Unrestricted Global Note

ISIN: XS1713475132 **Common Code: 171347513**

THE NOTES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") AND MAY NOT BE OFFERED AND SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (I) AS PART OF THEIR DISTRIBUTION AT ANY TIME OR (II) OTHERWISE UNTIL 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING AND THE CLOSING DATE, EXCEPT IN EITHER CASE IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S.

Joint Stock Company "National Company "Kazakhstan Temir Zholy"
(*A joint stock company incorporated in the Republic of Kazakhstan*)
(the "**Issuer**")

U.S.$780,000,000 4.850% Guaranteed Notes due 2027

guaranteed by
Joint Stock Company "Kaztemirtrans" and Joint Stock Company "KZT Freight-transportation"
(*Each a joint stock company incorporated in the Republic of Kazakhstan*)
(the "**Guarantors**" and each, a "**Guarantor**")

Unrestricted Global Note

1. Introduction

This Unrestricted Global Note is issued in respect of the U.S.$780,000,00 4.850% Guaranteed Notes due 2027 (the "**Notes**") of the Issuer. The Notes are constituted by, are subject to, and have the benefit of, a trust deed dated 17 November 2017 (as amended or supplemented from time-to-time, the "**Trust Deed**") among the Issuer, the Guarantors and BNY Mellon Corporate Trustee Services Limited, as trustee (the "**Trustee**", which expression includes all persons for the time being appointed trustee or trustees under the Trust Deed) and are the subject of an agency agreement dated 17 November 2017 (as amended or supplemented from time-to-time, the "**Agency Agreement**") and made among the Issuer, the Guarantor, The Bank of New York Mellon SA/NV, Luxembourg Branch, as registrar and transfer agent (the "**Registrar and Transfer Agent**", which expression includes any successor registrar and transfer agent appointed from time-to-time in connection with the Notes), The Bank of New York Mellon, London Branch, as principal paying agent (the "**Principal Paying Agent**"), the other paying agents named therein and the Trustee.

2. References to Conditions

Any reference herein to the "**Conditions**" is to the terms and conditions of the Notes attached as Schedule 4 (*Terms and Conditions of the Notes*) to the Trust Deed as modified from time-to-time in accordance with the Trust Deed and any reference to a numbered "**Condition**" is to the correspondingly numbered provision thereof.

3. Registered Holder

This is to certify that The Bank of New York Depository (Nominees) Limited is, at the date hereof, entered in the register maintained by the Registrar and Transfer Agent in relation to the Notes (the "**Register**") as the duly registered holder (the "**Holder**") of **U.S.$574,045,000 (five hundred and seventy four million and forty five thousand United States Dollars)** in aggregate principal amount of Notes or such other amount as is shown on the register of

Noteholders as being represented by this Global Note and is duly endorsed (for information purposes only) in the third column of Schedule A to this Global Note.

4. Promise to Pay

The Issuer, for value received, hereby promises to pay such principal sum to the Holder on 17 November 2027 (or on such earlier date or dates as the same may become payable in accordance with the Conditions), and to pay interest on such principal sum in arrear on the dates and at the rates specified in the Conditions, together with any additional amounts payable in accordance with the Conditions, all subject to and in accordance with the Conditions.

5. Transfers

Transfers of interests in the Notes represented by this Unrestricted Global Note for interests in the Restricted Global Note shall be made in accordance with the Agency Agreement and in accordance with the operating procedures of the relevant clearing system and any such transfers may only be made upon presentation of a certificate as provided in the Agency Agreement.

6. Exchange for Definitive Note Certificates

This Unrestricted Global Note shall be exchanged in whole (but not in part) free of charge to the Holder for duly authenticated and completed Definitive Note Certificates ("**Definitive Note Certificates**") in substantially the form (subject to completion) set out in the Schedule 1 (*Form of Definitive Note Certificate*) to the Trust Deed if any of the following events occurs:

(a) Euroclear and/or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so; or

(b) an Event of Default (as defined and set out in Condition 13 (*Events of Default*) of the Notes) occurs.

Such exchange shall be effected in accordance with paragraph 7 (*Delivery of Definitive Note Certificates*). The Issuer shall notify the Holder of the occurrence of any of the events specified in (a) and (b) as soon as practicable thereafter.

7. Delivery of Definitive Note Certificates

Whenever this Unrestricted Global Note is to be exchanged for Definitive Note Certificates, such Definitive Note Certificates shall be issued in an aggregate principal amount equal to the principal amount of this Unrestricted Global Note within five business days of the delivery, by or on behalf of the Holder, Euroclear and/or Clearstream, Luxembourg, to the Registrar and Transfer Agent of such information as is required to complete and deliver such Definitive Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Definitive Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of this Unrestricted Global Note at the Specified Office (as defined in the Agency Agreement) of the Registrar and Transfer Agent. Such exchange shall be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder or the Trustee, but against such indemnity as the Registrar and Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange. In this paragraph, "**business day**" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city in which the Registrar and Transfer Agent has its Specified Office.

8. Conditions Apply

Save as otherwise provided herein, the Holder of this Unrestricted Global Note shall have the benefit of, and be subject to, the Conditions and, for the purposes of this Unrestricted Global Note, any reference in the Conditions to "**Note Certificate**" or "**Note Certificates**" shall, except where the context otherwise requires, be construed so as to include this Unrestricted Global Note.

9. Notices

Notwithstanding Condition 17 (*Notices*), so long as this Unrestricted Global Note is held on behalf of Euroclear and/or Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**"), notices to Holders of Notes represented by this Unrestricted Global Note ("**Noteholders**") may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System; provided, however, that, so long as the Notes are admitted to trading on the Stock Exchange, notices will also be published in accordance with the rules of the Stock Exchange.

10. Meetings

The Holder shall be treated as two persons for the purpose of any quorum requirements of a meeting of Noteholders and, at any such meeting of Noteholders as having one vote in respect of each U.S.$1,000 principal amount of Notes for which this Unrestricted Global Note may be exchanged.

11. Contracts (Rights of Third Parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Unrestricted Global Note but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

12. Payment

Payments of principal and interest in respect of Notes represented by this Unrestricted Global Note shall be made to the person shown as the Noteholder in the Register at the close of business on the Clearing System Business Day before the due date for payment, where "**Clearing System Business Day**" means a day on which each clearing system for which this Unrestricted Global Note is being held is open for business, and shall be made against presentation for endorsement and if no further payment falls to be made in respect of the Notes, surrender of the Unrestricted Global Note to or to the order of The Bank of New York Mellon SA/NV, Luxembourg Branch.

13. Put Option

No drawing of Notes will be required under Condition 10(e) (*Redemption at the Option of Noteholders (Change of Control)*) in the event that a Noteholder exercises a put option provided by such Condition while the Notes are represented by a Global Note in respect of less than the aggregate principal amount of Notes outstanding. In such event, the partial redemption will be effected in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion).

14. Determination of Entitlement

This Unrestricted Global Note is evidence of entitlement only and is not a document of title. Entitlements are determined by the Register and only the Holder is entitled to payment in respect of this Unrestricted Global Note.

15. Trustee Powers

In considering the interests of Noteholders while this Unrestricted Global Note is held on behalf of one or more clearing systems, the Trustee may have regard to any information provided to it by such clearing system or its operator or any accountholders as to the identity (either individually or by category) of any persons beneficially entitled to this Unrestricted Global Note and may consider such interests as if such persons were the holders of this Unrestricted Global Note.

16. Prescription

This Unrestricted Global Note shall become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 12 (*Taxation*)).

17. Purchase and Cancellation

Cancellation of any Note required by the Conditions to be cancelled following its purchase shall be effected by reduction in the principal amount of this Unrestricted Global Note.

18. Authentication

This Unrestricted Global Note shall not be valid for any purpose until it has been authenticated by or on behalf of the Registrar and Transfer Agent.

