

# **KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC**

**Consolidated Financial Statements**  
For the Year Ended 31 December 2017

# **KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC**

## **CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

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## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

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

Management is also responsible for:

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

The consolidated financial statements were authorised for issue by management on 13 March 2018, preapproved by the Audit Committee of the Board of Directors of the Company and subject to approval by the Board of Directors and the Shareholder.

On behalf of Group management:

  
Kanat Alpysbayev  
President

13 March 2018

  
Zhaslan Madiyev  
Chief Financial Officer

13 March 2018

  
Nazira Abilova  
Chief Accountant

13 March 2018



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## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRSs").

### Basis for Opinion

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

### Key Audit Matters

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



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**Why the matter was treated as a key audit matter****How the matter was addressed during the audit**

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**Potential impairment of property, plant and equipment**

The Group's property, plant and equipment, which is mainly represented by infrastructure and rolling stock, comprises 84% of the Group'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 Group performed an impairment assessment for its property, plant and equipment.

The recoverable amount of the cash generating unit ("CGU") was defined as value in use based on the Group's 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.

In addition, the identification of the appropriate cash-generating unit requires significant management's judgement.

Based on the above we determined the impairment of property, plant and equipment to be a key audit matter. Please refer to Note 4.

We performed the following procedures:

- > evaluating whether the methodology applied and the model used to calculate the value in use are in line with the requirements of IAS 36 *Impairment of Assets*,
- > evaluating the identification of the cash-generating unit,
- > validating assumptions applied in the determination of the discount rate and its mathematical recalculation with involvement of valuation specialists,
- > running a range of sensitivity tests to confirm that no impairment was required if less optimistic assumptions within the reasonably possible range had been applied with respect to the discount rate, projected foreign exchange rates, freight turnover growth in transit transportation,
- > challenging projected cash flows, including revenue and operating profit growth assumptions, based on historical data and the Group'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
- > assessing the completeness and correctness of the information disclosed in financial statements.

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

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**Liquidity and the going concern principle**

As at 31 December 2017, the Group's current liabilities exceeded its current assets by KZT 90,556,549 thousand.

In addition, as discussed in Note 16, the loans received from EBRD and HSBC France with a carrying value of KZT 80,157,916 thousand and KZT 63,011,636 thousand 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 Group's liquid assets to meet its current obligations. Management's plans in respect

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 Group'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

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**Why the matter was treated as a key audit matter**

of this matter are discussed in Notes 2 and 32. Given the pervasiveness of the effect of the going concern conclusion to the financial statements, this is considered to be a key audit matter.

**How the matter was addressed during the audit**

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 consolidated financial statements and our auditor's report on them. The annual report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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



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

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

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

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

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

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

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



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



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

**DELOITTE, LLP**

Deloitte, LLP  
State license on auditing in  
the Republic of Kazakhstan  
No.00000015, type MFU-2,  
issued by the Ministry of Finance of  
the Republic of Kazakhstan  
dated 13 September 2006



Nurlan Bekenov  
General Director  
Deloitte, LLP

13 March 2018

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

(in KZT thousands)

	Notes	31 December 2017	31 December 2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	2,654,457,139	2,521,329,368
Intangible assets		14,177,172	11,589,266
Investments in joint ventures	7	15,865,960	11,720,150
Investments in associates	7	11,537,811	11,357,875
Deferred tax assets	19	5,952,987	8,632,019
Other non-current financial assets	8	2,326,310	2,333,030
Other non-current assets	9,10	89,136,545	92,037,599
<b>Total non-current assets</b>		<b>2,793,453,924</b>	<b>2,658,999,307</b>
<b>Current assets</b>			
Cash and cash equivalents	11	63,489,234	48,978,173
VAT recoverable		30,352,756	57,252,499
Other current financial assets	8	37,129,364	16,186,691
Inventories	12	30,317,259	28,846,944
Trade accounts receivable	9	22,095,757	15,416,517
Prepaid income tax		1,849,125	1,903,220
Assets held for the benefit of the Shareholder	31	289,730	48,067,799
Other current assets	13	51,087,600	39,174,885
		236,610,825	255,826,728
Non-current assets and assets associated with disposal groups classified as held for sale	14	120,866,285	120,625,761
<b>Total current assets</b>		<b>357,477,110</b>	<b>376,452,489</b>
<b>Total assets</b>		<b>3,150,931,034</b>	<b>3,035,451,796</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	15	1,062,635,047	993,460,480
Cash flow hedging reserve	15	(42,553,250)	(39,073,931)
Foreign currency translation reserve	15	4,843,584	4,110,006
Retained earnings		206,748,608	198,501,308
Equity attributable to the Shareholder		1,231,673,989	1,156,997,863
Non-controlling interests	15	26,955,464	11,035,349
<b>Total equity</b>		<b>1,258,629,453</b>	<b>1,168,033,212</b>



# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands)

	Notes	31 December 2017	31 December 2016
<b>Non-current liabilities</b>			
Borrowings	16	1,170,968,844	1,098,117,957
Deferred tax liabilities	19	226,974,810	224,357,530
Employee benefit obligation	18	28,380,212	26,169,983
Finance lease liabilities	17	13,750,011	-
Other non-current liabilities	21	4,194,045	4,399,245
<b>Total non-current liabilities</b>		<b>1,444,267,922</b>	<b>1,353,044,715</b>
<b>Current liabilities</b>			
Borrowings	16	93,751,143	141,561,817
Trade accounts payable	20	113,563,965	124,453,799
Other taxes payable		10,410,833	8,245,766
Employee benefit obligation	18	2,858,329	2,960,557
Finance lease liabilities		1,134,759	-
Constructive obligation for the benefit of the Shareholder	31	289,730	48,067,799
Other current liabilities	21	139,517,990	92,267,628
Liabilities directly associated with assets classified as held for sale	14	361,526,749 86,506,910	417,557,366 96,816,503
<b>Total current liabilities</b>		<b>448,033,659</b>	<b>514,373,869</b>
<b>Total liabilities</b>		<b>1,892,301,581</b>	<b>1,867,418,584</b>
<b>Total equity and liabilities</b>		<b>3,150,931,034</b>	<b>3,035,451,796</b>

On behalf of Group management:

  
Kanat Alpysbayev  
President

13 March 2018

  
Zhaslan Madiyev  
Chief Financial Officer

13 March 2018

  
Nazira Abilova  
Chief Accountant

13 March 2018

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

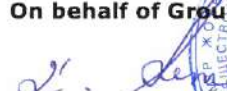
# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

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

(in KZT thousands)

	Notes	2017	2016
<b>Continuing operations</b>			
<b>Revenue</b>			
Freight transportation		770,074,559	688,204,339
Passenger transportation		81,885,595	80,133,552
Government grants		20,459,779	22,528,832
Other revenue	22	40,692,272	32,244,835
<b>Total revenue</b>		<b>913,112,205</b>	<b>823,111,558</b>
Cost of sales	23	(721,330,133)	(658,852,600)
<b>Gross profit</b>		<b>191,782,072</b>	<b>164,258,958</b>
General and administrative expenses	24	(86,204,940)	(76,443,963)
Finance income	25	7,787,231	6,325,198
Finance costs	26	(97,565,364)	(85,417,894)
Foreign exchange (loss)/gain		(7,624,939)	20,863,279
Share of the profit of associates and joint ventures	7	2,137,589	670,248
Gain from disposal of shares in joint ventures and subsidiaries not qualifying as discontinued operations		8,395,530	9,748,114
Asset impairment		(3,745,073)	(2,168,347)
Other profit and losses, net		3,562,495	3,585,503
<b>Profit before income tax</b>		<b>18,524,601</b>	<b>41,421,096</b>
Income tax (expense)/benefit	19	(5,835,353)	4,763,234
<b>Profit for the year from continuing operations</b>		<b>12,689,248</b>	<b>46,184,330</b>
<b>Discontinued operations</b>			
Profit/(loss) for the year from discontinued operations	14	265,878	(4,907,711)
<b>Profit for the year</b>		<b>12,955,126</b>	<b>41,276,619</b>
<b>Other comprehensive (loss)/income net of tax:</b>			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remesurement of employee benefit obligation		(1,553,621)	4,106,607
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net fair value (loss)/gain on cash flow hedging instruments	15	(3,479,319)	4,417,426
Exchange differences on translating foreign operations		841,353	(486,819)
<b>Other comprehensive (loss)/income for the year</b>		<b>(4,191,587)</b>	<b>8,037,214</b>
<b>Total comprehensive income for the year</b>		<b>8,763,539</b>	<b>49,313,833</b>
<b>Profit for the year attributable to:</b>			
Shareholder		11,399,401	40,979,582
Non-controlling interests		1,555,725	297,037
		<b>12,955,126</b>	<b>41,276,619</b>
<b>Comprehensive income attributable to:</b>			
Shareholder		7,207,814	49,012,215
Non-controlling interests		1,555,725	301,618
		<b>8,763,539</b>	<b>49,313,833</b>
Earnings per share from continuing and discontinued operations, in KZT	28	23	83
Earnings per share from continuing operations, in KZT	28	22	93


On behalf of Group management:

  
**Kanat Alpysbayev**  
President

13 March 2018

  
**Zhaslan Madiyev**  
Chief Financial Officer

13 March 2018

  
**Nazira Abilova**  
Chief Accountant

13 March 2018

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

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

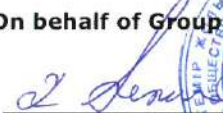
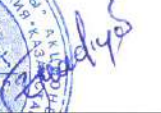

(in KZT thousands)

	Notes	2017	2016
<b>Cash flows from operating activities:</b>			
Profit for the year		12,955,126	41,276,619
Income tax expense/(benefit) recognised in profit or loss, including discontinued operations	14, 19	7,641,464	(3,622,748)
Adjustments for:			
Depreciation and amortisation		106,862,647	115,383,866
Finance costs	14, 26	103,702,717	91,603,653
Asset impairment		3,745,073	2,068,496
Finance income	14, 25	(8,143,123)	(7,174,522)
Employee benefit expenses and other long-term employee benefits		4,095,665	4,688,159
Share of profit of associates and joint ventures	7	(2,137,589)	(670,248)
Allowance for doubtful debts		1,878,194	244,235
Foreign exchange loss/(gain)		7,700,146	(19,756,929)
Gain from disposal of shares in joint ventures and subsidiaries not qualifying as discontinued operations		(8,408,358)	(9,748,114)
Others		4,743,984	4,031,207
<b>Operating income before changes in working capital and other balances</b>		<b>234,635,946</b>	<b>218,323,674</b>
Change in trade accounts receivable		563,770	(657,908)
Change in inventories		(4,890,334)	680,674
Change in other current and non-current assets (including non-current VAT recoverable)		(11,677,107)	(8,038,819)
Changes in trade accounts payable		(13,305,293)	7,666,138
Changes in other taxes payable		22,092,026	(17,804,812)
Change in other liabilities		37,565,098	25,254,523
Change in employee benefit obligation		(3,549,350)	(2,506,445)
<b>Cash generated from operations</b>		<b>261,434,756</b>	<b>222,917,025</b>
Interest paid		(78,787,224)	(75,615,767)
Interest received		3,653,325	5,741,089
Income tax paid		(4,191,735)	(3,597,022)
<b>Net cash flows from operating activities</b>		<b>182,109,122</b>	<b>149,445,325</b>
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment, including change in advances paid		(233,577,017)	(269,421,794)
Purchase of intangible assets		(179,786)	(2,283,525)
Proceeds from sale of shares in joint ventures		19,574,965	8,294,044
Proceeds from sale of other non-current assets		1,201,930	15,528,122
Investments in associates	7	(1,358,000)	(2,465,230)
Investments in other financial assets		(79,483,430)	(82,842,991)
Proceeds from disposal of other financial assets		53,576,781	102,711,572
Dividends received from joint ventures	7	1,663,776	1,659,754
Net cash inflows from disposal of subsidiaries and discontinued operations		1,439,753	1,160,952
Others		2,922,657	1,719,743
<b>Net cash flows used in investing activities</b>		<b>(234,218,371)</b>	<b>(225,939,353)</b>

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands)

	Notes	2017	2016
<b>Cash flows from financing activities:</b>			
Contributions to share capital	15	66,852,000	127,923,000
Proceeds from borrowings		422,633,321	178,830,508
Repayments of borrowings		(441,129,812)	(235,886,216)
Proceeds from sale of non-controlling shares in subsidiary	15	24,067,880	9,000,000
Dividends and distributions paid		(1,387,500)	(39,682)
Purchase of asset held for the benefit of the Shareholder		-	(7,172,307)
Others		(955,643)	(716,247)
<b>Net cash flows from financing activities</b>		<b>70,080,246</b>	<b>71,939,056</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>17,970,997</b>	<b>(4,554,972)</b>
Cash and cash equivalents at the beginning of the year	11	67,085,431	74,903,521
Effects of exchange rate changes on the cash balance held in foreign currencies		(673,108)	(3,263,118)
<b>Cash and cash equivalents at the end of the year</b>		<b>84,383,320</b>	<b>67,085,431</b>
<b>Non-cash transactions:</b>			
Acquisition of property, plant and equipment using borrowings directly transferred by a bank to a supplier		11,127,370	21,613,436
Railway administrations receivables and payables offset		8,342,017	8,507,263
Settlement of borrowings received by non-current assets		775,900	47,832,538
<b>On behalf of Group management:</b>			
 <b>Kanat Alpysbayev</b> President	 <b>Zhaslan Madiyev</b> Chief Financial Officer	 <b>Nazira Abilova</b> Chief Accountant	
13 March 2018	13 March 2018	13 March 2018	

