway station totalling 367,469,605 thousand tenge).

##### Other contractual liabilities

The Company has contingent liabilities under the three agreements for the provision of freight handling services and freight storage in the future, concluded with Continental Logistics LLP, SB Sberbank of Russia JSC, Odyssey Investments Group LLP and the subsidiary KTZ Express JSC dated 20 November 2015; Aktau Marine North Terminal LLP, SB Sberbank of Russia JSC, Inter Port Development PTE LTD and KTZ Express JSC dated 28 December 2015; and Continental Logistics Shymkent LLP, Odyssey Investments Group LLP and KTZ Express JSC dated 15 August 2016 (hereinafter together – “the Agreements”).

The Agreements stipulate that the Company has to acquire the minimum volume of freight storage services if KTZ Express JSC fails to fulfil its obligations, which is a potentially onerous term. Starting from 15 September 2016 the period of rendering services has started under the agreement dated 20 November 2015.

During the year ended 31 December 2017, 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 Company 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 31 December 2017 and 2016.

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

### Contingent liabilities

#### Legal claims

The Company is subject to various legal proceedings related to business operations, such as property damage claims. The Company 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 Company's financial position, results of operations, or cash flows.

#### Insurance

The insurance market is still in the early stage of development in Kazakhstan. At the same time, the Company maintains a required statutory insurance cover related to insurance against accidents at work, insurance of third-party liability of owners of motor vehicles, ecological insurance. Moreover, the Company maintains voluntary insurance such as sickness insurance, property damage insurance. The Company maintains the required insurance coverage under policies purchased from commercial insurance operators in Kazakhstan.

#### Guarantees

Creditors	Guarantee purpose	Guarantee maturity	Guarantee amount
Export-Import Bank of the USA	Execution of obligations of KTZh-Freight Transportation JSC on financing the acquisition of locomotives and locomotive kits from General Electric company	26 November 2022	424,856,806 US Dollars (141,600,526 thousand tenge)
Eurasian Development Bank	Execution of obligations of Transtelecom JSC on financing the project 'Haul power dispatcher'	2 October 2021	17,513,000 thousand tenge
	Execution of obligations of the joint venture Electrovoz Kurastyru Zauyty LLP on financing construction of the plant for production of locomotives	31 July 2023	2,370,000 thousand tenge
	Execution of obligations of Transtelecom JSC on financing the project 'Haul power dispatcher'	21 October 2024	7,500,000 thousand tenge
SB HSBC Kazakhstan JSC with HSBC Bank plc and HSBC France	Execution of obligations of KTZh-Freight Transportation JSC on financing the acquisition of freight electric locomotives	31 May 2024	230,000,000 Euro (91,592,900 thousand tenge)
	Execution of obligations of the subsidiary KTZh-Freight Transportation JSC on financing the acquisition of freight electric locomotives	27 May 2027	192,000,000 Euro (76,460,160 thousand tenge)
JSC DBK Leasing	Execution of obligations of Passenger Transportation JSC under Finance Lease Agreement No. 84/ФЛ dated 20 December 2016	20 December 2036	12,861,805 thousand tenge
	Execution of obligations of Passenger Transportation JSC, under Finance Lease agreement No. №85/ФЛ dated 5 July 2017	5 July 2037	18,600,000 thousand tenge
	Execution of obligations of Kaztemirtrans JSC, under Finance Lease agreement No. №87/ФЛ dated 28 August 2017	28 August 2032	8,215,958 thousand tenge
	Execution of obligations of KTZ Express JSC, under Finance Lease agreement No. №88/ФЛ dated 28 August 2017	28 August 2032	33,263,983 thousand tenge