19. Governing Law

This Unrestricted Global Note and any non-contractual obligations arising out of it, or in connection with it, are governed by, and shall be construed in accordance with, English law.

As Witness the manual or facsimile signature of a duly authorised person on behalf of the Issuer.

Joint Stock Company National Company "Kazakhstan Temir Zholy"

....
By: Zhaslan Madiyev
(duly authorised)

Issued on 17 November 2017

Authenticated by or on behalf of **The Bank of New York Mellon SA/NV, Luxembourg Branch** without liability, warranty or recourse

....
By:
(duly authorised)

Schedule A

Schedule of Increase or Reduction in Principal Amount of the Notes Represented by this Unrestricted Global Note

The following increases or reductions in the principal amount of the Notes represented by this Unrestricted Global Note have been made as a result of (i) redemption or purchase and cancellation of Notes or (ii) transfer of Notes (including transfers of interests between the Global Notes):

Date of Redemption/ Purchase and cancellation (stating which)	Amount of increase or decrease in principal amount of Notes represented by this Unrestricted Global Note	Principal Amount of Notes Represented by this Unrestricted Global Note following such increase or decrease	Notation made by or on behalf of the Registrar and Transfer Agent

Restricted Global Note

ISIN: US48669DAA00 **Common Code: 111730954**

NEITHER THIS NOTE NOR THE GUARANTEE HAS BEEN OR WILL BE REGISTERED UNDER, AND EACH WAS ORIGINALLY ISSUED OR MADE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER, THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), AND THE NOTES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF REPRESENTS AND AGREES, FOR THE BENEFIT OF THE ISSUER AND THE GUARANTORS, THAT (A) THIS NOTE (AND ANY INTEREST HEREIN) MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE ISSUER OR THE GUARANTORS, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND THAT (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE (OR INTEREST HEREIN) FROM IT OF THE TRANSFER RESTRICTIONS REFERRED TO IN (A) ABOVE.

THIS NOTE AND ALL RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME-TO-TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFERS OF RESTRICTED SECURITIES GENERALLY. BY THE ACCEPTANCE OF THIS NOTE, THE HOLDER HEREOF SHALL BE DEEMED TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

Joint Stock Company "National Company "Kazakhstan Temir Zholy"
(*A joint stock company incorporated in the Republic of Kazakhstan*)
(the "**Issuer**")

U.S.$780,000,000 4.850% Guaranteed Notes due 2027

guaranteed by
Joint Stock Company "Kaztemirtrans" and Joint Stock Company "KZT Freight-transportation"
(*Each a joint stock company incorporated in the Republic of Kazakhstan*)
(the "**Guarantors**" and each, a "**Guarantor**")

Restricted Global Note

1. Introduction

This Restricted Global Note is issued in respect of the U.S.$780,000,000 4.850% Guaranteed Notes due 2027 (the "**Notes**") of the Issuer. The Notes are constituted by, are subject to, and have the benefit of, a trust deed dated 17 November 2017 (as amended or supplemented from time-to-time, the "**Trust Deed**") among the Issuer, the Guarantors and BNY Mellon Corporate Trustee Services Limited, as trustee (the "**Trustee**", which expression includes all persons for the time being appointed trustee or trustees under the Trust Deed) and are the subject of an agency agreement dated 17 November 2017 (as amended or supplemented from time-to-time, the “**Agency Agreement**”) and made among the Issuer, the Guarantor, The Bank of New York Mellon SA/NV, Luxembourg Branch, as registrar and transfer agent (the “**Registrar and Transfer Agent**”, which expression includes any successor registrar and transfer agent appointed from time-to-time in connection with the Notes), The Bank of New York Mellon, London Branch, as principal paying agent (the “**Principal Paying Agent**”), the other paying agents named therein and the Trustee.

2. References to Conditions

Any reference herein to the “**Conditions**” is to the terms and conditions of the Notes attached as Schedule 4 (*Terms and Conditions of the Notes*) to the Trust Deed as modified from time-to-time in accordance with the Trust Deed and any reference to a numbered “**Condition**” is to the correspondingly numbered provision thereof.

3. Registered Holder

This is to certify that Cede & Co., as nominee for The Depository Trust Company (“**DTC**”) is, at the date hereof, entered in the register maintained by the Registrar and Transfer Agent in relation to the Notes (the “**Register**”) as the duly registered holder (the “**Holder**”) of **U.S.$205,955,000 (two hundred and five million nine hundred and fifty five thousand United States Dollars)** in aggregate principal amount of Notes or such other amount as is shown on the register of Noteholders as being represented by this Global Note and is duly endorsed (for information purposes only) in the third column of Schedule A to this Global Note.

4. Promise to Pay

The Issuer, for value received, hereby promises to pay such principal sum to the Holder on 17 November 2027 (or on such earlier date or dates as the same may become payable in accordance with the Conditions), and to pay interest on such principal sum in arrear on the dates and at the rates specified in the Conditions, together with any additional amounts payable in accordance with the Conditions, all subject to and in accordance with the Conditions.

5. Transfers

Transfers of interests in the Notes represented by this Restricted Global Note for interests in the Unrestricted Global Note shall be made in accordance with the Agency Agreement and in accordance with the operating procedures of the relevant clearing system and any such transfers may only be made upon presentation of a certificate as provided in the Agency Agreement.

6. Exchange for Definitive Note Certificates

This Restricted Global Note shall be exchanged in whole (but not in part) free of charge to the Holder for duly authenticated and completed Definitive Note Certificates (“**Definitive Note Certificates**”) in substantially the form (subject to completion) set out in Schedule 1 (*Form of Definitive Note Certificate*) to the Trust Deed if any of the following events occurs:

(a) DTC notifies the Issuer or the Guarantors that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Restricted Global Note, or ceases to be a “clearing agency” registered under the U.S. Securities Exchange Act of 1934, as amended, or is at any time no longer eligible to act as such and the Issuer is or the Guarantors are unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC (or, as the case may be, such other clearing system); or

(b) an Event of Default (as defined and set out in Condition 13 (*Events of Default*) of the Notes) occurs.

Such exchange shall be effected in accordance with paragraph 7 (*Delivery of Definitive Note Certificates*). The Issuer shall notify the Holder of the occurrence of any of the events specified in (a) and **Error! Reference source not found.** as soon as practicable thereafter.

7. Delivery of Definitive Note Certificates

Whenever this Restricted Global Note is to be exchanged for Definitive Note Certificates, such Definitive Note Certificates shall be issued in an aggregate principal amount equal to the principal amount of this Restricted Global Note within five business days of the delivery, by or on behalf of the Holder, DTC, Euroclear and/or Clearstream, Luxembourg, to the Registrar and Transfer Agent of such information as is required to complete and deliver such Definitive Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Definitive Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of this Restricted Global Note at the Specified Office (as defined in the Agency Agreement) of the Registrar and Transfer Agent. Such exchange shall be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder or the Trustee, but against such indemnity as the Registrar and Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange. In this paragraph, "**business day**" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city in which the Registrar and Transfer Agent has its Specified Office.

8. Conditions Apply

Save as otherwise provided herein, the Holder of this Restricted Global Note shall have the benefit of, and be subject to, the Conditions and, for the purposes of this Restricted Global Note, any reference in the Conditions to "**Note Certificate**" or "**Note Certificates**" shall, except where the context otherwise requires, be construed so as to include this Restricted Global Note.

9. Notices

Notwithstanding Condition **Error! Reference source not found.** (*Notices*), so long as this Restricted Global Note is held on behalf of DTC or any other clearing system (an "**Alternative Clearing System**"), notices to Holders of Notes represented by this Restricted Global Note ("**Noteholders**") may be given by delivery of the relevant notice to DTC or (as the case may be) such Alternative Clearing System; provided, however, that, so long as the Notes are admitted to trading on the Stock Exchange, notices will also be published in accordance with the rules of the Stock Exchange.