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



# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

(in KZT thousands)

	Share capital	Cash flow hedging reserve	Foreign currency translation reserve	Retained earnings	Equity attributable to the Shareholder	Non-controlling interests	Total equity
<b>As at 1 January 2016</b>	<b>865,393,896</b>	<b>(43,491,357)</b>	<b>4,601,406</b>	<b>142,411,682</b>	<b>968,915,627</b>	<b>(651,552)</b>	<b>968,264,075</b>
Profit for the year	-	-	-	40,979,582	40,979,582	297,037	41,276,619
Other comprehensive income/(loss) for the year	-	4,417,426	(491,400)	4,106,607	8,032,633	4,581	8,037,214
Total comprehensive income/(loss) for the year	-	4,417,426	(491,400)	45,086,189	49,012,215	301,618	49,313,833
Shares issue (Note 15)	128,066,584	-	-	-	128,066,584	-	128,066,584
Dividends declared	-	-	-	-	-	-	-
Other distributions (Note 15)	-	-	-	-	-	(39,682)	(39,682)
Other contributions (Note 15)	-	-	-	657,924	657,924	-	657,924
Disposal of subsidiaries (Note 27)	-	-	-	12,770,576	12,770,576	-	12,770,576
Change in ownership share in subsidiaries without loss of control (Note 15)	-	-	-	-	-	(98)	(98)
<b>As at 31 December 2016</b>	<b>993,460,480</b>	<b>(39,073,931)</b>	<b>4,110,006</b>	<b>198,501,308</b>	<b>1,156,997,863</b>	<b>11,035,349</b>	<b>1,168,033,212</b>
<b>As at 1 January 2017</b>	<b>993,460,480</b>	<b>(39,073,931)</b>	<b>4,110,006</b>	<b>198,501,308</b>	<b>1,156,997,863</b>	<b>11,035,349</b>	<b>1,168,033,212</b>
Profit for the year	-	-	-	11,399,401	11,399,401	1,555,725	12,955,126
Other comprehensive income/(loss) for the year	-	(3,479,319)	841,353	(1,553,621)	(4,191,587)	-	(4,191,587)
Total comprehensive income/(loss) for the year	-	(3,479,319)	841,353	9,845,780	7,207,814	1,555,725	8,763,539
Shares issue (Note 15)	69,174,567	-	-	-	69,174,567	-	69,174,567
Dividends declared	-	-	-	-	-	(2,142,736)	(2,142,736)
Other distributions (Note 15)	-	-	-	-	-	-	-
Disposal of subsidiaries (Note 27)	-	-	-	(9,145,190)	(9,145,190)	-	(9,145,190)
Change in ownership share in subsidiaries without loss of control (Note 15)	-	-	(107,775)	-	(107,775)	(9,444)	(117,219)
<b>As at 31 December 2017</b>	<b>1,062,635,047</b>	<b>(42,553,250)</b>	<b>4,843,584</b>	<b>206,748,608</b>	<b>1,231,673,989</b>	<b>26,955,464</b>	<b>1,258,629,453</b>

On behalf of Group management:

  
  
**Kanat Alpysbayev**  
 President  
 13 March 2018

  
**Zhaslan Madiyev**  
 Chief Financial Officer  
 13 March 2018

  
**Nazira Abilova**  
 Chief Accountant  
 13 March 2018

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



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(in KZT thousands, unless indicated otherwise)

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#### 1. GENERAL INFORMATION

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

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

The Group operates a government regulated nationwide railway system providing freight and passenger transportation and maintaining railway infrastructure in Kazakhstan. As part of rail industry regulation in Kazakhstan, the Government sets the tariffs the Group charges its freight and passenger customers, and partially subsidises specific passenger transportation activities through government grants. These regulated tariffs differ based on the type of transportation provided. The Government does not regulate international freight transportation tariffs.

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

On 1 April 2017, the CRNM agreed freight transportation tariffs increase. The average freight transportation tariff increase during 2017 was 5% (2016: 4%), including railway network access of 4% (2016: 4%) and locomotive haulage services of 7% (2016: 4.6%).

Starting from 1 January 2017, a regulator, represented by Ministry of Investments and Development of Kazakhstan, approved a 7% increase in passenger transportation tariffs for a number of interdistrict routes (2016: 10%).

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

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to global oil and gas prices. During 2014-2016, the energy resource price fell significantly, which led to significant decrease in national export revenue.

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

The Government controls the Group structure and establishes long-term railway industry strategy in Kazakhstan. Since 1997, Kazakhstan national railway industry has been in the process of restructuring, which includes segregating freight transportation and infrastructure and the associated tariffs, as well as passenger transportation subsidies. In accordance with the Group's Development strategy until 2025, Locomotive JSC was reorganised into KTZ-Freight Transportation JSC, transporting freight from 1 July 2016. In September 2017, KTZ-Freight Transportation JSC was given the status of national freight carrier by government resolution.

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

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

*(in KZT thousands, unless indicated otherwise)*

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

##### **Statement of compliance**

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

##### **Going concern**

The Group's consolidated financial statements have been prepared on a going concern basis. This assumes the sale of assets and settlement of liabilities in the normal course of business for the foreseeable future. As at 31 December 2017, its current liabilities exceeded its current assets by KZT 90,556,549 thousand (2016: KZT 137,921,380 thousand). Historically, the Group has financed large investment projects through capital contributions received from the government, and external borrowings, in addition to cash flows from operating activities. As at 31 December 2017, the Group's borrowings of KZT 93,751,143 thousand are payable within 12 months of the reporting date. Group management has assessed its needs for cash, including its scheduled debt repayments and development plans. In assessing its going concern basis, management also considered the Group's financial position, expected future performance and cash flows from operations, its borrowings, available credit facilities, its capital expenditure commitments, expected tariffs, currency exchange rates and other risks facing it. After completing the relevant analysis, management concluded that the Group has adequate resources to continue in operational existence and settle its liabilities (Note 32) and that the going concern basis is appropriate in preparing these consolidated financial statements.

##### **Basis for measurement**

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

##### **Basis of consolidation**

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

##### **Functional and presentation currency**

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

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

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

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

The table below shows KZT exchange rates as at specific dates:

	31 December 2017	31 December 2016
US\$	332.33	333.29
Euros (EUR)	398.23	352.42
Swiss Francs (CHF)	340.61	328.14
Russian Roubles (RUR)	5.77	5.43

### 3. SIGNIFICANT ACCOUNTING POLICIES

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

#### Adoption of new and revised standards

In the current year, the Group adopted a number of amendments to IFRS published by IASB, which are effective starting from 1 January 2017.

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

The Group 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 changes both cash flows and non-cash changes.

The Group's liabilities from financing activities consist of borrowings (Note 16) and finance lease liabilities (Note 17). A reconciliation between the opening and closing balances of these items is provided in Note 16. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure of information in Note 16, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

The Group 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 Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

#### New or revised standards issued but not yet effective

The Group has not applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective:

- IFRS 9 *Financial Instruments*<sup>1</sup>
- IFRS 15 *Revenue from Contracts with Customers*<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 IFRS 2014-2016 Cycle<sup>1</sup>
- Annual Improvements to IFRS 2015-2017 Cycle<sup>2</sup>
- IFRIC 22 *Foreign Currency Transactions and Advance Considerations*<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

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

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#### *IFRS 9 Financial Instruments*

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

The key requirements of IFRS 9 are:

- *Classification and measurement of financial assets.* All 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 fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) 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.
- *Impairment.* In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- *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. Profit or loss arising from the modification of a financial liability carried at amortised cost should be recognised in profit or loss. Profit or loss are calculated as a difference between initial cash flows and the contractual net present value of future cash flows discounting them using initial effective interest rate of the financial instrument.



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

The Group 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 Group's financial assets and liabilities as at 31 December 2017 and based on the facts and circumstances existing as at that date, the Group management expects that the application of the new standard from 1 January 2018 will have an overall cumulative effect on its consolidated financial statements with the adjustment to retained earnings of KZT 8,758,759 thousand, which is described in details below.

The Group does not expect any significant changes with respect to the classification and measurement 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, contract assets and financial guarantee contracts. Group 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 Group expects a small increase in the allowance for doubtful debts for trade and other receivables of KZT 315,151 thousand, for debt financial assets accounted for at amortised cost (loans issued) of KZT 183,996 thousand, for funds in credit institutions (banks), including cash and cash equivalents, restricted cash and other financial assets, of KZT 272,499 thousand for financial guarantees issued of KZT 1,903,144 thousand. The Management does not expect significant changes to these estimates.

The Group 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 KZT 6,083,969 thousand.

The Group 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 Group'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, Group management anticipates that the application of IFRS 15 will not have a



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

material impact on the recognition and measurement of revenue in the consolidated 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 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.

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.

Group 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 Group 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 Group's consolidated 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 consolidated financial statements for the year ended 31 December 2018.

Group management expects that the application of other standards, amendments and interpretations effective from 1 January 2018 will not have a material effect on the consolidated 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 provisions of IAS 16 *Property, Plant and Equipment*.

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

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

*(in KZT thousands, unless indicated otherwise)*

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

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

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

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

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

#### **Inventories**

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

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

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#### Equity

##### *Share capital*

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

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

##### *Other contributions*

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

##### *Other distributions*

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

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

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

##### *Cash flow hedges*

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

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

*(in KZT thousands, unless indicated otherwise)*

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

Hedge accounting is discontinued when:

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

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

#### Revenue recognition

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

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

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

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

With respect to the sale of goods, revenue is recognised when goods are delivered and title is passed, at which time all of the following conditions are satisfied:

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

#### Government grants

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



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

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

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

##### Critical judgements in applying accounting policies

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

##### *Control assessment*

Subsidiaries are those entities controlled by the Group. The Group controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. Losses are attributed to non-controlling interests in full, even if this results in a debit balance ("deficit") (Note 30).

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

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

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

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

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

In December 2015, the Kazakhstan Government approved the 'Comprehensive Privatisation Plan for 2016-2020', whereby Group management approved a list of subsidiaries, associates and joint ventures to be sold. IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations* requires management to apply judgements regarding the high probability of an asset's sale. As at the reporting date, Group management assessed the status of the Plan and classified assets/liabilities as disposal groups held for sale as those meeting IFRS 5 criteria (Note 14).

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

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#### Key sources of estimation uncertainty

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

#### *Impairment of tangible assets*

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

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

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

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

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

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

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

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, and
- foreign currency exchange rates, including to the Swiss Franc and US\$.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

Adverse changes to planned freight and passenger traffic growth rates due to general economic trends, tariffs not being sufficiently 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.

#### *Recoverability of VAT*

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

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

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

The estimated useful lives applied by the Group 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 CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

### 5. SEGMENT INFORMATION

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

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

The Group does not have a specific pricing policy for inter-segmental sales. However, generally speaking, intersegment transactions are charged at prevailing market prices.

For the year ended 31 December 2017					
	Freight transportation	Passenger transportation	Total reportable segments	Others	Total
<b>Key operating indices</b>					
Revenue					
Transportation	789,675,758	84,202,265	873,878,023	-	873,878,023
Government grants	-	20,459,779	20,459,779	-	20,459,779
Other revenue	30,151,893	4,550,795	34,702,688	16,866,088	51,568,776
Intersegment revenue	(24,351,859)	(3,117,506)	(27,469,365)	(5,325,008)	(32,794,373)
Revenue	795,475,792	106,095,333	901,571,125	11,541,080	913,112,205
Cost of sales	(617,990,240)	(94,493,103)	(712,483,343)	(8,846,790)	(721,330,133)
General and administrative expenses	(76,810,984)	(5,618,375)	(82,429,359)	(3,775,581)	(86,204,940)
Asset impairment	(210,228)	(2,659,057)	(2,869,285)	(875,788)	(3,745,073)
Other profit and losses	2,761,551	751,608	3,513,159	49,336	3,562,495
Finance income	5,757,777	689,276	6,447,053	1,340,178	7,787,231
Finance costs	(93,976,764)	(2,490,242)	(96,467,006)	(1,098,358)	(97,565,364)
Foreign exchange (loss)/gain	(7,787,010)	72,525	(7,714,485)	89,546	(7,624,939)
Share of the profit/(loss) of associates and joint ventures	2,234,422	-	2,234,422	(96,833)	2,137,589
Gain from disposal of shares in joint ventures	8,144,751	-	8,144,751	-	8,144,751
Gain from the disposal of subsidiaries	250,779	-	250,779	-	250,779
<b>Profit before tax</b>	<b>17,849,846</b>	<b>2,347,965</b>	<b>20,197,811</b>	<b>(1,673,210)</b>	<b>18,524,601</b>
Income tax expense	(5,458,830)	(57,846)	(5,516,676)	(318,677)	(5,835,353)
<b>Profit for the year from continuing operations</b>	<b>12,391,016</b>	<b>2,290,119</b>	<b>14,681,135</b>	<b>(1,991,887)</b>	<b>12,689,248</b>
<b>Other key segment information</b>					
Capital expenditures on property, plant and equipment	220,907,834	19,211,973	240,119,807	1,293,936	241,413,743
Depreciation of property, plant and equipment	96,422,517	8,071,050	104,493,567	1,874,897	106,368,464



# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

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

### Geographical information for the Group

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

Customer location	2017	2016
Kazakhstan	872,845,259	793,223,701
Russia	12,441,938	4,722,506
Others	7,365,229	2,636,519
	<b>892,652,426</b>	<b>800,582,726</b>

The majority of the Group's non-current assets are in Kazakhstan.