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

Creditors	Guarantee purpose	Guarantee maturity	Guarantee amount
Development Bank of Kazakhstan JSC	Execution of obligations of Transtelecom JSC on refinancing the loan payable	20 September 2023	12,152,883 thousand tenge
	Execution of obligations of the associate Aktope Rail and Section Mill Plant LLP on financing construction of rail and section mill plant in Aktope.	5 July 2033	24,089,150 thousand tenge
	Execution of obligations of Transtelecom JSC on financing the project on the construction of hardware and software complex platform along the railway lines	30 June 2024	25,420,927 thousand tenge
	Execution of obligations of PLVK JSC, the subsidiary of Passenger Transportation JSC, on financing the acquisition of passenger wagons	5 March 2035	5,000,000 thousand tenge
Halyk Bank JSC	Execution of obligations of Vostokmashzavod JSC, the subsidiary of Kamkor Repair Corporation LLP, for the project <i>Modernization of large-scale carriages casting workshop No. 10</i>	31 December 2020	8,594,000 thousand tenge
	Execution of obligations of KTZh-Freight Transportation JSC on refinancing the loan	13 December 2023	33,112,000 thousand tenge
CitiBank of Kazakhstan JSC	Execution of obligations of KTZh-Freight Transportation JSC on financing the working capital	Maturity undefined	30,000,000 US Dollars 9,969,900 thousand tenge)

As at 31 December 2017 and 2016, the Company did not have any additional obligations related to the guarantees listed above, which would require recognition of provisions for these guarantees.

In order to avoid non-compliance with respect to its obligations to its creditors, the Company received a waiver related to the non-application of financial covenants as at 31 December 2017 relating to financial guarantee contracts with HSBC France and Development Bank of Kazakhstan JSC. The Company also agreed to change the thresholds for the financial ratios (covenants) and received a waiver from the EBRD on changing the thresholds for the financial covenants in 2017.

### 30. RELATED PARTY TRANSACTIONS

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

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

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

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

		Shareholder	Associates of the Company	Joint ventures, where the Company is a participant	Companies in the group of the Shareholder	Subsidiaries of the Company
Receivables from related parties for goods, services and non-current assets	2017	-	726	2,118	363,027	26,937,183
	2016	-	7,204,404	584,298	68,453	34,060,443
including allowances for doubtful debt	2017	-	-	-	(2,853)	(5,341,940)
	2016	-	-	-	(4,744)	(5,341,940)
Payables to related parties for goods, services and non-current assets	2017	-	2,572,682	658	1,385,866	11,954,341
	2016	-	6,176	6,911	2,402,345	31,724,773
Loans issued	2017	-	-	-	-	655,915,250
	2016	-	-	-	-	660,954,709
Loans received	2017	105,738,753	-	-	-	-
	2016	77,720,581	-	-	-	-
Dividends receivable	2017	-	-	-	-	654,633
	2016	-	-	1,663,776	-	1,917,692
Dividends payable	2017	16,424,670	-	-	-	-
	2016	16,424,670	-	-	-	-

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

		Shareholder	Associates of the Company	Joint ventures, where the Company is a participant	Companies in the group of the Shareholder	Subsidiaries of the Company	Other related parties
Sale of goods, services and non-current assets	2017	2,818,000	293,472	47,738	2,915,534	333,255,554	-
	2016	-	127,514	14,044,167	5,420,382	160,906,088	-
Recovery of allowance for doubtful debts	2017	-	-	-	1,891	-	-
	2016	-	-	-	1,420,677	-	-
Purchase of goods, services and non-current assets	2017	2,818,000	25,098,612	515,744	6,630,420	95,050,481	-
	2016	-	12,628,110	2,548	5,811,268	176,759,709	10
Loans Issued	2017	-	-	-	-	25,516,721	-
	2016	-	-	-	-	18,443,516	-
Repayment of loans issued	2017	-	-	-	-	34,426,751	-
	2016	-	-	-	-	1,205	-
Proceeds from borrowings	2017	25,000,000	-	-	-	10,275,000	-
	2016	5,500,000	-	-	-	-	-
Repayment of borrowings	2017	-	-	-	-	6,500,000	-
	2016	48,948,650	-	-	-	-	-
Finance income	2017	-	-	-	-	42,254,540	-
	2016	-	-	-	-	41,181,940	-
Finance costs	2017	2,924,295	-	-	-	606,678	-
	2016	3,808,311	-	-	-	3,252,401	-
Dividend income	2017	-	-	-	-	21,787,855	-
	2016	-	-	2,621,348	-	2,033,101	-
Contribution to share capital	2017	69,174,567	-	-	-	24,287,752	-
	2016	128,066,584	-	-	-	6,150,741	-