10. Meetings

The Holder shall be treated as two persons for the purpose of any quorum requirements of a meeting of Noteholders and, at any such meeting of Noteholders as having one vote in respect of each U.S.$1,000 principal amount of Notes for which this Restricted Global Note may be exchanged.

11. Contracts (Rights of Third Parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Restricted Global Note but this does not affect any right or remedy of a third party which exists or is available apart from that Act.

12. Payment

Payments of principal and interest in respect of Notes represented by this Restricted Global Note shall be made to the person shown as the Noteholder in the Register at the close of business on the Clearing System Business Day before the due date for payment, where "Clearing System Business Day" means a day on which each clearing system for which this Restricted Global Note is being held is open for business, and shall be made against presentation for endorsement and if no further payment falls to be made in respect of the Notes, surrender of the Restricted Global Note to or to the order of The Bank of New York Mellon SA/NV, Luxembourg Branch.

13. Put Option

No drawing of Notes will be required under Condition 10(e) (*Redemption at the Option of Noteholders (Change of Control)*) in the event that a Noteholder exercises a put option provided by such Condition while the Notes are represented by a Global Note in respect of less than the aggregate principal amount of Notes outstanding. In such event, the partial redemption will be effected in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion).

14. Determination of Entitlement

This Restricted Global Note is evidence of entitlement only and is not a document of title. Entitlements are determined by the Register and only the Holder is entitled to payment in respect of this Restricted Global Note.

15. Trustee Powers

In considering the interests of Noteholders while this Restricted Global Note is held on behalf of one or more clearing systems, the Trustee may have regard to any information provided to it by such clearing system or its operator or any accountholders as to the identity (either individually or by category) of any persons beneficially entitled to this Restricted Global Note and may consider such interests as if such persons were the holders of this Restricted Global Note.

16. Prescription

This Restricted Global Note shall become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 12 (*Taxation*)).

17. Purchase and Cancellation

Cancellation of any Note required by the Conditions to be cancelled following its purchase shall be effected by reduction in the principal amount of this Restricted Global Note.

18. Authentication

This Restricted Global Note shall not be valid for any purpose until it has been authenticated by and on behalf of the Registrar and Transfer Agent.

19. Governing Law

This Restricted Global Note and any non-contractual obligations arising out of it, or in connection with it, are governed by, and shall be construed in accordance with, English law.

As Witness the manual or facsimile signature of a duly authorised person on behalf of the Issuer.

Joint Stock Company National Company "Kazakhstan Temir Zholy"

....
By: Zhaslan Madiyev
(duly authorised)

Issued on 17 November 2017

Authenticated by or on behalf of
The Bank of New York Mellon SA/NV, Luxembourg Branch without liability, warranty or recourse

....
By:
(duly authorised)

Schedule A

Schedule of Increase or Reduction in Principal Amount of the Notes Represented by this Restricted Global Note

The following increases or reductions in the principal amount of the Notes represented by this Restricted Global Note have been made as a result of (i) redemption or purchase and cancellation of Notes or (ii) transfer of Notes (including transfers of interests between the Global Notes):

Date of Transfer/ Redemption/ Purchase and cancellation (stating which)	Amount of increase or decrease in principal amount of Notes represented by this Restricted Global Note	Principal Amount of Notes Represented by this Restricted Global Note following such increase or decrease	Notation made by or on behalf of the Registrar and Transfer Agent

Pricing Term Sheet

NOT FOR RELEASE, PUBLICATION OR DISTRIBUTION IN OR INTO AUSTRALIA, CANADA, JAPAN OR THE UNITED STATES

Issuer:	Joint Stock Company “National Company “Kazakhstan Temir Zholy”
Guarantors:..	Joint Stock Company “Kaztemirtrans” and Joint Stock Company “KTZ-Freight transportation”
Security:	U.S.$780,000,000 4.850% Guaranteed Notes due 2027 (the “**Notes**”)
Notes Rating:..	Moody’s: Baa3 Fitch: BBB-
Issue Size:	U.S.$780,000,000
Issue Price:	100.393%
Issue Date:	17 November 2017
Final Redemption Date:	17 November 2027
Coupon:	4.850%
Estimated Net Proceeds (before deduction of underwriter fees and expenses in connection with the transaction)	U.S.$783,000,000
Pricing Benchmark:	UST 2.250% due November 2027
Benchmark Treasury Yield:...............................	2.397
Spread to Benchmark:	240.3 bps
Yield to Maturity:...	4.800%
Redemption:...	At principal amount on the Final Redemption Date
Interest Payable:...	Semi-annually in arrear on 17 May and 17 November in each year beginning on 17 May 2018
Status:..	Rule 144A / Regulation S
Expected Listing and Admission to Trading:	The official list of the Irish Stock Exchange and to trading on its Global Exchange Market and the official list of the KASE and admission to trading on the KASE
Governing Law:...	English law
Denominations:..	U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof
Form of Notes:	Registered
Use of Proceeds:	Net proceeds will be used to fund the purchase of any or all of the Existing Notes, tendered and accepted for purchase in the Tender Offer and the redemption of Existing Notes remaining outstanding after the Tender Offer upon the

	approval of the Mandatory Early Redemption, as well as the payment of any early consent fees in connection therewith, all pursuant to the Tender Offer and Consent Solicitation Memorandum
Selling Restrictions:...	United States, United Kingdom, Republic of Kazakhstan
CUSIP / ISIN / Common Code:...........................	Regulation S: Common Code: 171347513 ISIN: XS1713475132 Rule 144A: Common Code: 111730954 ISIN: US48669DAA00 CUSIP: 48669DAA0
Registrar and Transfer Agent:............................	The Bank of New York Mellon SA/NV, Luxembourg Branch
Joint Global Coordinators....................................	J.P. Morgan Securities plc and Renaissance Securities (Cyprus) Limited
Joint Bookrunners:...	J.P. Morgan Securities plc, JSC Halyk Finance, MUFG Securities EMEA plc and Renaissance Securities (Cyprus) Limited

Joint Stock Company "National Company "Kazakhstan Temir Zholy" (the "Issuer") has prepared a preliminary offering memorandum, dated 27 October 2017 (the "Preliminary Offering Memorandum"), to which reference is made. This pricing term sheet is qualified in its entirety by reference to the Preliminary Offering Memorandum. Capitalised terms used herein but not otherwise defined have the meanings set out Preliminary Offering Memorandum.

This announcement is an advertisement and is not a listing particulars for the purpose of the Global Exchange Market Listing and Admission to Trading Rules of the Irish Stock Exchange, as amended from time to time, and investors should not subscribe for any securities referred to in this announcement or the Preliminary Offering Memorandum, except on the basis of the Final Offering Memorandum, which is intended to be published by the Issuer in due course in connection with the expected admission of the Notes to the official list of the Irish Stock Exchange and the Kazakhstan Stock Exchange.

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The disclosure included on pages 207 and 208 of the Preliminary Offering Memorandum under the captions "Taxation—U.S. Taxation—Interest" and "Taxation—U.S. Taxation—Sale, exchange or retirement of Notes" is replaced in its entirety with the following disclosure:

"*Interest*

Subject to the discussion below regarding Notes purchased at a premium, "qualified stated interest" paid on a Note (including any additional amounts with respect thereto as described under "*Terms and Conditions of the Notes - Taxation*") will be taxable to a U.S. holder as ordinary income at the time it is accrued or received in accordance with the U.S. holder's method of accounting for U.S. federal income tax purposes. The term "qualified stated interest" means stated interest that is unconditionally payable in cash or in property (other than debt instruments of the Issuer) at least annually at a single fixed rate or, subject to certain conditions, at a variable rate (including a rate based on one or more interest indices). Stated interest on the Notes will be treated as qualified stated interest.