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in KZT thousands, unless indicated otherwise)

### 6. PROPERTY, PLANT AND EQUIPMENT

	Railway track infrastructure	Buildings and structures	Machinery and equipment	Vehicles	Land	Others	Construction in progress	Total
<b>Carrying value as at 1 January 2016</b>	904,075,570	125,161,431	236,799,626	809,042,329	3,896,406	15,497,123	300,969,150	2,395,441,635
Additions	69,787	4,234,240	2,782,462	68,849,250	9,179	175,144	243,969,936	320,089,998
Disposals	(814,518)	(2,953,044)	(4,056,054)	(6,282,626)	(2,955)	(720,580)	-	(14,829,777)
Depreciation charge	(23,771,201)	(12,730,263)	(30,705,857)	(46,087,366)	-	(1,910,925)	-	(115,205,612)
Depreciation on disposal	445,260	405,675	3,132,694	5,664,224	-	696,069	-	10,343,922
(Impairment)/impairment reversal	(30,688)	(145,540)	(2,330,476)	16,890	-	(77,096)	-	(4,995,582)
Transfer from assets classified as held for sale	-	-	-	-	-	-	-	-
Government	-	2,438,230	1,545	251	2,696	491	-	2,443,213
Transfer to assets classified as held for sale	(9,277)	(1,886,195)	(53,178,475)	(2,876,778)	(180,695)	(330,096)	(6,723,839)	(65,185,355)
Other movements and transfers	79,943,616	57,431,035	98,727,365	2,598,252	(78,398)	(857,318)	(244,537,626)	(6,773,074)
<b>Carrying value as at 31 December 2016</b>	<b>959,908,549</b>	<b>171,955,569</b>	<b>251,172,830</b>	<b>830,924,426</b>	<b>3,646,233</b>	<b>12,472,812</b>	<b>291,248,949</b>	<b>2,521,329,368</b>
Cost	1,126,320,967	213,595,902	375,261,894	1,166,677,283	3,646,233	21,801,749	299,796,652	3,207,100,680
Accumulated depreciation and impairment	(166,412,418)	(41,640,333)	(124,089,064)	(335,752,857)	-	(9,328,937)	(8,547,703)	(685,771,312)
<b>Carrying value as at 1 January 2017</b>	959,908,549	171,955,569	251,172,830	830,924,426	3,646,233	12,472,812	291,248,949	2,521,329,368
Additions	2,316,150	25,339	616,345	14,986,482	91,433	97,719	218,111,550	236,245,018
Finance lease additions	(103,417)	-	-	12,953,406	-	-	-	12,953,406
Disposals	(26,213,610)	(152,959)	(1,148,048)	(4,270,751)	(69,902)	(351,441)	-	(6,096,518)
Depreciation charge	90,901	(7,399,980)	(25,155,492)	(45,773,425)	-	(1,825,957)	-	(106,368,464)
Depreciation on disposal	(30,701)	138,160	1,101,006	3,434,672	-	347,049	-	5,111,788
(Impairment)/impairment reversal	-	19,304	14,024	64,733	-	(2,059)	(920,746)	(855,425)
Transfer to investment property	-	(2,670,839)	-	-	-	-	-	(2,670,839)
Transfer to assets classified as held for sale	-	(973,899)	(1,813,677)	(323,289)	-	(65,066)	-	(3,175,931)
Other movements and transfers	56,478,428	183,271,323	45,276,488	31,514,913	-	2,211,656	(320,768,072)	(2,015,264)
<b>Carrying value as at 31 December 2017</b>	<b>992,446,300</b>	<b>344,212,018</b>	<b>270,063,476</b>	<b>843,511,187</b>	<b>3,667,764</b>	<b>12,884,713</b>	<b>187,671,681</b>	<b>2,654,457,139</b>
Cost	1,182,493,991	392,459,009	416,742,115	1,219,935,301	3,667,764	23,656,486	197,140,130	3,436,094,796
Accumulated depreciation and impairment	(190,047,691)	(48,246,991)	(146,678,639)	(376,424,114)	-	(10,771,773)	(9,468,449)	(781,637,657)

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

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

*(in KZT thousands, unless indicated otherwise)*

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In 2017, the Group received property, plant and equipment of KZT 2,322,567 thousand (in 2016: KZT 143,584 thousand) from the Shareholder/Ultimate Shareholder and recognised it in the consolidated statement of changes in equity as a contribution to share capital and other contributions (Note 15).

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

During 2017, completed construction amounted to KZT 320,768,072 thousand, which included the partial commissioning of the Astana station complex of KZT 163,012,749 thousand and of a ferry complex at the Kuryk port of KZT 16,460,412 thousand.

As at 31 December 2017 and 2016, the Group's property, plant and equipment with a carrying value of KZT 147,044,323 thousand and KZT 143,316,485 thousand, respectively, were pledged as collateral for the Group's certain borrowings.

For the years ended 31 December 2017 and 2016, capitalised borrowing costs amounted to KZT 2,989,294 thousand and KZT 3,636,255 thousand, respectively. The average capitalisation rate for the Group ranges between 2.59% and 10% (2016: 2.59% and 8.63%).

As at 31 December 2017 and 2016, the cost of fully depreciated property, plant and equipment which was still in use amounted to KZT 246,544,005 thousand and KZT 235,839,055 thousand tenge, respectively.

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) *(in KZT thousands, unless indicated otherwise)*

### 7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Name	Core activities	Country of main activities / incorporation	2017		2016	
			Carrying value	Interest	Carrying value	Interest
<b>Associates</b>						
Chinese-Kazakhstan International Logistics Company in Lianyungang	International multimodal transportation	China	10,552,107	49%	9,906,269	49%
Aktau Marine North Terminal LLP	Construction and operation of logistics, industrial and infrastructure structures	Kazakhstan	985,704	40%	1,284,568	40%
Others			-	25-49%	167,038	25-49%
<b>Total investments in associates</b>			<b>11,537,811</b>		<b>11,357,875</b>	
<b>Joint ventures</b>						
Logistic System Management B.V.	Transportation and freight forwarding services, rolling stock management and terminal maintenance	Kazakhstan/The Netherlands	15,865,960	50%	11,720,150	50%
<b>Total investments in joint ventures</b>			<b>15,865,960</b>		<b>11,720,150</b>	



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

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

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

	2017	2016
<b>Associates</b>		
<b>As at 1 January</b>	11,357,875	10,898,604
Foreign currency translation	634,013	(896,087)
Charter capital contributions without changes to ownership interest	1,358,000	2,465,230
Share of loss	(2,008,221)	(4,891,472)
Fair value of financial guarantees given (Note 21)	196,144	3,519,396
Transfer from investments in joint ventures	-	262,204
<b>As at 31 December</b>	<b>11,537,811</b>	<b>11,357,875</b>
<b>Joint ventures</b>		
<b>As at 1 January</b>	11,720,150	22,104,613
Share of profit	4,145,810	5,561,720
Fair value adjustment for loans issued at rates lower than the market rate	-	58,425
Transfer to investments in associates	-	(262,204)
Dividends receivable	-	(3,128,141)
Transfer to non-current assets classified as held for sale (Note 14)	-	(12,614,263)
<b>As at 31 December</b>	<b>15,865,960</b>	<b>11,720,150</b>

As at 31 December 2017, the Group's unrecognised share in the losses of material associates Aktobe Rail and Section Mill Plant LLP, Continental Logistics LLP and Electrovoz kurastyru зауыты LLP, amounted to KZT 11,384,743 thousand (2016: KZT 6,716,574 thousand).

During 2017, the Group, represented by KTZ Express JSC and Aktau International Sea Commercial Port National Company JSC, made additional cash contributions to Aktau Marine North Terminal LLP, without change in ownership share, of KZT 1,018,500 thousand and KZT 339,500 thousand, respectively (2016: KZT 1,662,260 thousand and KZT 554,087 thousand).

During 2017, dividends that were declared in 2016 from the profits earned in 2015 were received from the joint venture Logistic System Management B.V. in cash of KZT 1,663,776 thousand (Note 13). During 2016, dividends were received from the joint ventures Logistic System Management B.V. related to profits earned in 2014 and Astyk Trans LLP for profits earned in 2015 in cash of KZT 951,036 thousand and KZT 708,718 thousand, respectively.

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in KZT thousands, unless indicated otherwise)

Summary financial information for the Group's material associates as at and for the years ended 31 December:

	2017					2016				
	Chinese-Kazakhstan International Logistics Company in Lianyungang	Aktobe Rail and Section Mill Plant LLP	Continental Logistics LLP	Aktau Marine North Terminal LLP	Electrovoz kurastyru zauryty LLP	Chinese-Kazakhstan International Logistics Company in Lianyungang	Aktobe Rail and Section Mill Plant LLP	Continental Logistics LLP	Aktau Marine North Terminal LLP	Electrovoz kurastyru zauryty LLP
Current assets	3,242,787	19,171,685	11,351,607	1,951,162	15,259,163	2,370,433	13,346,834	5,903,523	6,839,215	33,806,498
Non-current assets	21,202,747	75,503,972	31,037,035	42,450,737	21,515,770	20,977,803	75,654,249	29,154,188	40,728,440	21,775,211
<b>Total assets</b>	<b>24,445,534</b>	<b>94,675,657</b>	<b>42,388,642</b>	<b>44,401,899</b>	<b>36,774,933</b>	<b>23,348,236</b>	<b>89,001,083</b>	<b>35,057,711</b>	<b>47,567,655</b>	<b>55,581,709</b>
Current liabilities	2,715,665	20,677,530	18,575,868	1,843,547	31,958,911	3,131,361	23,693,304	13,284,123	3,475,033	48,584,202
Non-current liabilities	194,957	97,150,620	28,529,698	40,094,092	16,911,694	-	80,379,160	23,454,603	40,881,201	13,760,929
<b>Total liabilities</b>	<b>2,910,622</b>	<b>117,828,150</b>	<b>47,105,566</b>	<b>41,937,639</b>	<b>48,870,605</b>	<b>3,131,361</b>	<b>104,072,464</b>	<b>36,738,726</b>	<b>44,356,234</b>	<b>62,345,131</b>
<b>Total net assets/liabilities</b>	<b>21,534,912</b>	<b>(23,152,493)</b>	<b>(4,716,924)</b>	<b>2,464,260</b>	<b>(12,095,672)</b>	<b>20,216,875</b>	<b>(15,071,381)</b>	<b>(1,681,015)</b>	<b>3,211,421</b>	<b>(6,763,422)</b>
Ownership interest	49%	30%	30%	40%	25%	49%	30%	30%	40%	25%
Net assets attributable to the Group	10,552,107	(6,945,748)	(1,415,077)	985,704	(3,023,918)	9,906,269	(4,521,414)	(504,305)	1,284,568	(1,690,855)
Investment carrying value	<b>10,552,107</b>	<b>-</b>	<b>-</b>	<b>985,704</b>	<b>-</b>	<b>9,906,269</b>	<b>-</b>	<b>-</b>	<b>1,284,568</b>	<b>-</b>
Revenue	1,593,773	32,971,622	3,428,386	1,953,840	2,359,733	1,622,074	14,721,285	3,876,209	295,121	39,928,906
Profit/(loss) for the year and total comprehensive income/(loss)	24,132	(8,403,890)	(3,366,944)	(4,142,160)	(5,332,252)	20,690	(5,589,497)	(1,565,675)	(499,724)	(8,482,398)
<b>Group's recognised share of total comprehensive income/(loss)</b>	<b>11,825</b>	<b>(96,833)</b>	<b>(99,311)</b>	<b>(1,656,864)</b>	<b>-</b>	<b>10,138</b>	<b>(3,351,855)</b>	<b>(248,883)</b>	<b>(931,779)</b>	<b>(429,745)</b>

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in KZT thousands, unless indicated otherwise)

Summary financial information for the Group's material joint ventures as at and for the years ended 31 December:

	2017	2016		
	Logistic System Management B.V.	Logistic System Management B.V.	Locomotive kurastyru zaulyty JSC	Astyky Trans LLP
Current assets, including:				
Cash and cash equivalents	18,964,477	14,075,091	-	-
Non-current assets	6,296,933	2,890,747	-	-
	14,968,070	12,804,334	-	-
<b>Total assets</b>	<b>33,932,547</b>	<b>26,879,425</b>	-	-
Current liabilities, including:				
Current financial liabilities (except for trade and other accounts payable and provisions)	4,529,238	5,817,155	-	-
Non-current liabilities, including:	112,593	112,593	-	-
Non-current financial liabilities (except for trade and other accounts payable and provisions)	1,019,057	969,639	-	-
	225,185	337,777	-	-
<b>Total liabilities</b>	<b>5,548,295</b>	<b>6,786,794</b>	-	-
<b>Net assets</b>	<b>28,384,252</b>	<b>20,092,631</b>	-	-
Ownership interest				
Net assets attributable to the Group	50%	50%	50%	50%
Goodwill	14,192,126	10,046,316	-	-
	1,673,834	1,673,834	-	-
<b>Carrying value of investments</b>	<b>15,865,960</b>	<b>11,720,150</b>	-	-
Revenue	53,093,395	50,222,725	6,458,127	19,671,787
Depreciation and amortisation	(989,517)	(887,468)	(1,160,701)	(1,062,309)
Finance income	158,920	232,095	200,126	677,505
Finance costs	(45,708)	(58,828)	(233,922)	-
Income tax expenses	(2,106,697)	(2,103,863)	(81,678)	-
Profit/(loss) for the year and total comprehensive income/(loss)	8,291,620	8,504,787	605,523	2,237,503
<b>Group's recognised share of total comprehensive income/(loss)</b>	<b>4,145,810</b>	<b>4,252,394</b>	<b>302,762</b>	<b>1,118,752</b>
				<b>(112,188)</b>

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

### 8. OTHER FINANCIAL ASSETS

	31 December 2017	31 December 2016
Funds in credit institutions (short-term financial investments)	15,912,921	17,549,976
Loans issued	24,497,817	1,885,605
Less: provision for loans issued	(955,064)	(915,860)
	<b>39,455,674</b>	<b>18,519,721</b>
Current portion of other financial assets	37,129,364	16,186,691
Non-current portion of other financial assets	2,326,310	2,333,030
	<b>39,455,674</b>	<b>18,519,721</b>

During 2017, the Group, represented by its subsidiary Airport Management Group LLP, provided an interest-free, reimbursable financial aid of KZT 27,500,000 thousand (2016: KZT 500,000 thousand), out of which KZT 4,000,000 thousand were repaid during the year, to organisation under trust management, Nursultan Nazarbayev International Airport JSC (previously Astana International Airport JSC), a related party, to finance working capital. In accounting for the interest-free financial aid, the Group recognised a fair value adjustment relating to financial aid issued of KZT 3,855,779 thousand (2016: KZT 65,972 thousand) in finance costs. To calculate the fair value of financial aid, the Group applied effective interest rates of 13.9%-15.2% (2016: 15%), using market rates with similar conditions. The repayment of the financial aid is due by 31 March 2018.

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

*Funds in credit institutions:*

	31 December 2017	31 December 2016
Ratings from BBB-(Baa3) to BB-(Ba3)	-	313,100
Ratings from B+(B1) to B-(B3)	15,912,921	17,236,876
	<b>15,912,921</b>	<b>17,549,976</b>

As at 31 December 2017, the weighted average interest rate on funds in credit institutions was 3.5% in US\$ and 11.17% in KZT (2016: 4.54% in US\$ and 13.08% in KZT).

As at 31 December 2017, the weighted average interest rate on funds in credit institutions pledged as a collateral of KZT 2,375,827 thousand was 3.50% in US\$ (2016: KZT 6,413,604 thousand at 4%).

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

	31 December 2017	31 December 2016
US\$	15,497,021	17,202,382
KZT	415,900	347,594
	<b>15,912,921</b>	<b>17,549,976</b>



# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

### 9. TRADE ACCOUNTS RECEIVABLE

	31 December 2017	31 December 2016
Trade accounts receivable	30,542,561	23,628,423
Less: allowance for doubtful debts	(8,404,483)	(8,094,689)
	<b>22,138,078</b>	<b>15,533,734</b>
Current portion of trade accounts receivable	22,095,757	15,416,517
Non-current portion of trade accounts receivable (Note 10)	42,321	117,217
	<b>22,138,078</b>	<b>15,533,734</b>

As at 31 December, the analysis of trade accounts receivable by maturity date were as follows:

	Total	Not overdue and not impaired	Overdue, but not impaired		
			up to 90 days	90-120 days	over 120 days
2017	22,138,078	22,117,656	-	5,752	14,670
2016	15,533,734	15,430,606	-	103,128	-

### 10. OTHER NON-CURRENT ASSETS

	31 December 2017	31 December 2016
Advances paid for property, plant and equipment	56,536,483	65,111,134
VAT recoverable	36,488,308	34,141,032
Loans to employees	5,519,909	6,400,774
Investment property	2,662,803	-
Prepaid expenses	1,873,518	1,488,627
Residential property	89,441	439,954
Non-current portion of trade accounts receivable (Note 9)	42,321	117,217
Others	4,824,797	1,391,967
	108,037,580	109,090,705
Less: allowance for advances to suppliers for property, plant and equipment	(1,349,954)	(2,068,719)
Less: allowance for non-recoverable VAT	(17,551,081)	(14,984,387)
	<b>89,136,545</b>	<b>92,037,599</b>

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

	31 December 2017	31 December 2016
Construction of a ferry complex in the Kuryk port and operation of universal freight and passenger ferries	22,276,150	9,020,197
Supply of locomotives	20,354,011	7,344,090
Supply of spare parts for passenger wagons	8,131,336	8,317,108
Construction of the Zhezkazgan-Beineu and Arkalyk-Shubarkol railways	902,528	2,401,224
Construction of the Astana railway station complex	412,187	20,278,582
Supply of sea vessels	-	3,139,592
Supply of port cranes on caterpillar tracks	-	2,279,533
Others	4,460,271	12,330,808
	<b>56,536,483</b>	<b>65,111,134</b>

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

### 11. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Cash in KZT bank current accounts	40,152,696	15,436,352
Short-term bank deposits in KZT	14,275,151	26,218,883
Cash in bank current accounts in other currencies	4,847,445	1,565,122
Cash in US\$ bank current accounts	4,202,063	5,659,164
Short-term bank deposits in other currencies	-	84,165
Petty cash	11,879	14,487
	<u>63,489,234</u>	<u>48,978,173</u>
Cash included in assets classified as held for sale (Note 14) <sup>1</sup>	<u>20,894,086</u>	<u>18,107,258</u>
	<b><u>84,383,320</u></b>	<b><u>67,085,431</u></b>

As at 31 December 2017, the weighted average interest rate on cash in bank current accounts was 2.11% in KZT, 0.2% in US\$ and 0.28% in other currencies (31 December 2016: 6.1%, 0.47% and 0.44%, respectively).

Short-term bank deposits in KZT and other currencies are opened for different periods up to three months, depending on the Group's cash needs. As at 31 December 2017, the weighted average interest rate on short-term bank deposits was 8.11% in KZT (31 December 2016: 10.63% in KZT and 7.06% in US\$).

### 12. INVENTORIES

	31 December 2017	31 December 2016
Spare parts	9,286,783	7,729,888
Materials and supplies	8,358,593	10,247,492
Permanent railway materials	5,590,466	3,373,485
Fuel and lubricants	5,128,762	5,287,640
Work in progress	422,338	267,601
Finished goods	379,594	420,866
Construction materials	334,466	776,322
Others	1,021,294	977,286
	<u>30,522,296</u>	<u>29,080,580</u>
Less: allowance for slow-moving and obsolete inventories	<u>(205,037)</u>	<u>(233,636)</u>
	<b><u>30,317,259</u></b>	<b><u>28,846,944</u></b>

<sup>1</sup> Amounts include cash and cash equivalents of Tulpar-Talgo LLP, included in the Assets of newly acquire Subsidiary in Note 14, of KZT 17,679,397 thousand (2016: KZT 4,500,168 thousand)

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

#### 13. OTHER CURRENT ASSETS

	31 December 2017	31 December 2016
Other taxes prepaid	20,851,371	15,536,701
Advances issued	13,264,696	9,217,302
Claims, interest and fines	8,324,514	7,330,878
Receivables from subsidiaries sale	3,515,000	3,525,000
Prepaid expenses	1,768,943	4,257,444
Amounts due from employees	1,401,544	1,560,333
Restricted cash	517,943	1,782,029
Dividends receivable	386,072	1,663,776
Others	12,918,276	5,093,177
	62,948,359	49,966,640
Less: allowance for doubtful debts	(11,860,759)	(10,791,755)
	<b>51,087,600</b>	<b>39,174,885</b>

Changes in the allowance for doubtful debts in relation to advances issued and other current assets for the years ended 31 December are represented as follows:

	2017	2016
Allowance for doubtful debts at the beginning of the year	(10,791,755)	(10,141,038)
Foreign currency translation	(13,438)	17,995
Provided for the year	(1,234,808)	(2,259,563)
Written off against a previously created allowance	179,242	1,061,792
Transfer to assets classified as held for sale	-	529,059
<b>Allowance for doubtful debts at the end of the year</b>	<b>(11,860,759)</b>	<b>(10,791,755)</b>

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

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

As at 31 December 2017 and 2016, the assets and liabilities of the subsidiaries meeting the held for sale criteria were classified as 'disposal groups classified as held for sale' in the consolidated statement of financial position.

During 2017, the Group, represented by subsidiaries Kaztemirtrans JSC and KTZ-Freight Transportation JSC, sold its shares in the subsidiaries Transport Services Centre JSC and Regional Forward Logistics LLC, Rauan Burabai LLP, Mak-Ekibastuz LLP and Bas Balkhash LLP. After the sale, the Group lost control over these subsidiaries, which did not represent a major line of the business, and recognised its sale results as the 'gain from disposal of subsidiaries not qualifying as discontinued operations'.

##### Tulpar-Talgo LLP

On 15 May 2015, the Group entered into an agreement for the sale of a 51% interest in Tulpar-Talgo LLP with Patentes Talgo S.L.U., the sole shareholder of Talgo Kazakhstan S.L., under which the Group received an advance of Euros 23,000 thousand. As at 31 December 2017, the transaction had not been completed, as the management is re-negotiating contract terms with Patentes Talgo.

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

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

*(in KZT thousands, unless indicated otherwise)*

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On 18 May 2017, the Company's Board of Directors took the decision to increase the interest being sold by Remlocomotive JSC in Tulpar-Talgo LLP to its current ownership of 99.99926%. On 2 November 2017, the State Commission for the Modernisation of the Economy of the Republic of Kazakhstan agreed with the Shareholder proposal for the direct target sale of Tulpar-Talgo LLP (with an increase in the interest to be sold). Group management believes the sale of Tulpar-Talgo LLP to be highly probable within the 12 months from the reporting date at an amount not lower than the carrying amount of the net assets of Tulpar-Talgo LLP.

#### **Transtelecom JSC**

As at 31 December 2017, Transtelecom JSC, 51% of whose shares belong to the Group, is classified in the consolidated financial statement as held for sale, because the Group previously launched the process to sell 26% less 1 share and expects to complete the transaction within 12 months following the reporting date.

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.

#### **Investments in joint ventures**

In February 2017, the Group, represented by the subsidiary Kaztemirtrans JSC, completed a transaction to sell a 50% share of the joint venture Astyk-Trans JSC to a third party. The sale price amounted to KZT 5,252,130 thousand. The carrying amount of investment as at the disposal date was KZT 3,874,398 thousand.

In April 2017, the Group completed a transaction to sell a 50% share of the joint venture Locomotive Kurastyru Zauyty JSC to a third party. The sale price amounted to KZT 15,716,250 thousand. 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 Group 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 shares in joint ventures.

As a result of the sale, the Group lost joint control over the joint ventures and recognised the result of the sale as the gain from disposal of shares in joint ventures.



# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) (in KZT thousands, unless indicated otherwise)

Non-current assets and disposal group assets and liabilities held for sale are represented as follows:

	As at 31 December 2017				As at 31 December 2016			
	Transtelecom JSC	Tulpar-Talga LLP	Others	Total	Transtelecom JSC	Tulpar-Talga LLP	Others	Total
<b>Assets</b>								
Property, plant and equipment	67,239,312	-	5,218	67,244,530	62,193,300	-	751,136	62,944,436
Intangible assets	4,131,510	-	-	4,131,510	3,556,450	-	2,044	3,558,494
Other non-current assets	5,864,701	-	-	5,864,701	1,250,748	-	399	1,251,147
Inventories	1,333,086	-	-	1,333,086	680,233	-	85,821	766,054
Trade accounts receivable	3,525,182	-	-	3,525,182	3,543,338	-	885,747	4,429,085
Other current assets	4,127,392	-	21,392	4,148,784	4,859,875	-	1,144,199	6,004,074
Cash and cash equivalents	3,214,664	-	25	3,214,689	13,201,627	-	405,463	13,607,090
Assets of a newly acquired subsidiary	-	28,513,556	-	28,513,556	-	15,451,118	-	15,451,118
<b>Total assets associated with the disposal groups classified as held for sale</b>	<b>89,435,847</b>	<b>28,513,556</b>	<b>26,635</b>	<b>117,976,038</b>	<b>89,285,571</b>	<b>15,451,118</b>	<b>3,274,809</b>	<b>108,011,498</b>
Transfer from investments in joint ventures	-	-	-	-	-	-	12,614,263	12,614,263
Others (wagon repair depot assets)	-	-	2,890,247	2,890,247	-	-	-	-
<b>Total non-current assets classified as held for sale</b>	<b>-</b>	<b>-</b>	<b>2,890,247</b>	<b>2,890,247</b>	<b>-</b>	<b>-</b>	<b>12,614,263</b>	<b>12,614,263</b>
<b>Total non-current assets and assets associated with disposal groups classified as held for sale</b>	<b>89,435,847</b>	<b>28,513,556</b>	<b>2,916,882</b>	<b>120,866,285</b>	<b>89,285,571</b>	<b>15,451,118</b>	<b>15,889,072</b>	<b>120,625,761</b>
<b>Liabilities</b>								
Borrowings	47,111,427	-	-	47,111,427	53,560,485	-	-	53,560,485
Finance lease liabilities	2,007,942	-	-	2,007,942	1,839,073	-	136,052	1,975,125
Employee benefit obligations	407,246	-	-	407,246	418,391	-	36,834	455,225
Deferred tax liabilities	3,470,534	-	-	3,470,534	3,072,754	-	289,147	3,361,901
Trade accounts payable	6,385,460	-	113,194	6,498,654	8,561,108	-	767,679	9,328,787
Other taxes payable	155,160	-	-	155,160	450,065	-	232,428	682,493
Other current liabilities	2,785,229	-	1,585	2,786,814	7,898,517	-	247,506	8,146,023
Liabilities of a newly acquired subsidiary	-	24,069,133	-	24,069,133	-	19,306,464	-	19,306,464
<b>Total liabilities directly associated with assets classified as held for sale</b>	<b>62,322,998</b>	<b>24,069,133</b>	<b>114,779</b>	<b>86,506,910</b>	<b>75,800,393</b>	<b>19,306,464</b>	<b>1,709,646</b>	<b>96,816,503</b>
<b>Net assets/(liabilities) associated with disposal groups</b>	<b>27,112,849</b>	<b>4,444,423</b>	<b>-</b>	<b>-</b>	<b>13,485,178</b>	<b>(3,855,346)</b>	<b>-</b>	<b>-</b>