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

The dividend income from the Company's subsidiaries and joint ventures in which the Company is a Participant for the years ended December 31 was as follows:

	2017	2016
KTZh-Freight Transportation JSC	18,976,767	-
Transtelecom JSC	2,211,640	1,263,059
Logistic System Management B.V.	-	2,621,348
Others	599,448	770,042
	<b>21,787,855</b>	<b>4,654,449</b>

As at 31 December 2017 and 2016, certain of the Company's borrowings of 2,548,016 thousand tenge and 3,285,544 thousand tenge, respectively, were guaranteed by the Government of the Republic of Kazakhstan.

As at 31 December 2017, certain borrowings of subsidiaries and associates were guaranteed by the Company to guarantee repayment of loans to the banks (Notes 29).

As at 31 December 2017, certain borrowings provided to subsidiaries as part of issued Eurobonds were indexed to foreign exchange rate changes. In 2017, as a result of fluctuations in exchange rates, the Company recognized a foreign exchange gain of 2,447,197 thousand tenge (2016: foreign exchange loss of 14,964,788 thousand tenge).

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

As at 31 December 2017 and 2016, the Company recognized constructive obligations for the construction of the following projects for the benefit of the Shareholder:

	Current liabilities					Non-current liabilities
	Teleradio complex equipment	Mangystau municipalities	Kinder-garten in Astana	Ice palace	Total	Ice palace
<b>At 1 January 2016</b>	28,238,638	247,276	1,702,660	-	30,188,574	48,601,265
Increase	-	-	195,587	-	195,587	-
Decrease	-	-	(30,315)	-	(30,315)	(823,196)
Disposals during the year	(28,238,638)	-	(1,825,478)	-	(30,064,116)	-
Transfers	-	-	-	47,778,069	47,778,069	(47,778,069)
<b>At 31 December 2016</b>	-	247,276	42,454	47,778,069	48,067,799	-
Increase	-	-	-	5,733,368	5,733,368	-
Disposals during the year	-	-	-	(53,511,437)	(53,511,437)	-
Transfers	-	-	-	-	-	-
<b>At 31 December 2017</b>	-	247,276	42,454	-	289,730	-

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

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

	Current assets					Non-current assets
	Teleradio complex equipment	Mangystau municipalities	Kinder-garten in Astana	Ice palace	Total	Ice palace
<b>At 1 January 2016</b>	28,238,638	247,276	1,672,345	-	30,158,259	41,268,374
Additions	-	-	-	-	-	6,509,695
Disposals	(28,238,638)	-	(1,629,891)	-	(29,868,529)	-
Transfers	-	-	-	47,778,069	47,778,069	(47,778,069)
<b>At 31 December 2016</b>	-	247,276	42,454	47,778,069	48,067,799	-
Disposals	-	-	-	(47,778,069)	(47,778,069)	-
<b>At 31 December 2017</b>	-	247,276	42,454	-	289,730	-

The Ice Palace, accounted for as Assets for the benefit of the Shareholder, in May 2017, in accordance with the decision of the ultimate Shareholder, was transferred free of charge to Astana city administration. As a result of the transfer, a VAT of KZT 5,733,368 thousand was recognised as a distribution to the Shareholder in retained earnings (Note 17).

#### *Compensation of key management personnel of the Company*

Key management personnel comprise members of the Company's Management Board and Board of Directors totalling 16 persons as at 31 December 2017 (2016: 14 persons). Total amount of compensation to key management personnel, included in the personnel costs in the separate statement of profit or loss and other comprehensive income, comprised 454,669 thousand tenge for the year ended 31 December 2017 (2016: 574,755 thousand tenge). Compensation to key management personnel mainly consists of expenses related to salary based on labour agreements, and bonuses based on operational results.

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

The Company's principal financial instruments consist of bank loans, debt securities issued, cash, short-term deposits and short-term financial investments, as well as trade accounts receivable and trade accounts payable. The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk and credit risk. The Company further monitors the market risk and liquidity risk arising from all financial instruments.