Interest income earned by a U.S. holder with respect to a Note will constitute income from sources without the United States for U.S. federal income tax purposes, which may be relevant in calculating the U.S. holder's foreign tax credit limitation. Kazakh income taxes withheld from interest payments on a Note, if any, may be eligible for credit against the U.S. holder’s U.S. federal income tax liability or, at the election of the U.S. holder, for deduction in computing the U.S. holder’s taxable income. The U.S. federal income tax rules relating to foreign tax credits and limitations thereof are complex and may vary depending on the facts and circumstances of each U.S. holder. Accordingly, U.S. holders are urged to consult their own tax advisors regarding the availability of U.S. foreign tax credits for Kazakh tax withheld under in their particular circumstances.

The Notes may be issued at a “premium” for U.S. federal income tax purposes. A U.S. holder that purchases a Note for an amount in excess of the sum of all amounts payable on the Note after the purchase date other than qualified stated interest will be considered to have purchased the Note at a “premium.” A U.S. holder generally may elect to amortize the premium over the remaining term of the Note on a constant yield method as an offset to qualified stated interest when includible in income under the U.S. holder’s regular accounting method. A U.S. holder who elects to amortize bond premium must reduce such holder’s tax basis in the Note by the amount of the premium used to offset qualified stated interest income. An election to amortize bond premium applies to all taxable debt obligations then owned and thereafter acquired by such holder and may be revoked only with the consent of the Internal Revenue Service (“IRS”). Premium on a Note held by a U.S. holder that does not make such an election will decrease the gain or increase the loss otherwise recognized on disposition of the Note.

Sale, exchange or retirement of Notes

Upon the sale, exchange or retirement of a Note, a U.S. holder generally will recognise taxable gain or loss equal to the difference, if any, between the amount realised on the sale, exchange or retirement and the U.S. holders’ adjusted tax basis in the Note. A U.S. holder’s adjusted tax basis in a Note generally will equal the acquisition cost of the Note, decreased by (i) the amount of any payment received from the Issuer on the Note other than a payment of qualified stated interest and (ii) the amount of any amortizable bond premium applied to reduce interest on the Note. The amount realised will not include any amount attributable to accrued but unpaid stated interest, which will be taxed as described above in “—*Interest*”. Any gain or loss recognised on the sale, exchange or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the Note was held by the U.S. holder for more than one year at the time of the sale, exchange or retirement. The deductibility of capital losses is subject to limitations.

If Kazakh tax is withheld on the sale, exchange or retirement of a Note, the amount realized by a U.S. holder will include the gross amount of the proceeds of that sale, exchange or retirement before deduction of the Kazakh tax withheld. Gain or loss realized by a U.S. holder on the sale, exchange or retirement of the Notes generally will be treated as U.S. source for foreign tax credit purposes. Consequently, in the case of a gain from the disposition of a Note that is subject to Kazakh tax, the U.S. holder may not be able to benefit from the foreign tax credit for that Kazakh tax (i.e., because the gain from the disposition would be U.S. source), unless the U.S. holder can apply the credit against U.S. federal income tax payable on other income from sources without the United States. Alternatively, the U.S. Holder may take a deduction for the Kazakh tax, provided that the U.S. holder elects to deduct all foreign taxes paid or accrued for the taxable year. The rules relating to foreign tax credits or deducting foreign taxes are extremely complex, and U.S. holders are urged to consult their own tax advisors regarding the availability and advisability of claiming a foreign tax credit or deduction with respect to Kazakh taxes imposed upon the sale, exchange or retirement of Notes, if any.”

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The Notes have not been and will not be, registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or the securities laws of any state of the United States or other jurisdiction and the Notes may not be offered or sold within the United States except pursuant to

an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state or local securities laws.

This pricing term sheet has not been approved by an authorised person for the purposes of section 21 of the Financial Services and Markets Act 2000 (as amended) ("FSMA"). Accordingly, this pricing term sheet is only for distribution to and directed at: (i) in the United Kingdom, persons having professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (the "Order") and high net worth entities falling within Article 49(2)(a) to (d) of the Order; (ii) persons who are outside the United Kingdom; and (iii) any other person to whom it can otherwise be lawfully distributed (all such persons together being referred to as "Relevant Persons"). Any investment or investment activity to which this pricing term sheet relates is available only to and will be engaged in only with Relevant Persons. Persons who are not Relevant Persons should not take any action based upon this pricing term sheet and should not rely on it.

Any disclaimers or other notices that may appear below are not applicable to this communication and should be disregarded. Such disclaimers or other notices were automatically generated as a result of this communication being sent via bloomberg or another email system.

Прошнуровано и пронумеровано
на 18 листах

Вице-президент
по финансам АО «НК «ҚТЖ»

Ж.Мадиев

АО "НК "ҚТЖ"

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBS (AS DEFINED BELOW) OR (2) NON-U.S. PERSONS (AS DEFINED BELOW) LOCATED OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to the offering memorandum (the "**Offering Memorandum**") following this page and you are, therefore, advised to read this page carefully before reading, accessing or making any other use of the Offering Memorandum. In accessing the Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Issuer, the Guarantors, and the Joint Bookrunners (as defined in the Offering Memorandum) as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO, EXCEPT AS EXPRESSLY DESCRIBED HEREIN. THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE ATTACHED OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE OFFERING MEMORANDUM OR THIS TRANSMISSION IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES DESCRIBED IN THE OFFERING MEMORANDUM.

Confirmation of your representation: In order to be eligible to view the Offering Memorandum or make an investment decision with respect to the securities described therein, prospective investors must be either (1) Qualified Institutional Buyers ("**QIBs**") (within the meaning of Rule 144A ("**Rule 144A**") under the Securities Act) or (2) non-U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) located outside the United States. The Offering Memorandum is being sent to you at your request and, by accessing the Offering Memorandum, you shall be deemed to have represented to the Issuer, the Guarantors, and the Joint Bookrunners that (1) either (a) you and any customers you represent are QIBs or (b) you and any customers you represent are outside of the United States (2) you are purchasing the securities being offered in an offshore transaction (within the meaning of Regulation S) and the electronic mail address that you gave us and to which this transmission has been delivered is not located in the United States, its territories and possessions, any State of the United States or the District of Columbia and (3) you consent to delivery of the Offering Memorandum by electronic transmission.

You are reminded that the Offering Memorandum has been delivered to you on the basis that you are a person into whose possession the Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Offering Memorandum to any other person.

The materials relating to this offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer, and the Joint Bookrunners or any affiliate of the Joint Bookrunners is a licensed broker or dealer in the relevant jurisdiction, the offering shall be deemed to be made by the Joint Bookrunners or such affiliate on behalf of the Issuer in such jurisdiction.

The Offering Memorandum may only be distributed to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (b) high net worth entities falling within article 49(2)(a) to (d) of the Order, and other persons to whom it may be lawfully communicated, falling within article 49(1) of the Order (all such persons together being referred to as "**relevant persons**"). Any person who is not a relevant person should not act or rely on this document or any of its contents.

The Offering Memorandum has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Guarantors, and the Joint Bookrunners, any person who controls them or any director, officer, employee or agent of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Memorandum distributed to you in electronic format and the hard copy version available to you on request from the Joint Bookrunners.

JOINT STOCK COMPANY "NATIONAL COMPANY "KAZAKHSTAN TEMIR ZHOLY"

(a joint stock company incorporated in the Republic of Kazakhstan)

U.S.$780,000,000 4.850% Guaranteed Notes due 2027

unconditionally and irrevocably guaranteed by

JOINT STOCK COMPANY "KAZTEMIRTRANS"

(*a joint stock company incorporated in the Republic of Kazakhstan*)

and

JOINT STOCK COMPANY "KTZ-FREIGHT TRANSPORTATION"

(*a joint stock company incorporated in the Republic of Kazakhstan*)

Issue Price: 100.393%

Joint Stock Company "National Company "Kazakhstan Temir Zholy" (the "**Issuer**" or the "**Company**") is offering the U.S.$780,000,000 4.850% Guaranteed Notes due 2027 (the "**Notes**"), unconditionally and irrevocably guaranteed by Joint Stock Company "Kaztemirtrans" ("**Kaztemirtrans**") and Joint Stock Company "KTZ-Freight transportation" ("**KTZFT**") (each a "**Guarantor**" and, together, the "**Guarantors**").