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

### Discontinued operations

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

The results of discontinued operations for 2017 and 2016 are as follows:

	<b>2017</b>		
	<b>Transtelecom JSC</b>	<b>Tulpar-Talgo LLP</b>	<b>Total</b>
Revenue	37,723,902	-	37,723,902
Cost of sales	(25,283,455)	-	(25,283,455)
General and administrative expenses	(4,219,497)	(421,734)	(4,641,231)
Asset impairment	(22,407)	-	(22,407)
Other profit and losses	81,886	69,962	151,848
Finance income	257,116	98,776	355,892
Finance costs	(5,988,767)	(148,586)	(6,137,353)
Foreign exchange (loss)/gain	(275,631)	200,424	(75,207)
<b>Profit/(loss) before tax</b>	<b>2,273,147</b>	<b>(201,158)</b>	<b>2,071,989</b>
Income tax expenses	(1,497,537)	(308,574)	(1,806,111)
<b>Profit/(loss) from discontinued operations for the year</b>	<b>775,610</b>	<b>(509,732)</b>	<b>265,878</b>
Basic earnings/(loss) per share (KZT)	2	(1)	1

	<b>2016</b>		
	<b>Transtelecom JSC</b>	<b>Tulpar-Talgo LLP</b>	<b>Total</b>
Revenue	13,758,406	-	13,758,406
Cost of sales	(7,171,889)	-	(7,171,889)
General and administrative expenses	(2,994,630)	(969,935)	(3,964,565)
Other profit and losses	17,989	35,619	53,608
Finance income	817,240	32,084	849,324
Finance costs	(6,035,743)	(150,016)	(6,185,759)
Foreign exchange loss	(91,746)	(1,014,604)	(1,106,350)
<b>Loss before tax</b>	<b>(1,700,373)</b>	<b>(2,066,852)</b>	<b>(3,767,225)</b>
Income tax expenses	(1,140,486)	-	(1,140,486)
<b>Loss from discontinued operations for the year</b>	<b>(2,840,859)</b>	<b>(2,066,852)</b>	<b>(4,907,711)</b>
Basic loss per share (KZT)	(6)	(4)	(10)

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

	<b>2017</b>	<b>2016</b>
Net cash inflows from operating activities	4,620,822	16,856,436
Net cash outflows from investing activities	(6,932,220)	(6,649,162)
Net cash outflows from financing activities	(7,610,490)	(4,485,219)
<b>Net cash inflow</b>	<b>(9,921,888)</b>	<b>5,722,055</b>

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

### 15. EQUITY

As at 31 December 2017 and 2016, share capital was presented as follows:

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

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

#### Contributions

##### Shares issue

During 2017, shares issued were as follows:

- 66,852 shares for which cash of KZT 66,852,000 thousand was received, and was used to implement the project to build a ferry complex at Kuryk port and operate universal freight and passenger ferries; and
- 27,000 shares for which assets (Karabatan railway station (railway tracks junction and auxiliary facilities)) and land use rights for two land plots were received valued at KZT 2,322,567 thousand.

During 2016, shares issued were as follows:

- 464,000 shares for which cash of KZT 46,400,000 thousand was received. The capital was received to finance construction of the Zhezkazgan-Beineu railway lines, construct second Almaty 1- Shu railway lines, construct a ferry complex at the Kuryk port and operate universal freight and passenger ferries;
- 741,830 shares for which cash of KZT 74,183,000 thousand was received. The capital was received to finance development of the Astana railway junction, including a railway station complex, and construct the Zhezkazgan-Beineu railway lines;
- 73,400 shares for which cash of KZT 7,340,000 thousand was received. The capital was received to implement the "Construction of a ferry complex at the Kuryk port and the operation of universal freight and passenger ferries" project;
- 642 shares for which the building in Taraz, valued at KZT 57,780 thousand for Group Scientific and Technical Information and Analysis Centre technical library was received; and
- 85,804 shares for which 7 railway station buildings and 4 passenger platforms valued at KZT 85,804 thousand were received.

#### Other contributions

Other contributions for the years ended 31 December are represented as follows:

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

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

*(in KZT thousands, unless indicated otherwise)*

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

In December 2016, in accordance with the Ultimate Shareholder decision, the Group settled the loans from the Shareholder of KZT 47,832,538 thousand early by transferring non-core assets, including the Transport Tower administrative-technological complex, the Rehabilitation Centre asset complex, teleradio equipment recognised as an asset held for the benefit of the Shareholder (Note 31), and assets constructed as part of railway line construction projects that have been recognised as assets for sale to the government. The impact of the early extinguishment was treated as equity on the basis that the transaction was with the Ultimate Shareholder and was part of a separate negotiation process, rather than an early repayment as part of existing loan terms.

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

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

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

The cash flow hedging reserve includes the effect of cash flow hedging to account for any gains or losses at fair value in relation to revenue denominated in foreign currency.

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

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

Hedging effectiveness is assessed at each reporting date using prospective and retrospective tests (offset method), and at the moment the hedging relationship is recognised using a prospective test, and on the hedging closing date using retrospective testing.

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

Retrospective effectiveness testing is carried out by comparing hedging instrument changes against hedged item cash flow fair value changes based on exchange spot rates as at the testing dates on a cumulative basis for the period from the beginning of hedge accounting until the balance sheet date/closing date.

As at 31 December 2017, the effective part of KZT 3,479,319 thousand was recorded in the cash flow hedging reserve through other comprehensive income (2016: KZT 4,417,426 thousand). The ineffective part of KZT 74,631 thousand was recorded in finance costs (2016: KZT 45,526 thousand).

#### **Dividends**

As at 31 December 2017, dividends payable to the Shareholder amounted to KZT 16,424,670 thousand (31 December 2016: KZT 16,424,670 thousand) (Notes 21 and 31).

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

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

*(in KZT thousands, unless indicated otherwise)*

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#### **Other distributions**

In 2012, the Group entered into an irrevocable commitment with the Kazakhstan Government to build the multifunctional Ice Palace and, as a result, recognised a distribution to the Shareholder equal to the estimated construction costs.

During 2017, the Group recognised an additional irrevocable commitment and the distribution of KZT 5,733,368 thousand, which represents VAT liability that arose as a result of the Ice Palace's transfer free of charge to the Astana city administration (2016: reduction of the irrevocable commitment of KZT 823,196 thousand) (Note 31).

During 2017, the Group entered into an irrevocable commitment to finance restoration work on the Kazakhstan Trade and Exhibition Centre in Moscow and recognised a distribution to the Shareholder of KZT 1,387,500 thousand.

During 2017, the Group recognised an impairment adjustment for bonds purchased from Special Investment Company DSFK LLP for KZT 2,024,322 thousand in other distributions to the Shareholder, net of deferred tax of KZT 88,245 thousand.

#### **Change in ownership share in subsidiaries without loss of control**

In July 2017, the Group, represented by its subsidiary KTZ Express JSC, sold a 49% interest in KTZE-Khorgos Gateway LLP to a third party for KZT 24,063,280 thousand, resulting in the recognition of a non-controlling interest in KTZE-Khorgos Gateway LLP of KZT 16,516,570 thousand. The KZT 7,546,710 thousand difference was recognised in the Group's retained earnings.

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



# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

### 16. BORROWINGS

As at 31 December, borrowings, including accrued interest, were as follows:

	31 December 2017		31 December 2016	
	Amount	Weighted average effective interest rate (%)	Amount	Weighted average effective interest rate (%)
<i>Fixed interest rate borrowings</i>				
Loans received	277,429,093		382,813,330	
- in KZT	145,120,266	8.99	226,459,250	8.15
- in US\$	65,865,988	3.28	98,270,201	3.44
- in EUR	63,011,636	14.70	53,664,002	14.70
- in other currencies	3,431,203	4.00	4,419,877	3.49
Debt securities issued	839,965,281		715,583,589	
- in KZT	25,511,806	11.00	-	-
- in US\$	629,358,622	6.86	620,530,483	6.74
- in CHF	98,687,259	3.35	95,053,106	3.35
- in other currencies	86,407,594	8.75	-	-
<i>Floating interest rate borrowings</i>				
Loans received	93,779,919		85,525,355	
- in KZT	71,151,072	11.57	822,526	22.34
- in US\$	22,628,847	5.73	84,702,829	5.61
Debt securities issued	53,545,694		55,757,500	
in KZT	53,545,694	10.42	55,757,500	16.92
	<b>1,264,719,987</b>		<b>1,239,679,774</b>	
Current loan portion	93,751,143		141,561,817	
Long-term portion of loans	1,170,968,844		1,098,117,957	
	<b>1,264,719,987</b>		<b>1,239,679,774</b>	

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

	31 December 2017	31 December 2016
During the year	74,019,631	131,291,780
1-2 years	37,064,147	40,488,001
2-3 years	37,252,064	40,383,364
3-4 years	32,580,074	40,276,838
4-5 years	30,849,236	33,725,480
Over 5 years	159,443,860	182,173,222
	<b>371,209,012</b>	<b>468,338,685</b>

### Loans early extinguishment

In August 2017, the Group, represented by its subsidiaries Kaztemirtrans JSC and KTZ-Freight Transportation JSC repaid its loan of KZT 75,000,000 thousand to the Shareholder that was initially due in September 2017.

On 26 October 2017, the Company repaid its long-term loan from Halyk Bank JSC early within the framework of a credit agreement dated 26 April 2016, of US\$ 50,000,000 (KZT 16,647,000 thousand).

The early extinguishment of the debts did not result in additional finance costs.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

#### Loans received

During 2017, the Group received the following loans:

##### HSBC France

During 2017, under the General Framework Agreement with HSBC France, together with HSBC Bank PLC and HSBC Kazakhstan, and with the support of the COFACE export-credit agency, signed on 31 May 2012 to finance the purchase of freight and passenger locomotives for a total of EUR 880,877,000 and its addendums, the Group, represented by its subsidiary KTZ-Freight Transportation JSC borrowed EUR 34,598,954 (KZT 12,349,584 thousand) (including the COFACE premium). Interest is paid semi-annually at EUR CIRR + a 0.75% margin. The principal is repaid semi-annually until fully repaid in 2026. The loan was received under the Company's guarantee.

##### Halyk Bank JSC

In 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 KTZ-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 Group borrowed KZT 39,500,000 thousand 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 Group made a partial early repayment of loans received of KZT 18,500,000 thousand.

##### EBRD

In February 2017, the Group, represented by the Company and its subsidiary Kaztemirtrans JSC, within the framework of a loan restructuring agreement with the EBRD dated 22 December 2016 for US\$ 180,913,719, converted US\$ 170,000,000 into KZT. Due to a substantial change in loan terms, the Group 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 KZT 54,983,100 thousand and US\$ 10,913,719. Interest is paid semi-annually at 6 months LIBOR + 4.35% per annum for the US\$ tranche and all-in cost<sup>2</sup> + 4.35% for the KZT tranche.

#### Debt securities

As at 31 December, debt securities included:

	Maturity date	Exchange markets	31 December 2017	31 December 2016
<b>Bonds issued at a price</b>				
6.95% US\$ Eurobonds (105.521%)	10 July 2042	LSE/KASE	395,123,162	383,857,203
4.85% US\$ Eurobonds (100.393%)	17 November 2027	ISE/KASE	234,235,460	236,673,280
8.75% RUR Bonds (100%)	7 June 2022	MOEX	86,407,594	-
		SIX Swiss Exchange	64,174,429	61,813,397
3.638% CHF Eurobonds (100%)	20 June 2022			
Inflation + 2.52% (10.42%) KZT Bonds	25 April 2026	KASE	53,545,694	55,757,500
		SIX Swiss Exchange	34,512,830	33,239,709
2.59% CHF Eurobonds (100%)	20 June 2019			
11% KZT Bonds (100%)	23 July 2027	KASE	25,511,806	-
<b>Total debt securities issued</b>			<b>893,510,975</b>	<b>771,341,089</b>
Current portion of debt securities			19,731,512	10,270,037
Long-term portion of debt securities			873,779,463	761,071,052
			<b>893,510,975</b>	<b>771,341,089</b>

<sup>2</sup> 'all-in-cost' means the total cost to EBRD (expressed as a rate per annum) of raising funds from any source EBRD selects at its sole discretion and includes all fees, interest, charges, duties and expenses incurred in other currencies available to the EBRD for denomination as at the relevant date, or such other rate as determined by the EBRD acting reasonably.