#### *Capital risk management*

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to the Shareholder by optimizing the balance of debt and equity. The Company's overall strategy remains unchanged from 2016.

The Company's capital structure includes net debt (borrowings and debt securities, as described in Note 18, less cash and cash equivalents) and equity of the Company, which comprises share capital, foreign currency translation reserve, cash flow hedging reserve and retained earnings (Note 17).



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

#### Financial risk management objectives

Management of risk is an essential element of the Company's operations. The Company monitors and manages financial risks relating to the Company's operations through internal reports on risks, which analyse the exposure to risk by the degree and size of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), liquidity risk and cash flow interest rate risk. A description of the Company's risk management policies in relation to those risks follows.

#### Interest rate risk

The interest rate risk to the Company is the risk of changes in market interest rates reducing the overall return on the Company's investments and/or increasing cash outflow on its borrowings and debt securities issued. The Company limits its interest rate risk by monitoring changes in interest rates in the currencies in which its financial instruments are held, and by maintaining a balance between its loans with fixed and floating interest rates.

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

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

	31 December 2017		31 December 2016	
	Increase/(decrease) in interest rates in basis points	Effect on profit before tax/equity	Increase/ (decrease) in interest rates in basis points	Effect on profit before tax/equity
US Dollars	70/(8)	(24,964)/2,853	60/(8)	(200,105)/26,681
Tenge	70/(8)	(559,134)/63,901	60/(8)	(300,000)/40,000

#### Currency risk

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

A significant portion of the Company's short-term and long-term foreign currency debt is denominated in US Dollars. A change in the tenge value against the US Dollar, or any other foreign currency in which debt is denominated will result in a foreign exchange gain or loss. The Company maintains a portion of its cash and cash equivalents and other financial assets in US dollars in order to partially offset any foreign currency gain or loss on the borrowings.

The following table reflects sensitivity of the Company's profit before tax and equity to potential changes in the exchange rate of US Dollars and Swiss Francs, provided all other parameters are constant values.

	31 December 2017			31 December 2016		
	Increase/ (decrease) in exchange rate	Impact on profit before tax	Impact on equity	Increase/ (decrease) in exchange rate	Impact on profit before tax	Impact on equity
US Dollars	10%/(10%)	(62,304,469)/62,304,469		13%/(13%)	(86,705,640)/86,705,640	
Swiss Francs	11.5%/(11.5%)	-	(11,349,035)/11,349,035	15%/(15%)	(6,814)/6,814	(14,257,966)/14,257,966

On 7 August 2015, the Company commenced cash flow hedging in order to decrease the risk of changes in tenge equivalent of revenue denominated in Swiss Francs. Eurobonds issued on 20 June 2014 on the Swiss stock exchange are used as the hedging instruments. Revenue from the transit transportation in Swiss Francs is the hedged item. As a result of hedging, effect of 3,479,319 thousand tenge was recognized in other comprehensive loss (2016: effect of 4,417,426 thousand tenge was recognized in other comprehensive income) (Note 17).

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

#### *Credit risk*

Credit risk arising from the inability of a party to meet the terms of the Company's financial instrument contracts is generally limited to the amounts, if any, by which the counterparty's obligations exceed the obligations of the Company to that party. It is the Company's policy to enter into financial instruments with a diversity of creditworthy parties. The maximum exposure to credit risk is represented by the carrying value of each financial asset.

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

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

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

#### *Market risk*

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Company manages market risk through the periodic estimation of potential losses that could arise from adverse changes in market conditions.

#### *Liquidity risk*

The Company manages short-term, mid-term and long-term financing liquidity risk in accordance with requirements of the Shareholder. The Company manages the liquidity risk by maintaining adequate reserves, bank loans and accessible credit lines by constant monitoring of the projected and actual cash flows and comparison of maturities of financial assets and liabilities.

As at 31 December 2017, the Company has also an available credit line in Halyk Bank JSC of 40,000,000 thousand tenge.