This document (the "**Offering Memorandum**") does not constitute a prospectus for the purposes of Article 5 of Directive 2003/71/EC (as amended) (the "**Prospectus Directive**"). The Issuer is not offering the Notes in any jurisdiction in circumstances that would require a prospectus to be prepared pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange plc (the "**Irish Stock Exchange**") for the approval of this document as listing particulars and for the Notes to be admitted to the official list of the Irish Stock Exchange (the "**Official List**") and trading on the Global Exchange Market of the Irish Stock Exchange (the "**Global Exchange Market**"). The Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC. No assurance can be given that the application will be granted. Furthermore, admission of the Notes to the Official List and trading on the Global Exchange Market is not an indication of the merits of the Issuer, the Guarantors, the Notes or the Guarantee (as defined below). There can be no assurance that a trading market in the Notes will develop or be maintained.

In addition, application has been made to list the Notes on JSC Kazakhstan Stock Exchange (the "**KASE**"). On 23 October 2017, the KASE granted its consent to include the Notes into the "bonds" category of the "debt securities" sector of the official list of the KASE. It is expected that the KASE consent will come into effect on or before 17 November 2017. No Notes may be issued, placed or listed outside of the Republic of Kazakhstan ("**Kazakhstan**" or the "**State**") without the prior permissions of the National Bank of Kazakhstan (the "**NBK**") for the issuance and placement of the Notes outside of Kazakhstan (the "**NBK Permissions**"). The NBK Permissions in respect of the Notes were obtained on 30 October 2017 and are not a recommendation or endorsement by the NBK of the Notes. Simultaneously with offering of the Notes outside of Kazakhstan, the Notes must be offered through the KASE on the same terms on which the Notes are being offered in a foreign state. Subject to sufficient demand, investors' orders submitted through the KASE must be satisfied in a volume not less than 20% of the total volume of the Notes to be placed. If the total volume of investors' orders submitted through the KASE is less than 20% of the total volume of the Notes to be placed, such orders will be satisfied in full and all and any Notes remaining after the satisfaction of the investors' orders submitted through the KASE may be offered and placed outside of Kazakhstan.

Interest on the Notes is payable semi-annually in arrear on 17 May and 17 November in each year. Payments on the Notes will be made without deduction for or on account of taxes of Kazakhstan to the extent described in "*Terms and Conditions of the Notes—12. Taxation*".

The Notes mature on 17 November 2027 and may be redeemed before then at the option of the relevant holder at their principal amount, together with accrued interest, upon the occurrence of a Relevant Event (as defined in the Conditions). The Notes are also subject to redemption in whole, at their principal amount, together with accrued interest, at the option of the Issuer at any time in the event of certain changes affecting taxes of Kazakhstan or at other certain times at the option of the Issuer. See "*Terms and Conditions of the Notes—10. Redemption, Purchase and Cancellation*".

Notes which are offered and sold in reliance on Regulation S ("**Regulation S**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") will initially be represented by beneficial interests in a permanent global Note (the "**Unrestricted Global Note**") in registered form, without interest coupons attached, which will be registered in the name of a nominee for, and shall be deposited on or about 17 November 2017 (the "**Issue Date**") with a common depository for, Euroclear Bank SA/NA ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"). Notes which are offered and sold in reliance on Rule 144A under the Securities Act ("**Rule 144A**") will initially be represented by beneficial interests in one or more permanent global Notes (the "**Restricted Global Notes**" and, together with the Unrestricted Global Note, the "**Global Notes**") in registered form, without interest coupons attached, which will be deposited on or about the Issue Date with The Bank of New York Mellon, as custodian for, and registered in the name of Cede & Co. as nominee for The Depository Trust Company ("**DTC**"). The Notes will be issued in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. See "*Terms and Conditions of the Notes—1. Form, Denomination and Title*". Interests in the Restricted Global Notes will be subject to certain restrictions on transfer. See "*Form of the Notes and Transfer Restrictions*". Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, certificates for Notes will not be issued in exchange for beneficial interests in the Global Notes.

NEITHER THE NOTES NOR THE GUARANTEE HAVE BEEN NOR WILL BE REGISTERED UNDER THE SECURITIES ACT, OR ANY STATE SECURITIES LAW, AND THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. SEE "*FORM OF THE NOTES AND TRANSFER RESTRICTIONS*".

The Notes are expected to be rated Baa3 by Moody's Investors Service Ltd. ("**Moody's**") and BBB- by Fitch Ratings Limited ("**Fitch**"). The Issuer's current long-term rating by Moody's is Baa3 (stable outlook) and Fitch is BBB- (stable outlook). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Each of Moody's and Fitch is established in the European Union (the "**EU**"), domiciled in the United Kingdom, and is included in the list of credit rating agencies registered in accordance with Regulation (EC) No. 1060/2009 on Credit Rating Agencies as amended by Regulation (EU) No. 513/2011 (the "**CRA Regulation**"). This list is available on the ESMA website (*http://www.esma.europa.eu/page/list-registered-and-certified-CRAs*) (last updated16 July 2017).

The net proceeds from the offering of the Notes will be used by the Issuer to finance the purchase of any or all of the Company's U.S.$700,000,000 6.375% Notes due 2020 (the "**Existing Notes**"), tendered and accepted for purchase in the Tender Offer (as defined herein) and the redemption of Existing Notes remaining outstanding after the Tender Offer upon the approval of the Mandatory Early Redemption (as defined herein), as well as the payment of any early consent fees in connection therewith, all pursuant to the Tender Offer and Consent Solicitation (as defined herein) launched by the Issuer on 27 October 2017.

Joint Global Co-ordinators

J.P. Morgan **Renaissance Capital**

Joint Bookrunners

Halyk Finance **J.P. Morgan** **MUFG** **Renaissance Capital**

This Offering Memorandum is dated 15 November 2017

This Offering Memorandum does not constitute a prospectus for the purpose of Article 5 of the Prospectus Directive. The Issuer is not offering the Notes in any jurisdiction in circumstances that would require a prospectus to be prepared pursuant to the Prospectus Directive. This Offering Memorandum provides information with regard to the Issuer, the Guarantors and their respective subsidiaries and affiliates (collectively, the "**Group**") and the Notes and the Guarantee which, according to the particular nature of the Issuer, the Guarantors and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, the Guarantors and the Group and of the rights attaching to the Notes and the Guarantee. The Issuer and each Guarantor accept responsibility for the information contained in this Offering Memorandum and confirm that, having taken all reasonable care to ensure that such is the case, the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect its import.

Neither the Joint Bookrunners nor any of their directors, affiliates, advisers or agents has made an independent verification of the information contained in this Offering Memorandum in connection with the issue or offering of the Notes and no representation or warranty, express or implied, is made by the Joint Bookrunners or any of their directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information. To the fullest extent permitted by law, the Joint Bookrunners accept no responsibility whatsoever for the contents of this Offering Memorandum or for any other statement made, or purported to be made, by the Joint Bookrunners or on their behalf in connection with the Issuer, the Guarantors or the issue and offering of the Notes and the Guarantee. The Joint Bookrunners accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which they might otherwise have in respect of this Offering Memorandum or any such statement. Nothing contained in this Offering Memorandum is, is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether to the past or the future, by the Joint Bookrunners or any of their respective directors, affiliates, advisers or agents in any respect. The contents of this Offering Memorandum are not, are not to be construed as, and should not be relied on as, legal, business or tax advice and each prospective investor should consult its own legal and other advisers for any such advice relevant to it. Each person receiving this Offering Memorandum acknowledges that such person has not relied on any Joint Lead Manager and Bookrunner or any person affiliated with any Joint Lead Manager and Bookrunner in connection with its investigation of the accuracy of such information or its investment decision. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer and the Guarantors and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors that may be relevant to it in connection with such investment. This Offering Memorandum may only be used for the purpose for which it has been published.