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

On 13 June 2017, the Group, represented by its subsidiary KTZ Finance OJSC, issued five-year bonds on the Moscow Stock Exchange for RUR 15,000,000,000 (KZT 83,100,000 thousand) with a coupon rate of 8.75% per annum to refinance loans. The coupon is payable twice a year.

On 24 October 2017, the Company issued bonds in Kazakhstan Stock Exchange (KASE) for KZT 25,000,000 thousand with a coupon rate of 11% per annum to refinance loans. The coupon is payable twice a year.

On 17 November 2017, the Company issued Eurobonds on the Irish Stock Exchange and KASE for US\$ 780,000,000 with coupon rate of 4.85% per annum and maturity in 2027 to refinance bonds of US\$ 700,000,000 issued in 2014 at 6.375% interest per annum and maturity in 2020. The coupon is payable twice a year. The Eurobonds are guaranteed by the subsidiaries Kaztemirtrans JSC and KTZ-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.

The fair value of loans is presented in Note 32.

### Covenants and breach of loan agreements

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

EBRD and HSBC France loan agreements include certain financial covenants, such as Debt to EBITDA, Debt to Equity and Interest Coverage Ratios.

As at 31 December 2017, the Group negotiated with EBRD to reset its financial covenant thresholds as to avoid a breach of obligations to creditors, and as at 31 December 2017, the Group complied with these reset financial covenants. Likewise, waivers were received agreeing not to apply financial covenants as at 31 December 2017 within the framework of credit agreements with HSBC France.

As at 31 December 2016, the Group negotiated with creditors to change financial covenant thresholds as to avoid a breach of obligations to creditors. As at 31 December 2016, waivers were received agreeing not to apply financial coefficient as at 31 December 2016 within the framework of credit agreements with HSBC France. As at 31 December 2016, the Group complied with EBRD financial covenants.

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

	Loans and Debt securities issued	Finance lease liabilities (Note 17)	Total
<b>As at 1 January 2017</b>	<b>1,239,679,774</b>	<b>-</b>	<b>1,239,679,774</b>
<b>Changes in connection with cash flows from financing activities</b>			
Repayment of borrowings	(431,847,370)	-	(431,847,310)
Proceeds from borrowings	419,633,321	-	419,633,321
Finance lease payments	-	(127,595)	(127,595)
<b>Total changes in connection with cash flows from financing activities</b>	<b>(12,214,049)</b>	<b>(127,595)</b>	<b>(12,341,644)</b>
<b>Other changes</b>			
Effect of changes in foreign currency exchange rates	2,534,245	-	2,534,245
Cash flows hedge	3,553,950	-	3,553,950
New finance lease agreements	-	14,413,800	14,413,800
Finance costs (Note 26)	80,812,978	194,516	81,007,494
Interest paid	(73,253,355)	(190,069)	(73,443,424)
Amortization of discount (Note 26)	8,498,749	-	8,498,749
Other changes	15,107,695	594,118	15,701,813
<b>Total other changes related to liabilities</b>	<b>37,254,262</b>	<b>15,012,365</b>	<b>52,266,627</b>
<b>As at 31 December 2017</b>	<b>1,264,719,987</b>	<b>14,884,770</b>	<b>1,279,604,757</b>

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

### 17. FINANCE LEASE LIABILITIES

As at 31 December 2017, the Group's finance lease liabilities included:

	Minimum lease payments	Present value of minimum lease payments
	31 December 2017	31 December 2017
One year	1,222,178	1,134,759
2-5 years inclusive	3,143,181	2,512,113
Over 5 years	15,602,851	11,237,898
<b>Net minimum liabilities</b>	<b>19,968,210</b>	<b>14,884,770</b>
Less: future finance costs	(5,083,440)	-
<b>Present value of minimum lease payments</b>	<b>14,884,770</b>	<b>14,884,770</b>
Less amounts to be repaid within 12 months		(1,134,759)
Amount to be repaid after 12 months		13,750,011

#### *Passenger cars*

In December 2016, the Group, represented by its subsidiary Passenger Transportation JSC, entered into a finance lease agreement with DBK-Leasing JSC to lease 43 passenger cars manufactured by Tulpar-Talgo LLP for KZT 12,938,279 thousand, for 20 years and at interest of 1.75% per annum. The Group acts as the lessee. The effective interest rate is 1.95% per annum. The concession period for the principal is 5 years. The Company acted as the guarantor for Passenger Transportation JSC.

As at 31 December 2017, the Group had received 43 passenger cars of KZT 11,552,036 thousand and recognised them as property, plant and equipment at present value of minimum lease payments with the effect of the paid advances.

#### *Platform cars*

In August 2017, the Group, represented by its subsidiary KTZ Express JSC, entered into a finance lease agreement with DBK-Leasing JSC, a related party, to lease 1,995 platform cars for KZT 33,263,982 thousand, for 15 years and at interest of 15% per annum, of which 10% is subsidised by the Transport Committee of the Ministry of Investment and Development of the Republic of Kazakhstan ("Transport Committee") under National Budget Programme № 212 *Interest Rate Subsidies for Loans and Finance Leases to Purchase Wagons for Passenger Carriers on Socially Significant Routes and Car (Container) Operators*. The concession period for principal repayments is five years. The Group acts as the lessee. The effective interest rate is 15.62%. The Company acts as the guarantor for KTZ Express JSC obligations.

During 2017, the Group received 30 platform cars and, in accordance with the contractual supply schedule, the remaining 1,965 platform cars the Group expects to receive by 2019 year-end.

#### *Low-sided cars*

In August 2017, the Group, represented by its subsidiary Kaztemirtrans JSC, entered into a finance lease agreement with DBK-Leasing JSC to lease 1,000 low-sided cars for KZT 15,076,958 thousand, for 15 years and at interest of 15% per annum, of which 10% is subsidised by the Transport Committee under National Budget Programme № 212 *Interest Rate Subsidies for Loans and Finance Leases to Purchase Wagons for Passenger Carriers on Socially Significant Routes and Car (Container) Operators*. The concession period for principal repayments is 7 years. The Group acts as lessee. The effective interest rate is 15.095% per annum. The Company acted as guarantor for the Kaztemirtrans JSC liabilities.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

During 2017, the Group received 81 low-sided cars and, in accordance with the contractual supply schedule, the remaining 919 low-sided cars Group expects to receive by 2018 year-end.

All lease liabilities are denominated in KZT.

#### 18. EMPLOYEE BENEFIT OBLIGATIONS

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

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

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

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

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

	2017	2016
Total liabilities at the beginning of the year	29,130,540	31,683,653
Current service cost	1,033,750	1,255,578
Past service cost	(74,756)	1,490,261
Interest cost	2,795,158	2,384,060
Actuary remeasurement recognised in other comprehensive income	1,558,246	(4,009,740)
Benefits paid during the year	(3,545,910)	(2,465,603)
Actuarial loss/(gain) recognised in profit or loss for the year	341,513	(547,476)
Transfer to disposal groups classified as held for sale	-	(470,624)
Disposal of subsidiaries	-	(189,569)
<b>Total liabilities at the end of the year</b>	<b>31,238,541</b>	<b>29,130,540</b>
<i>Including</i>		
Liabilities due within one year	2,858,329	2,960,557
Liabilities due after one year	28,380,212	26,169,983
	<b>31,238,541</b>	<b>29,130,540</b>

Defined benefit obligations and other long-term employee benefits recognised in profit or loss during 2017 and 2016 are as follows:

	2017	2016
Cost of sales (Note 23)	3,528,810	3,980,118
General and administrative expenses (Note 24)	566,855	606,129
<b>Recognised in profit or loss for the year</b>	<b>4,095,665</b>	<b>4,586,247</b>



# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

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

	2017	2016
Discount rate	9%	9.6%
Expected annual rise in material aid	4% (average)	4.5% (average)
Expected annual rise in minimum salaries	4.3% (average)	4.5% (average)
Expected annual growth in the cost of railway tickets	6.6% (average)	7% (average)

According to an actuary sensitivity analysis, the maximum increase in the employee benefit obligations is 8.9% caused by an inflation rate increase of 1%.

### 19. INCOME TAX

Income tax expense/(benefit) for the year ended 31 December included:

	2017	2016
Current income tax expense	526,128	1,215,067
Adjustment in respect to current income tax for prior years	(312,494)	118,670
Withholding income tax paid at the source of payment	306,496	-
Deferred income tax expense/(benefit)	5,315,223	(6,096,971)
	<b>5,835,353</b>	<b>(4,763,234)</b>

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

	2017	2016
<b>Profit before tax from continuing operations</b>	18,524,601	41,421,096
Official statutory tax rate	20%	20%
Theoretical tax expense at the official statutory tax rate	3,704,920	8,284,219
Tax effect of non-deductible expenses to calculate tax, and other tax effects:		
Income tax adjustment for prior years	(312,494)	118,670
Non-deductible expenses	811,328	11,366,924
Change in unrecognised deferred tax assets	1,631,599	(24,533,047)
<b>Income tax expense/(benefit) recognised in profit or loss (attributable to continuing operations)</b>	<b>5,835,353</b>	<b>(4,763,234)</b>

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

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

	31 December 2017	31 December 2016
<b>Deferred tax assets:</b>		
Tax losses carried forward	134,504,134	128,598,283
Differences in accounts receivable	3,294,879	3,109,493
Accrued liabilities to employees	2,543,759	2,336,725
Fair value adjustment on loans issued	2,304,704	2,273,781
Others	2,193,553	1,625,773
	144,841,029	137,944,055
Less: deferred tax assets offset against deferred tax liabilities	(138,888,042)	(129,312,036)
<b>Deferred tax assets</b>	<b>5,952,987</b>	<b>8,632,019</b>
<b>Deferred tax liabilities:</b>		
Property, plant and equipment and other non-current assets	(320,933,315)	(307,907,254)
Fair value adjustment on loans received	(44,353,314)	(44,890,129)
Prepaid expenses	(258,551)	(856,264)
Others	(317,672)	(15,919)
	(365,862,852)	(353,669,566)
Less: deferred tax liabilities offset against deferred tax assets	138,888,042	129,312,036
<b>Deferred tax liabilities</b>	<b>(226,974,810)</b>	<b>(224,357,530)</b>
<b>Net deferred tax liabilities</b>	<b>(221,021,823)</b>	<b>(215,725,511)</b>
	<b>2017</b>	<b>2016</b>
Net deferred tax liabilities at the beginning of the year	(215,725,511)	(229,520,855)
Recognised in profit or loss	(5,315,223)	6,096,971
Recognised in a consolidated statement of changes to equity	(88,056)	4,297,609
Transfer to disposal groups liabilities classified as held for sale	-	2,214,906
Transfer from disposal groups (liabilities)/assets classified as held for sale	-	(8,572)
Disposal of subsidiaries	-	314,581
Recognised in investments in associates	106,967	879,849
<b>Net deferred tax liabilities at the end of the year</b>	<b>(221,021,823)</b>	<b>(215,725,511)</b>

The Group has not recognised deferred tax assets relating to tax losses carried forward. Management believes it is improbable that there will be sufficient taxable income available in the future against which any such deferred tax assets can be utilised. As at 31 December 2017, the total tax effect of unrecognised tax losses carried forward amounted to KZT 5,437,788 thousand (31 December 2016: KZT 3,806,189 thousand). These tax losses carried forward expire in 10 years from the date they were incurred.

## 20. TRADE ACCOUNTS PAYABLE

	31 December 2017	31 December 2016
Accounts payable for services	50,050,664	38,204,408
Accounts payable for property, plant and equipment	39,096,164	53,630,962
Accounts payable for inventories	23,947,987	32,099,886
Other accounts payable	469,150	518,543
	<b>113,563,965</b>	<b>124,453,799</b>

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

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

	2017	2016
KZT	100,665,033	103,845,042
US\$	7,496,451	16,746,337
Swiss Francs	805,700	444,343
Other currencies	4,596,781	3,418,077
	<b>113,563,965</b>	<b>124,453,799</b>

The average turnover period for accounts payable is 59 days (2016: 61 days).