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

As at 31 December 2017, the Company negotiated with EBRD to reset financial covenants thresholds as to avoid a breach of obligations to creditors. Likewise, waivers were received agreeing not to apply financial covenants as at 31 December 2017 within the framework of credit agreements with HSBC France and Development Bank of Kazakhstan JSC.

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

	<b>Less than 1 month</b>	<b>1-3 months</b>	<b>3 months- 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>2017</b>						
<i>Non-interest bearing:</i>						
Accounts payable	34,049,609	11,567,790	6,275,763	-	-	51,893,162
Other current liabilities	-	-	7,454,948	-	-	7,454,948
<i>Interest bearing:</i>						
Borrowings	16,755,717	2,222,145	62,272,807	334,419,187	1,646,129,049	2,061,798,905
	<b>50,805,326</b>	<b>13,789,935</b>	<b>76,003,518</b>	<b>334,419,187</b>	<b>1,646,129,049</b>	<b>2,121,147,015</b>

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

	Less than 1 month	1-3 months	3 months- 1 year	1-5 years	Over 5 years	Total
<b>2016</b>						
<i>Non-interest bearing:</i>						
Accounts payable	49,353,649	282,093	30,377,208	-	-	80,012,950
Other current liabilities	-	-	1,883,186	-	-	1,883,186
<i>Interest bearing:</i>						
Borrowings	13,732,382	3,458,180	43,880,818	521,955,072	1,399,419,401	1,982,445,853
	<b>63,086,031</b>	<b>3,740,273</b>	<b>76,141,212</b>	<b>521,955,072</b>	<b>1,399,419,401</b>	<b>2,064,341,989</b>

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

	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Indefinite settlement term <sup>4</sup>	Total
<b>2017</b>							
<i>Interest bearing:</i>							
Short-term deposits	4,265,393	-	-	-	-	-	4,265,393
Interest on short-term deposits	4,695	-	-	-	-	-	4,695
Other financial assets	-	-	13,274,965	-	-	-	13,274,965
Interest on other financial assets	-	-	487,491	-	-	-	487,491
Cash and cash equivalents	3,577,929	-	-	-	-	-	3,577,929
Loans issued	11,092,533	1,359,973	27,039,572	410,089,596	823,678,103	-	1,273,259,777
<i>Non-interest bearing:</i>							
Cash and cash equivalents	17,162,231	-	-	-	-	-	17,162,231
Trade accounts receivable	379,828	-	26,950,135	-	-	11,758,737	39,088,700
Loans issued	-	-	5,483,756	-	-	-	5,483,756
	<b>36,482,609</b>	<b>1,359,973</b>	<b>73,235,919</b>	<b>410,089,596</b>	<b>823,678,103</b>	<b>11,758,737</b>	<b>1,356,604,937</b>
<b>2016</b>							
<i>Interest bearing:</i>							
Short-term deposits	14,860,954	-	-	-	-	-	14,860,954
Interest on short-term deposits	22,810	-	-	-	-	-	22,810
Other financial assets	-	-	7,565,683	-	-	-	7,565,683
Interest on other financial assets	-	-	473,911	-	-	-	473,911
Cash and cash equivalents	6,540,545	-	-	-	-	-	6,540,545
Loans issued	11,124,576	185,050	24,188,005	352,137,863	890,320,371	-	1,277,955,865
<i>Non-interest bearing:</i>							
Cash and cash equivalents	389,787	-	-	-	-	-	389,787
Trade accounts receivable from third parties	403,984	-	34,060,443	-	-	11,786,768	46,251,195
Loans issued	-	-	12,626,753	-	-	-	12,626,753
	<b>33,342,656</b>	<b>185,050</b>	<b>78,914,795</b>	<b>352,137,863</b>	<b>890,320,371</b>	<b>11,786,768</b>	<b>1,366,687,503</b>

<sup>4</sup> Due to uncertainty in recoverability of doubtful debts, the Company included the provided trade accounts receivable in the 'Indefinite settlement term'.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

#### 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 Company'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 Company to estimate the fair value of these financial instruments:

#### Cash and cash equivalents

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

#### Financial assets and liabilities

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

For financial assets and liabilities maturing in over twelve months, the fair value represents the present value of estimated future cash flows discounted at 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 Company's bank loans are mostly provided by international development institutions and foreign banks. Although interest rates on these borrowings are lower than interest rates of private commercial credit institutions in Kazakhstan, they are treated as the market interest rate for this lender category. The fair value of debt securities issued has been determined based on market prices at the reporting date.

#### Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

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

	31 December 2017		31 December 2016	
	Carrying value	Fair value	Carrying value	Fair value
Loans issued	656,066,216	656,066,216	661,329,079	661,329,079
Other financial assets	13,274,965	13,274,965	7,565,683	7,565,683
Borrowings	141,112,844	141,112,844	142,534,796	140,646,602
Debt securities issued	807,213,646	910,267,700	771,341,089	790,399,781

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in thousands of Tenge)

### Fair value hierarchy

The Group estimates fair value using the following fair value estimate hierarchy, taking into account the materiality of data used to generate the given estimates:

- level 1: quotes on an active market (uncorrected) in relation to identified financial instruments
- level 2: data differing from quotes attributable to level 1, and available directly (i.e. quotes) or indirectly (i.e. data generated from quotes). This category includes instruments estimated using market quotes on active markets for similar instruments, market quotes for similar instruments on market not treated as active, or other estimation methods, all of whose data used is directly or indirectly based on observable primary data
- level 3: data that is not available. This category includes instruments estimated using information not based on observable primary data. Moreover, any such unobservable data has a significant impact on an instrument's estimation. This category includes instruments estimated based on quotes for similar instruments that require the use of material unobservable quotes or judgements to reflect the different between instruments

The table below provides an analysis of financial instruments recognised at fair value as at 31 December 2017, broken down into the fair value hierarchy levels.

	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Loans issued	-	656,066,216	-	656,066,216
Other financial assets	-	13,274,965	-	13,274,965
<b>Total</b>	-	<b>669,341,181</b>	-	<b>669,341,181</b>
<b>Financial liabilities</b>				
Financial liabilities at amortized cost				
- bank loans	-	51,422,109	5,979,219	57,401,328
- loans from related parties	-	83,711,516	-	83,711,516
- debt securities issued	910,267,700	-	-	910,267,700
<b>Total</b>	<b>910,267,700</b>	<b>135,133,625</b>	<b>5,979,219</b>	<b>1,051,380,544</b>

The table below provides an analysis of financial instruments recognised at fair value as at 31 December 2016, broken down into the fair value hierarchy levels.

	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Loans issued	-	661,329,079	-	661,329,079
Other financial assets	-	7,565,683	-	7,565,683
<b>Total</b>	-	<b>668,894,762</b>	-	<b>668,894,762</b>
<b>Financial liabilities</b>				
Financial liabilities at amortized cost				
- bank loans	-	55,220,600	7,705,421	62,926,021
- loans from related parties	-	77,720,581	-	77,720,581
- debt securities issued	790,399,781	-	-	790,399,781
<b>Total</b>	<b>790,399,781</b>	<b>132,941,181</b>	<b>7,705,421</b>	<b>931,046,383</b>

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

For trade accounts receivable and payable, the fair value approximates its carrying value and relates to Level 2 of the hierarchy.

During 2017 and 2016, there were no transfers between the hierarchy levels.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) *(in thousands of Tenge)*

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#### 32. EVENTS AFTER THE REPORTING DATE

##### *Contribution to charter capital of subsidiary*

On 6 February 2018, the Company made a cash contribution of 2,500,000 thousand tenge to the charter capital of KTZ Express JSC, the subsidiary.

##### *Borrowings*

On 12 March 2018, under the EBRD loan agreement dated 19 December 2013, the Company received a loan of US Dollars 1,773,474 at interest rate of 6mLIBOR+3% and due in 2023.

In January 2018, the Company received financial aid from its subsidiary Remlocomotive JSC of 8,200,000 thousand tenge for the replenishment of the working capital.

##### *Loans issued*

In February-March 2018, the financial aid of 5,531,218 thousand tenge issued to KTZ Express JSC was repaid.