No person is authorised to give any information or make any representation not contained in this Offering Memorandum in connection with the issue and offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by any of the Issuer, the Guarantors, BNY Mellon Corporate Trustee Services Limited (the "**Trustee**") or the Joint Bookrunners or any of their respective directors, affiliates, advisers or agents. The delivery of this Offering Memorandum does not imply that there has been no change in the business and affairs of the Issuer or the Guarantors since the date hereof or that the information herein is correct as of any time subsequent to its date.

This Offering Memorandum does not constitute an offer to sell or a solicitation of an offer to buy the Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Offering Memorandum and the offer or sale of the Notes in certain jurisdictions is restricted by law. This Offering Memorandum may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. In particular, this Offering Memorandum does not constitute an offer of securities to the public in the United Kingdom. No prospectus has been or will be approved in the United Kingdom in respect of the Notes. Consequently this document is being distributed only to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"), or (b) high net worth entities falling within article 49(2)(a) to (d) of the Order, and other persons to whom it may be lawfully communicated, falling within article 49(1) of the Order (all such persons together being referred to as "**relevant persons**"). Any person who is not a relevant person should not act or rely on this document or any of its contents. Persons into whose possession this Offering Memorandum may come are required by the Issuer, the Guarantors and the Joint Bookrunners to inform themselves about and to observe such restrictions. Further information with regard to restrictions on offers, sales and deliveries of the Notes and the distribution of this Offering Memorandum and other offering material relating to the Notes is set out under "*Subscription and Sale*" and "*Form of the Notes and Transfer Restrictions*".

The language of this Offering Memorandum is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law. In connection with the listing of the Notes on the KASE, the Issuer will furnish the KASE with a Russian translation of this Offering Memorandum (the "**Translation**"). The Translation has been prepared by the Issuer solely for the purpose of listing the Notes described in this Offering Memorandum on the KASE and obtaining the relevant consents and permissions of the KASE and the NBK. None of the Joint Bookrunners nor any of their affiliates has verified, makes any representation or warranty, or takes any responsibility for the accuracy or completeness of the Translation. The English-language version of this Offering Memorandum should be used in connection with any investment decision. In the event of any conflict or discrepancy between the English version of this Offering Memorandum and the Translation, or any dispute regarding the interpretation of any statement in the English version or the Translation, the English version shall prevail.

For the purpose of the listing of the Notes on the KASE and the subsequent offer and sale of Notes in Kazakhstan, JSC Halyk Finance will act as sole manager, and the other Joint Bookrunners will not be involved in such process.

Unless otherwise specified or the context so requires, references to "**U.S. Dollars**" and "**U.S.$**" are to United States dollars, references to "**CHF**" are to Swiss Francs, references to "**euro**", "**EUR**" and "**€**" are to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, references to "**RUB**" are to Russian Roubles and references to "**Tenge**" and "**KZT**" are to the Kazakhstani tenge, the official currency of Kazakhstan.

In connection with the issue of the Notes, J.P. Morgan Securities plc (the "**Stabilising Manager**") (or any person acting on behalf of any Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or person(s) acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager (or person(s) acting on behalf of any Stabilising Manager) in accordance with all applicable laws and rules.

FORWARD-LOOKING STATEMENTS

Certain statements included herein may constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"); however, this Offering Memorandum is not entitled to the benefit of the safe harbour created thereby. Such statements, certain of which can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "are expected to", "intends", "will", "will continue", "should", "could", "would be", "seeks", "approximately", "estimates", "predicts", "projects", "aims" or "anticipates", or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions, involve a number of risks and uncertainties. Such forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realised. Such forward-looking statements include statements regarding the Issuer's intentions, beliefs or current expectations concerning, amongst other things, the Issuer's results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which it operates. Factors that might affect such forward-looking statements include, among other things, overall business and government regulatory conditions; changes in tariff and tax requirements (including tax rate changes, new tax laws and revised tax law interpretations); interest rate fluctuations and other capital market conditions, including foreign currency exchange rate fluctuations; economic and political conditions in Kazakhstan and other emerging markets; and the timing, impact and other uncertainties of future actions. See "*Risk Factors*".

The Issuer is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Offering Memorandum whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to the Issuer, or persons acting on its behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Offering Memorandum. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward-looking statements.

AVAILABLE INFORMATION

Neither the Issuer nor any Guarantor is currently required to file periodic reports under Sections 13 or 15 of the Exchange Act with the U.S. Securities and Exchange Commission. To permit compliance with Rule 144A in connection with resales and transfers of Notes, the Issuer and the Guarantors have agreed that, for so long as any of the Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer and the Guarantors will provide to any holder or beneficial owner of such restricted securities, or to any prospective purchaser of such restricted securities designated by a holder or beneficial owner, upon the request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act, if at the time of such request the Issuer or any Guarantor, as the case may be, is not a reporting company under Section 13 or Section 15(d) of the Exchange Act or exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act. See "*Terms and Conditions of the Notes—8. Provision of Certain Information*".

ENFORCEMENT OF CIVIL LIABILITIES

Each of the Issuer and the Guarantors is a joint stock company organised under the laws of Kazakhstan and all of its officers and certain of its directors and other persons referred to in this Offering Memorandum are residents of Kazakhstan. All or a substantial portion of the assets of the Issuer and each Guarantor and most of such persons are located in Kazakhstan. As a result, it may not be possible (i) to effect service of process upon the Issuer or any such person outside Kazakhstan, (ii) to enforce against any of them, in courts of jurisdictions other than Kazakhstan, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions or (iii) to enforce against any of them, in Kazakhstan courts, judgments obtained in jurisdictions other than Kazakhstan, including judgments obtained in respect of the Notes or the Trust Deed in the courts of England and judgments obtained in the United States predicated upon the civil liability provisions of the federal securities laws of the United States.

The Notes and the Trust Deed are governed by the laws of England, and the Issuer and the Guarantors have agreed in the Notes and the Trust Deed that disputes arising thereunder are subject to arbitration in London or, at the election of the Trustee or, in certain circumstances, a Noteholder (as defined in "*Terms and Conditions of the Notes*"), to the exclusive jurisdiction of English courts. See Condition 24 (*Governing Law, Jurisdiction and Arbitration*) under "*Terms and Conditions of the Notes*". The Civil Procedure Code of Kazakhstan, which became effective on 1 January 2016, provides that Kazakhstan courts should recognize and enforce foreign court judgments only if such recognition and enforcement is provided for by Kazakhstan legislation or international treaties ratified by Kazakhstan, or on the basis of the principle of reciprocity. Kazakhstan is not a party to any multilateral or bilateral treaties with the United Kingdom (or the U.S. or any other Western jurisdiction) for the mutual enforcement of court judgments, and, accordingly, there is a risk that a judgment obtained from a court in England would not be enforceable in Kazakhstan courts. Each of Kazakhstan and the United Kingdom are, however, parties to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**Convention**") and, accordingly, an arbitral award obtained under the Convention generally should be recognised and enforceable in Kazakhstan provided the conditions to enforcement set out in the Convention and the Civil Procedure Code of Kazakhstan are met. The Civil Procedure Code of Kazakhstan establishes the procedure for the enforcement of foreign arbitral awards.

The Issuer and the Guarantors have agreed that disputes arising under the Notes, the Trust Deed and the Agency Agreement (as such terms are defined below) are subject to arbitration or, at the discretion of the Trustee or a Noteholder, to the exclusive jurisdiction of English courts. Such one-sided alternative dispute resolution provisions providing the Trustee/Noteholder (but not the Issuer or the Guarantor) the right to commence proceedings in state courts have not been properly tested before Kazakhstan courts.