#### 21. OTHER LIABILITIES

	31 December 2017	31 December 2016
Advances received	65,096,841	36,531,256
Dividends payable (Note 15)	16,424,670	16,424,670
Salaries payable	15,525,594	14,687,152
Provisions for unused vacation	10,847,731	9,897,257
Deferred income	8,414,165	5,935,882
Obligatory pension contributions and social insurance contributions and obligatory medical insurance contributions	5,314,758	4,440,239
Liabilities under financial guarantee contracts	4,194,045	4,399,245
Other liabilities	17,894,231	4,351,172
	<b>143,712,035</b>	<b>96,666,873</b>
Current portion of other liabilities	139,517,990	92,267,628
Long-term portion of other liabilities	4,194,045	4,399,245
	<b>143,712,035</b>	<b>96,666,873</b>

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

As disclosed in Note 29, the Group provided financial guarantees on bank loans obtained by its associates Electrovoz Kurastyru Zauyty LLP and Aktobe Rail and Section Mill Plant LLP. As at 31 December 2016, the Group estimated the fair value of the guarantees and recognised a fair value adjustment in the cost of investments in associates of KZT 4,399,245 thousand less the deferred tax effect of KZT 879,849 thousand (Note 7).

As at 31 December 2017, the amortised cost of financial guarantees was KZT 4,194,045 thousand.

#### 22. OTHER REVENUE

	2017	2016
Revenue from the sale of goods and the provision of other services	35,994,309	29,341,540
Fines charged to customers	4,697,963	2,903,295
	<b>40,692,272</b>	<b>32,244,835</b>

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

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

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

### 23. COST OF SALES

	2017	2016
Staff costs, including taxes, social contributions and provisions for unused vacations	240,736,386	230,445,645
Depreciation and amortisation	101,676,564	109,123,181
Fuel and lubricants	89,419,641	72,176,287
Repairs and servicing	88,005,796	75,480,043
Work and services of a production nature	48,407,128	46,699,053
Materials and supplies	45,040,011	46,061,978
Electricity	43,893,237	39,796,578
Taxes	17,338,239	14,182,546
Communication services	4,753,147	3,355,347
Operating lease	4,559,093	1,219,558
Employee benefit expenses (Note 18)	3,528,826	3,980,118
Utilities and building maintenance	3,171,703	2,789,336
Business trip expenses	2,787,123	2,098,496
Insurance	1,589,173	1,309,050
Transportation expenses	1,116,085	1,029,195
Others	25,307,981	9,106,189
	<b>721,330,133</b>	<b>658,852,600</b>

### 24. GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Staff costs, including taxes, social contributions and provisions for unused vacations	38,937,901	35,849,356
Property tax and other taxes	17,718,165	12,849,299
Depreciation and amortisation	5,186,083	4,889,502
Consulting, audit and legal services	3,744,076	4,836,673
Advertising	1,889,837	768,555
Allowances for doubtful debts	1,821,397	128,211
Business trip expenses	1,431,591	1,379,835
Operating lease expenses	1,403,269	1,185,762
Other third party services	1,260,294	951,464
Expenses for holidays and mass cultural events	850,228	810,630
Utilities and building maintenance	836,488	760,108
Bank services	787,624	1,040,357
Materials	685,820	873,784
Employee benefit expenses (Note 18)	566,839	606,129
Social sphere facilities maintenance	417,107	468,859
Insurance	274,856	238,886
Repairs and maintenance	259,814	194,928
Professional trainings and qualifications	232,894	212,611
Charity and sponsorship	-	1,796
Others	7,900,657	8,397,218
	<b>86,204,940</b>	<b>76,443,963</b>

### 25. FINANCE INCOME

	2017	2016
Interest income on cash and cash equivalents	3,349,742	4,119,683
Interest income on loans issued	2,863,588	3,349,742
Interest income on funds in credit institutions (short-term financial investments)	598,746	1,731,425
Other finance income	975,155	205,753
	<b>7,787,231</b>	<b>6,325,198</b>

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

### 26. FINANCE COSTS

	2017	2016
Interest expenses on borrowings	89,311,727	77,995,432
Other finance costs	8,253,637	7,422,462
	<b>97,565,364</b>	<b>85,417,894</b>

### 27. DISPOSAL OF SUBSIDIARIES

During 2017, the Group sold shares in the subsidiaries Transportation Service Centre JSC, Regional Forward Logistics OJSC, Rauan-Burabai LLP, Mak-Ekibastuz LLP and Bas-Balkhash LLP (2016: 100% share in the subsidiary Almaty Wagon Repair Plant JSC for KZT 4,700,000 thousand and other investments). Following the sale, the Group lost control over the subsidiaries.

Gain from disposal of subsidiaries is as follows:

	2017	2016
Considerations received	1,032,752	4,999,401
Net assets disposed of	(899,192)	(2,505,126)
Non-controlling interests	9,444	98
Foreign currency translation reserve	107,775	-
<b>Gain from disposal</b>	<b>250,779</b>	<b>2,494,373</b>

Net inflow of cash from the disposal of subsidiaries:

	2017	2016
Cash consideration	1,032,752	4,700,000
Less: unpaid balance	-	(3,525,000)
Less: cash and cash equivalents of disposed subsidiaries	(607,701)	(311,783)
<b>Total</b>	<b>425,051</b>	<b>863,217</b>

### 28. EARNINGS PER SHARE

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

	2017	2016
Weighted average number of common shares	496,098,049	495,218,425
Profit for the year attributable to the Shareholder (KZT thousands)	11,399,401	40,979,582
<b>Earnings per share (KZT)</b>	<b>23</b>	<b>83</b>
Profit for the year from continuing operations attributable to the Shareholder (KZT thousands)	11,133,523	45,887,293
<b>Earnings per share from continuing operations (KZT)</b>	<b>22</b>	<b>93</b>
Net assets not including intangible assets and non-controlling interests (KZT thousands)	1,217,496,817	1,145,408,597
Number of common shares in circulations	496,157,572	496,063,720
<b>Carrying value per share (KZT)<sup>3</sup></b>	<b>2,454</b>	<b>2,309</b>

<sup>3</sup> The carrying value of shares is calculated in accordance with KASE requirements



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

#### 29. FINANCIAL AND CONTINGENT LIABILITIES

##### Capital commitments

As at 31 December 2017, the Group had capital commitments to construct the Zhezkazgan-Beineu and Arkalyk-Shubarkol railway lines, purchase long rails, develop a railway junction in Astana including a railway station, acquire freight and passenger electric locomotives, freight and passenger diesel locomotives and obligations under the *Construction of the Kuryk Port Ferry Complex and the Operation of Universal Freight and Passenger Ferries* project of KZT 1,119,544,186 thousand (31 December 2016: KZT 1,136,590,240 thousand).

##### Other contractual liabilities

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

During 2017, under the Agreement dated 20 November 2015, the Group failed to meet the obligations to acquire the minimum storage services from Continental Logistics LLP. However, the Group does not expect that it will incur losses in connection with its failure to meet minimum freight storage services, because it received confirmation from Continental Logistics LLP that it has no intentions to claim in relation to the execution of this agreement.

Based on an assessment, Group management believes that as at 31 December 2017 and 31 December 2016 that there is no high probability of non-performance of its obligation to acquire minimum freight storage service volumes. Accordingly, the Group had not provided for the contingent liability.

##### Contingent liabilities

###### Legal claims

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

###### Contingent liabilities related to the Kazakhstan taxation system

After a thematic tax audit of the VAT refund for the reporting periods 2011-2015, the subsidiary Suburban Transportation JSC was subject to additional VAT of KZT 1,472,946 thousand and late payment interest of KZT 130,326 thousand because budget subsidies allocated to compensate carrier losses to transport passengers on socially significant routes were not included in taxable turnover.

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

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

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

#### Insurance

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

#### Guarantees

As at 31 December 2017, guarantees are as follows:

Lender	Purpose of the guarantee	Guarantee issue date	Guarantee maturity	Guarantee value
Eurasian Development Bank	Execution of the obligations of the joint venture Electrovoz Kurastyru Zauyty LLP to finance construction of a locomotive production plant	17 September 2012	until 2023	KZT 2,370,000 thousand
Development Bank of Kazakhstan	Execution of the obligations of the associate Aktobe Rail and Section Mill Plant LLP to finance the construction of a rail and section mill plant in Aktobe	4 July 2013	until 2033	KZT 24,089,150 thousand

Note 21 discloses the fair value of these guarantees. As at 31 December 2017 and 2016, the Group had no 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 obligations to its creditors, the Group received a waiver related to the non-application of financial covenants as at 31 December 2017 under the financial guarantee contract with Development Bank of Kazakhstan JSC.

#### Finance lease

In July 2017, the Group, represented by its subsidiary Passenger Transportation JSC, entered into a finance lease agreement with DBK-Leasing JSC to lease 62 passenger cars made by Tulpar-Talgo LLP for KZT 18,891,579 thousand, for 20 years and at interest of 1.75% per annum. The concession period for the principal is 6 years. The Group acts as lessee. The finance lease is due to start in December 2018. The Company acted as guarantor for these liabilities.

In addition, as disclosed in Note 17, the Group, represented by its subsidiaries KTZ Express JSC and Kaztemirtrans JSC, entered into finance lease agreements with DBK-Leasing JSC for platform cars and low-sided cars, which are expected to be supplied during 2018-2019.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

#### 30. SUBSIDIARIES

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

Subsidiary	Nature of activities	Country of residence	Ownership share, %	
			2017	2016
1. Kaztemirtrans JSC	Freight wagon operation	Kazakhstan	100	100
2. Passenger Transportation JSC	Passenger transportation	Kazakhstan	100	100
3. KTZ-Freight Transportation JSC	Freight transportation and locomotive haulage	Kazakhstan	100	100
4. KTZ Express JSC	Multimodal freight services	Kazakhstan	100	100
5. Temirzholsu JSC	Utilities	Kazakhstan	100	100
6. Remlocomotive JSC	Rolling stock production	Kazakhstan	100	100
7. Transtelecom JSC	Communication services	Kazakhstan	51	100
8. Militarised Railway Security JSC	Security services	Kazakhstan	100	100
9. Kamkor Repair Corporation LLP	Production of machinery	Kazakhstan	100	100
10. Vokzal-Service JSC	Railway stations activities	Kazakhstan	100	100
11. M. Tynyshpaev Kazakh Academy of Transport and Communications JSC	Education, training and retraining	Kazakhstan	100	100
12. Aktau International Sea Commercial Port National Company JSC <sup>4</sup>	Sea port services, loading, unloading vessels servicing	Kazakhstan	100	100
13. Port Kuryk LLP	Transfer of cargo and vessels servicing	Kazakhstan	100	100
14. KTZ Finance OJSC	Bond issues to finance the projects and activities of the KTZ NC JSC group of companies	Russia	100	-

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

During 2016, the Group's 100% share in Almaty Wagon Repair Plant JSC and Magistral kyzmet LLP were sold to a third party (Note 27) along with a 49% share in Transtelecom JSC (Note 14).

<sup>4</sup> In November 2013, the Shareholder transferred a 100% ownership interest in JSC National Company Aktau International Sea Commercial Port to the Group's trustee management. JSC National Company Aktau International Sea Commercial Port is recognised as a Group subsidiary although the Group does not legally hold shares in it.

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

### 31. RELATED PARTY TRANSACTIONS

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

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

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

		Shareholder	Associates	Joint ventures in which the Group is a participant	Companies in the Shareholder group	Other related parties
Amounts due from related parties for goods, services and non-current assets	2017	6,772	9,135,188	304,966	1,008,789	-
	2016	-	9,580,245	7,397,824	1,656,854	-
including allowances for doubtful debts	2017	-	(12,136)	(23,896)	(31,905)	-
	2016	-	(16,763)	(191,312)	(33,552)	-
Amounts due to related parties for goods, services and non-current assets	2017	-	4,335,511	2,173,343	2,689,154	191,895
	2016	-	1,619,534	4,299,385	3,816,564	-
Current accounts and deposits	2017	-	-	-	-	338
	2016	-	-	-	-	309
Restricted cash	2017	-	-	-	-	-
	2016	-	-	-	-	357,811
Loans issued	2017	-	-	-	-	-
	2016	-	-	99,428	-	-
including loan impairment allowances	2017	-	-	-	-	-
	2016	-	-	(590,075)	-	-
Loans received	2017	105,738,753	-	-	-	37,476,232
	2016	152,960,581	-	-	-	43,813,136
Finance lease liabilities	2017	996,218	-	-	-	13,888,552
	2016	-	-	-	-	136,052
Dividends receivable	2017	-	-	-	-	-
	2016	-	-	1,663,776	-	-
Dividends payable	2017	16,424,670	-	-	-	-
	2016	16,424,670	-	-	-	-

# KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

Related party transactions for the years ended 31 December are presented as follows:

		Shareholder	Associates	Joint ventures in which the Group is a participant	Companies in the Shareholder group	Other related parties
Sale of goods, services and non-current assets	2017	2,858,090	1,116,750	24,155,035	15,853,907	-
	2016	-	636,232	39,022,259	16,957,257	-
(Accrued) / recovered allowances for doubtful debts	2017	-	4,627	-	1,648	-
	2016	-	(16,763)	(191,312)	1,420,483	-
Purchase of goods, services and non-current assets	2017	2,820,994	45,970,234	661,753	12,318,660	278
	2016	-	55,815,681	3,782,148	10,068,762	19
Loan issue	2017	-	-	12,512	-	-
	2016	-	-	810,928	-	-
Loan repayment	2017	-	-	-	-	-
	2016	-	-	2,093,503	-	-
Receipt of loans	2017	25,000,000	-	-	-	-
	2016	5,500,000	-	-	-	1,070,299
Repayment of loans received	2017	75,000,000	-	-	-	6,646,986
	2016	48,948,658	-	-	-	7,527,599
New finance lease agreements	2017	894,841	-	-	-	13,518,959
	2016	-	-	-	-	-
Payments of finance lease obligation	2017	51,121	-	-	-	76,474
	2016	-	-	-	-	-
Finance income	2017	-	-	13,949	-	42,706
	2016	-	-	225,229	-	-
Finance costs	2017	5,913,857	-	872	-	2,823,312
	2016	8,761,044	-	58,425	-	3,523,381
Dividends due	2017	-	-	-	-	-
	2016	-	-	3,128,141	-	-
Charter capital contribution	2017	69,174,567	-	-	-	-
	2016	128,066,584	-	-	-	-

As at 31 December 2017 and 2016, certain Group borrowings of KZT 3,285,544 thousand and KZT 4,096,677 thousand, respectively, were guaranteed by the Kazakhstan Government.

As at 31 December 2017, certain borrowings of associates were guaranteed by the Group to meet bank obligations (Notes 21 and 29).

Transactions with Shareholder group companies, associates and joint ventures and other related parties mainly comprise transactions with KazMunaiGas National Company JSC (fuel), Kazakhtelecom JSC (communication services), Kazatomprom National Nuclear Company JSC (electricity), KEGOC JSC (electricity), Kazpost JSC (postal services), Kazakhstan Engineering National Company JSC (engineering production) and Samruk-Energo JSC (electricity). The Group also provides freight transportation services to Shareholder associates and joint ventures.



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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

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In addition, during 2017, the Group, represented by its subsidiary Airport Management Group LLP, provided an interest-free, reimbursable financial aid of KZT 27,500,000 thousand (2016: KZT 500,000 thousand), out of which KZT 4,000,000 thousand were repaid during the year, to organisation under trust management, Nursultan Nazarbayev International Airport JSC (previously Astana International Airport JSC) to finance working capital.

As at 31 December, the Group recognised constructive obligations to build the following facilities for the benefit of the Shareholder:

	Current liabilities				Non-current liability	
	Teleradio complex equipment	Mangistau social facilities	Astana kindergarten	Ice Palace	Total	Ice Palace
As at 1 January 2016	28,238,638	247,276	1,702,660	-	30,188,574	48,601,265
Additions	-	-	195,587	-	195,587	-
Decrease	-	-	(30,315)	-	(30,315)	(823,196)
Disposal	(28,238,638)	-	(1,825,478)	-	(30,064,116)	-
Transfers	-	-	-	47,778,069	47,778,069	(47,778,069)
As at 31 December 2016	-	247,276	42,454	47,778,069	48,067,799	-
Additions	-	-	-	5,733,368	5,733,368	-
Disposals	-	-	-	(53,511,437)	(53,511,437)	-
As at 31 December 2017	-	247,276	42,454	-	289,730	-

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

	Current assets				Non-current assets	
	<u>Teleradio complex equipment</u>	<u>Mangistau social facilities</u>	<u>Astana kindergarten</u>	<u>Ice Palace</u>	<u>Total</u>	<u>Ice Palace</u>
As at 1 January 2016	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)
As at 31 December 2016	-	247,276	42,454	47,778,069	48,067,799	-
Disposals	-	-	-	(47,778,069)	(47,778,069)	-
As at 31 December 2017	-	247,276	42,454	-	289,730	-

In May 2017, the Ice Palace, which is accounted for as an asset for the benefit of the Shareholder, in accordance with a decision of the Ultimate Shareholder, was transferred free of charge to the Astana city administration. As a result of the transfer, a VAT of KZT 5,733,368 thousand was recognised as a distribution to the Shareholder in retained earnings (Note 15).

### Compensation of key management personnel of the Group

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

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

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

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

##### *Capital risk management*

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

The Group's equity structure includes net debt (loans, debt securities and finance lease liabilities less cash and cash equivalents) and Group equity (which comprises share capital, foreign currency translation and cash flow hedge reserves, retained earnings and non-controlling interests).

##### *Financial risk management objectives*

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

##### *Interest rate risk*

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

The Group's exposure to the interest rate risk mainly relates to its borrowings with variable interest rates.

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

	31 December 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\$	70/(8)	(154,270)/17,631	60/(8)	(499,987)/66,665
KZT	70/(8)	(843,355)/96,383	60/(8)	(303,857)/40,514

##### *Currency risk*

The Group undertakes transactions denominated in foreign currencies; consequently, exposing itself exchange rate fluctuations.

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

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

The following table reflects the sensitivity of the Group's profit before tax and equity to potential changes in the US\$, Euro, Russian Rouble and other exchange rates, provided all other parameters remaining constant.

	31 December 2017			31 December 2016		
	Exchange rate increase / (decrease)	Effect on profit before tax	Effect on equity	Exchange rate increase / (decrease)	Effect on profit before tax	Effect on equity
US\$	10%/	(69,162,051)/		13%/	(102,659,544)/	
	(10%)	69,162,051	-	(13%)	102,659,544	-
Euros	13.5%/	(8,522,080)/		15%/	(8,309,478)/	
	(9.5%)	5,997,020	-	(15%)	8,309,478	-
Russian Roubles	16%/	(13,531,143)/		23%/	(124,392)/	
	(16%)	13,531,143	-	(19%)	102,759	-
Swiss Francs	11.5%/	168,942/	(11,349,035)/	15%/	24,266/	(14,257,966)/
	(11.5%)	168,942	11,349,035	(15%)	(24,266)	14,257,966
Other currencies	11.5%/	(224,267)/		15%/	(653,534)/	
	(11.5%)	224,267	-	(15%)	653,534	-

On 7 August 2015, the Group began cash flow hedging to decrease the risk of a change in the KZT equivalent of revenue denominated in Swiss francs. Eurobonds issued on 20 June 2014 on the Swiss Stock Exchange are used as hedging instruments. The hedged item is revenue from transit traffic in Swiss Francs. As a result of hedging, in 2017 an effect of KZT 3,479,319 thousand was recognised in other comprehensive income (2016: KZT 4,417,426 thousand).

#### Credit risk

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

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

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

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

#### Market risk

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

#### Liquidity risk

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

As at 31 December 2017, the Group has also credit lines available in Halyk Bank JSC and Citibank of Kazakhstan for a total of KZT 49,969,900 thousand.

The Group controls and monitors compliance with the covenants set by the Shareholder and credit/guarantee agreements on a regular basis.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

As at 31 December 2017, the Group 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.

To refinance long-term borrowings received by the subsidiaries Kaztemirtrans JSC and KTZ-Freight Transportation JSC from the Shareholder for KZT 75,000,000 thousand, the Group issued debt securities in Russia of RUR 15 billion.

To refinance certain loans, the Group issued and placed bonds in Kazakhstan for KZT 25,000,000 thousand.

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

	Up to 1 month	1-3 months	3 months – 1 year	1-5 years	Over 5 years	Total
<b>2017</b>						
<i>Non-interest bearing:</i>						
Accounts payable	70,133,933	1,082,851	42,347,181	-	-	113,563,965
Other current liabilities	-	-	8,734,941	-	-	8,734,941
<i>Interest bearing:</i>						
Borrowings	20,154,364	10,205,376	114,331,234	628,068,550	1,704,444,008	2,477,203,532
Finance lease	694,836	527,195	3,628,608	29,132,709	74,556,577	108,539,925
Financial guarantees	1,829,137	2,967,968	9,347,533	27,214,045	-	41,358,683
	<b>92,812,270</b>	<b>14,783,390</b>	<b>178,389,497</b>	<b>684,415,304</b>	<b>1,779,000,585</b>	<b>2,749,401,046</b>
<b>2016</b>						
<i>Non-interest bearing:</i>						
Accounts payable	109,480,452	12,922,007	2,051,340	-	-	124,453,799
Other current liabilities	-	-	4,351,172	-	-	4,351,172
<i>Interest bearing:</i>						
Borrowings	14,822,109	11,378,646	166,484,226	695,639,570	1,474,260,485	2,362,585,036
Finance lease	506,501	8,091,690	26,978,086	28,728,978	27,591,296	91,896,551
Financial guarantees	1,688,336	1,735,191	7,414,780	30,845,534	-	41,683,841
	<b>126,497,398</b>	<b>34,127,534</b>	<b>207,279,604</b>	<b>755,214,082</b>	<b>1,501,851,781</b>	<b>2,624,970,399</b>

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

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

	Up to 1 month	1-3 months	3 months – 1 year	Over 1 year	Unspecified maturity <sup>5</sup>	Total
<b>2017</b>						
<i>Interest bearing:</i>						
Short-term contributions	13,250,837	402,619	621,695	-	-	14,275,151
Interest on short-term deposits	8,239	3,932	39,696	-	-	51,867
Other financial assets	-	50,000	13,495,858	2,326,310	-	15,872,168
Interest on other financial assets	-	654	286,923	462,075	-	749,652
Cash and cash equivalents	13,881,156	-	-	-	-	13,881,156
<i>Non-interest bearing:</i>						
Cash and cash equivalents	35,332,927	-	-	-	-	35,332,927
Restricted cash	-	-	517,943	-	-	517,943
Trade accounts receivable	21,423,223	588,443	84,091	42,321	8,404,483	30,542,561
	<b>83,896,382</b>	<b>1,045,648</b>	<b>15,046,206</b>	<b>2,830,706</b>	<b>8,404,483</b>	<b>111,223,425</b>
<b>2016</b>						
<i>Interest bearing:</i>						
Short-term deposits	25,494,025	809,023	-	-	-	26,303,048
Interest on short-term deposits	30,918	-	35,385	-	-	66,303
Other financial assets	-	3,287,073	11,901,019	2,333,030	-	17,521,122
Interest on other financial assets	-	36,907	325,437	549,700	-	912,044
Cash and cash equivalents	9,981,319	-	-	-	-	9,981,319
<i>Non-interest bearing:</i>						
Cash and cash equivalents	12,693,806	-	-	-	-	12,693,806
Restricted cash	-	-	1,782,029	-	-	1,782,029
Trade accounts receivable	3,976,777	28,965	11,257,448	270,544	8,094,689	23,628,423
	<b>52,176,845</b>	<b>4,161,968</b>	<b>25,301,318</b>	<b>3,153,274</b>	<b>8,094,689</b>	<b>92,888,094</b>

### Fair value of financial instruments

Fair value is defined as the amount at which an instrument could be exchanged in a current transaction between knowledgeable willing parties according to arm's length conditions, other than in a forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgement is needed to arrive at a fair value, based on current economic conditions and the specific risks attributable to the instrument.

<sup>5</sup> Due to the uncertainty in the recoverability of doubtful debts, the Group included the presented trade accounts receivable in the "Indefinite settlement" item



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

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

#### *Cash and cash equivalents*

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

#### *Financial assets and liabilities*

For assets and liabilities maturing within 12 months, the carrying value approximates fair value due to the relatively short-term maturity of these financial instruments.

For financial assets and liabilities maturing in over 12 months, the fair value represents the present value of estimated future cash flows discounted at year-end market rates.

#### *Borrowings*

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

#### *Fair value of financial assets and financial liabilities regularly not measured at fair value*

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

	31 December 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans issued	23,542,753	23,542,753	969,745	969,745
Other financial assets	15,912,921	15,912,921	17,549,976	17,549,976
Loans	371,209,012	340,652,387	468,338,685	451,931,634
Debt securities issued	893,510,975	983,468,431	771,341,089	790,399,781
Financial guarantees	4,194,045	4,194,045	4,399,245	4,399,245
Financial lease	14,884,770	14,884,770	-	-

#### *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

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in KZT thousands, unless indicated otherwise)

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
<i>Financial assets</i>				
Loans issued	-	23,542,753	-	23,542,753
Other financial assets	-	15,912,921	-	15,912,921
<b>Total</b>	<b>-</b>	<b>39,455,674</b>	<b>-</b>	<b>39,455,674</b>
<i>Financial liabilities</i>				
Financial liabilities carried at amortised cost:				
- debt securities issued	983,468,431	-	-	983,468,431
- bank loans	-	254,446,221	5,979,219	260,425,440
- loans from related parties	-	80,226,947	-	80,226,947
- finance lease	-	14,884,770	-	14,884,770
- financial guarantees	-	4,194,045	-	4,194,045
<b>Total</b>	<b>983,468,431</b>	<b>353,751,983</b>	<b>5,979,219</b>	<b>1,343,199,633</b>

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

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

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

For trade accounts receivable and payable, fair value approximates their carrying value and relates to level 3 of the hierarchy.

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

### 33. EVENTS AFTER THE REPORTING DATE

#### *Loans issued*

In February-March 2018, the financial aid given to Nursultan Nazarbayev International Airport JSC (former Astana International Airport JSC) was partially repaid of KZT 3,000,000 thousand.

#### *Borrowings*

In February 2018, credit committee of Halyk Bank JSC approved the change of interest rate from 13% to 12% per annum for the loans obtained by the Group, represented by KTZ-Freight Transportation JSC, under the credit line agreement dated 12 December 2016. As of date of approval of these financial statements, the addendum is being signed by the parties.

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

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

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

*(in KZT thousands, unless indicated otherwise)*

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In March 2018, the Group, represented by its subsidiary KTZ-Freight Transportation JSC, received short-term loans of KZT 13,000,000 thousand at interest rate of 12% under Halyk Bank credit line agreement dated 26 February 2015.