The Law "On Arbitration" (No. 488-V, dated 8 April 2016) (the "**Arbitration Law**") was signed by the President of Kazakhstan (the "**President**") on 8 April 2016. The introductory language to the Arbitration Law, as well as other provisions of the Arbitration Law, imply that the Arbitration Law should apply only where the matter involves dispute resolution in Kazakhstan (*i.e.*, in respect of arbitration bodies with a seat in Kazakhstan). In particular, the preamble to the Arbitration Law states that: "This [l]aw regulates social relations arisen in the process of arbitration activity on the territory of the Republic of Kazakhstan as well as the procedure and terms of recognition and enforcement of arbitral awards in Kazakhstan…"

There are, however, certain novelties in the Arbitration Law, which may have implications (as described below) in respect of the arbitration provisions contained in the Notes and the Trust Deed. In particular, the provisions of the Arbitration Law do not clearly differentiate between domestic and foreign arbitration. In particular:

- Article 8.8 of the Arbitration Law restricts the trying of disputes between the so-called "quasi-sovereign companies" by arbitration. Both the Issuer and each Guarantor fall under the definition of a "quasi-sovereign company". While there is no established practice in relation to Article 8.8 of the Arbitration Law, the management of the Issuer (the "**Management**") believes that this requirement only applies when two or more quasi-sovereign companies are involved in a dispute as adverse parties. Accordingly, Article 8.8 should not apply if two or more quasi-sovereign companies are not adverse parties to the dispute, which would be the case in respect of the Notes and the Trust Deed.

- Article 8.10 of the Arbitration Law requires legal entities in which the state holds (directly or indirectly) at least 50% of the voting shares to obtain consent of the relevant state body for entering into an arbitration agreement. Both the Issuer and the Guarantors are wholly owned by the state. Although the Arbitration Law does not expressly so state and largely remains untested, Management believes that Article 8.10 of the Arbitration Law should only apply to arbitration proceedings within Kazakhstan and should not extend to arbitration proceedings outside of Kazakhstan. Accordingly, Management believes that no consent of the relevant state body is required under the Arbitration Law for the Issuer or the Guarantors to enter into the arbitration agreement pursuant to the Notes and the Trust Deed.

- Article 44.1 of the Arbitration Law provides that disputes involving legal entities in which the state holds (directly or indirectly) at least 50% of the voting shares must be resolved in accordance with Kazakhstan laws, unless otherwise is provided by an international treaty ratified by Kazakhstan. While the Arbitration Law is unclear on this, under a conservative interpretation, a contract with a state-controlled company (such as the Issuer and the Guarantors) must be governed by Kazakhstan legislation, unless otherwise is provided by an international treaty ratified by Kazakhstan. Although the Arbitration Law does not expressly so state and largely remains untested, Management believes that Article 44.1 of the Arbitration Law should only apply to arbitration proceedings within Kazakhstan and should not extend to arbitration proceedings outside of Kazakhstan. Accordingly, the Arbitration Law does not require an arbitral tribunal outside of Kazakhstan to apply Kazakhstan law when considering a dispute involving the Issuer and/or the Guarantors.

Given that the Arbitration Law has not been tested in practice, there can be no assurance that Kazakhstan courts would support the above interpretation of the Arbitration Law and that an award against the Issuer and/or any Guarantor in arbitral proceedings in London under English law would be enforced in Kazakhstan. See "*Risk Factors—Risk Factors Relating to the Notes—It may be difficult to effect service of legal process and enforce judgments obtained outside of Kazakhstan against the Issuer and its management.*"

In February 2010, the Parliament of Kazakhstan (the "**Parliament**") passed legislation amending Kazakhstan law to provide for certain immunities to government entities in the context of arbitration and foreign court judgments. While companies, such as the Issuer and/or the Guarantors, are not considered to be government entities and, thus, do not have such immunity, arbitral awards and foreign court decisions in respect of the Issuer, including in relation to the issuance of the Notes, may not be recognised and enforced on the grounds that they affect the interests of the State. Notwithstanding these concerns, although no assurance can be given that a Kazakhstan court would give effect to such provisions, under the Trust Deed, the Issuer and each Guarantor has, to the full extent permitted by applicable laws, waived any immunity that may be attributed to it in respect of the Notes or the Guarantee, respectively.

In addition, certain of the assets owned by the Issuer or its subsidiaries, as well as certain of the shares in the Issuer's subsidiaries, are considered to be strategic assets of Kazakhstan. Kazakhstan law provides that the State shall have a priority right to purchase the strategic assets of Kazakhstan in the event of their disposition (whether through sale, bankruptcy or receivership).

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

Financial Statements

The independent auditors of the Group, Deloitte, LLP, issued an unqualified independent auditor's report dated 13 March 2017 relating to the Group's audited consolidated financial statements as at and for the year ended 31 December 2016, which include comparative data as at and for the year ended 31 December 2015 (the "**2016 Financial Statements**") and an unqualified independent auditor's report dated 14 March 2016 relating to the Group's consolidated financial statements as at and for the year ended 31 December 2015, which include comparative data as at and for the year ended 31 December 2014 (the "**2015 Financial Statements**" and, together with the 2016 Financial Statements, the "**Annual Financial Statements**"). The Annual Financial Statements included in this Offering Memorandum have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standard Board.

The Group's unaudited interim condensed consolidated financial statements as of and for the three months and six months ended 30 June 2017 (the "**Interim Financial Statements**"), which include comparative data as at 31 December 2016 and for the three months and six months ended 30 June 2016, included in this Offering Memorandum have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" and have been reviewed by Deloitte, LLP in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

Deloitte, LLP's independent auditor's report in respect of the 2016 Financial Statements appears on page F-48 of this Offering Memorandum, Deloitte, LLP's independent auditor's report in respect of the 2015 Financial Statements appears on page F-117 of this Offering Memorandum and Deloitte, LLP's review report in respect of the Interim Financial Statements appears on pages F-5 of this Offering Memorandum. Unless otherwise indicated, the financial information presented herein is extracted without material adjustment from the Annual Financial Statements and the Interim Financial Statements and the notes thereto contained in this Offering Memorandum beginning on page F-1 (collectively, the "**Financial Statements**").

The 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 30 June 2017, the current liabilities of the Group exceeded its current assets by KZT 86,732.9 million. Historically, the Group financed large investment projects through the capital contributions received from the Government and external borrowings, in addition to cash flows from operating activities. As at 30 June 2017, KZT 181,359.0 million of the Group's borrowings are payable within 12 months of the reporting date, including borrowings from Samruk-Kazyna of KZT 75.0 billion (approximately U.S.$233.3 million based on the official KZT/U.S.$ exchange rate reported by the NBK as at 30 June 2017 of KZT 321.46 per U.S.$1.00) that were due in September 2017. To refinance these long-term borrowings, on 13 June 2017, the Group issued a RUB 15.0 billion Russian Rouble-denominated bond (KZT 81,589.9 million at the official KZT / RUB exchange rate reported by the NBK as at 30 June 2017 of KZT 5.45 per RUB 1.00). The Group has estimated the need for cash, including for the repayment of borrowing liabilities and its development plans. In estimating its going concern basis, Management has also considered the Group's financial position, expected future performance and cash flows from operations, borrowings, available credit facilities, capital expenditure commitments, as well as expected tariffs, currency exchange rates and other risks facing the Group. Based on such estimates, Management has concluded that the Group has adequate resources to continue in operational existence and settle its liabilities and that the going concern basis assessment is appropriate for preparation of the Financial Statements. See Note 2 to the Interim Financial Statements, Note 2 and the audit report to the 2016 Financial Statements, and "*Risk Factors—Risk Factors Related to the Group—the Group's auditors have identified the Group's ability to continue as a going concern as a key audit matter*".

The Financial Statements attached as F-pages to this Offering Memorandum reflect all Guarantor- and non-Guarantor companies consolidated within the Group. As at and for the year ended 31 December 2016, and, as at and for the six months ended 30 June 2017, the financial results of the Issuer and the Guarantors comprised at least 85% of assets and revenue of the combined Group.

Changes in Classification Affecting Comparative Information

In pursuance of the Government of Kazakhstan's (the "**Government**") 2016 Complex Privatisation Plan (as defined below), the Company's management approved a list of its subsidiaries, associates and joint ventures subject to sale. In connection therewith, in 2016, the Group recognised the results of operations of its subsidiary, Transtelecom JSC, in discontinued operations. Accordingly, comparative amounts for the six months ended 30 June 2016 included in the Interim Financial Statements and comparative amounts for the year ended 31 December 2015 included in the 2016 Financial Statements have been restated. Comparative amounts for 2014 have not been restated to reflect the discontinued operations as the impact would not be significant.

For the purpose of better presentation of information understanding of the Group's financial statements, the Group reclassified certain items in the consolidated statement of financial position included in the 2015 Financial Statements. In addition, to bring the presentation of the Group's consolidated statement of profit or loss and other comprehensive income in line with the accounting policy of Samruk-Kazyna (the Company's sole shareholder), the Group recognised tax expenses, which are directly related to the production of goods, work and services (except income tax), within cost of sales account, and reclassified assets impairment provisions from general and administrative expenses to a separate line item. The Group also reclassified income and expense items related to Kazakhstan Wagon Construction Company LLP, which was previously classified as discontinued operations, as part of continuing operations. Accordingly, comparative amounts as at and for the year ended 31 December 2014 included in the 2015 Financial Statements have been restated.

As a result of all of the foregoing:

- financial information as at and for the six months ended 30 June 2016 in this Offering Memorandum has been taken from the Interim Financial Statements;

- financial information as at and for the year ended 31 December 2015 in this Offering Memorandum has been taken from the 2016 Financial Statements; and

- financial information as at and for the year ended 31 December 2014 in this Offering Memorandum has been taken from the comparative information in the 2015 Financial Statements.

See Note 4 to the Interim Financial Statements, Note 5 to the 2016 Financial Statements and Note 5 to the 2015 Financial Statements for details of the effect of these changes and restatements on the Group's consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position.

Third Party Information

Statistical data and other information appearing in this Offering Memorandum relating to the railway industry in Kazakhstan ("**Kazakhstan**") have, unless otherwise stated, been extracted from documents and other publications released by the Statistics Committee of Kazakhstan (the "**Statistics Committee**"), the Ministry of Finance of Kazakhstan, the NBK and other public sources in Kazakhstan, including the World Bank and the International Monetary Fund (the "**IMF**"), as well as from Kazakhstan press reports and publications, edicts and resolutions of the Government and estimates of the Company (based on its management's knowledge and experience of the markets in which the Company operates). In the case of the presented statistical information, similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Any discussion of matters relating to Kazakhstan in this Offering Memorandum is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information. See "*Risk Factors—Risk Factors Relating to the Republic of Kazakhstan—The Company cannot ensure the accuracy of official statistics and other data in this Base Offering Memorandum published by Kazakhstan authorities*".

The Issuer confirms that, where information included in the Offering Memorandum has been sourced from a third party, the source is identified, that information has been accurately reproduced and that, as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Rounding

Certain figures included in this Offering Memorandum have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Non-IFRS Measures of Financial Performance

In this Offering Memorandum, the Group uses the following metrics in the analysis of its business and financial position, which the Company considers to constitute Alternative Performance Measures ("**APMs**"), as defined in the European Securities and Market Authority Guidelines on Alternative Performance Measures dated 5 October 2015 (the "**ESMA Guidelines**").

The following table sets forth a summary of the APM metrics used, the definition, bases of calculation and reconciliation of such metrics and the rationale for the inclusion of such metrics.

Metric	Definition, method of calculation and reconciliation to financial statement line item	Rationale
Group EBITDA	Calculated as profit from continuing operations before taxation, finance costs, finance income and depreciation and amortisation, but after taking into account any material devaluation of the Tenge (which is accounted for as an extraordinary item).	Performance measure
Current ratio	Calculated as the ratio of current assets divided by current liabilities.	Liquidity measure
Coverage ratio	Calculated as Group EBITDA divided by finance cost.	Liquidity measure
Adjusted debt.................	Calculated as the sum of total borrowings, total debt securities issued, total finance lease liabilities and total guarantees in favour of third parties, which are not consolidated in the financial statements of the Group.	Liquidity measure
Adjusted debt to equity ratio................................	Calculated as the ratio of adjusted debt divided by total equity.	Performance measure
Adjusted debt to Group EBITDA ratio	Calculated as the ratio of adjusted debt divided by Group EBITDA.	Performance measure
Group EBITDA margin ..	Calculated as the ratio of Group EBITDA divided by revenue.	Performance measure
Gross profit margin.........	Calculated as total revenue minus cost of sales.	Performance measure
Net debt	Calculated as adjusted debt minus cash and cash equivalents.	Liquidity measure
Net debt/Group EBITDA	Calculated as the ratio of Net debt divided by Group EBITDA.	Performance measure

The above APMs have been included in this Offering Memorandum to facilitate a better understanding of the Group's historic trends of operation and financial condition. The Group uses APMs as supplementary information to its IFRS operating results. The APMs are not defined by, or presented in accordance with, IFRS. The APMs are not measurements of the Group's operating performance under IFRS and should not be used instead of or considered as alternatives to any measures of performance and/or liquidity under IFRS.

The Group uses such measures to measure operating performance and liquidity in presentations to the Board of Directors and as a basis for strategic planning and forecasting, as well as monitoring certain aspects of its operating cash flow and liquidity. Management believe that these and similar measures are used widely by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity.

The APMs relate to the reporting periods described in this Offering Memorandum and are not intended to be predictive of future results. In addition, other companies, including those in the Group's industry, may calculate similarly titled APMs differently from the Group. Because companies do not calculate these APMs in the same manner, the Group's presentation of such APMs may not be comparable to other similarly titled APMs used by other companies. The APMs have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of the Group's operating results as reported under IFRS.

For an explanation of the relevance of each of the APMs, a reconciliation of the APMs to the most directly comparable measures calculated and presented in accordance with IFRS and a discussion of their limitations, see "*Selected Financial Information and Operating Data*". The Group does not regard these non-IFRS measures as a substitute for, or superior to, the equivalent measures calculated and presented in accordance with IFRS or those calculated using financial measures that are calculated in accordance with IFRS.

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OVERVIEW OF THE ISSUER AND THE GUARANTORS

The following is an overview of certain information contained elsewhere in this Offering Memorandum. It does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Offering Memorandum. Prospective investors should also carefully consider the information set forth in "Risk Factors" below prior to making an investment decision. Capitalised terms not otherwise defined in this overview have the same meaning as elsewhere in this Offering Memorandum.

Overview of the Company

The Group is the national transportation and logistics operator for Kazakhstan and is responsible for rail and sea transportation, as well as the provision of transport and logistics centres, including a seaport, airports and railroad infrastructure. The Group's primary function is as operator of Kazakhstan's national railway and related infrastructure. The Company was established by a decree of the Government, which, through its wholly-owned subsidiary, Samruk-Kazyna (the National Wealth Fund of Kazakhstan), owns all of the outstanding shares of the Company. As Kazakhstan's national railway company, the Company has a natural monopoly over the provision of services on Kazakhstan's mainline railway network and, through its subsidiaries, KTZFT and JSC Passenger Transportation, is the dominant provider of railway freight transportation and passenger transportation, respectively. The Group is one of the largest employers and taxpayers in Kazakhstan and a significant contributor to the development of the infrastructure necessary to transport raw materials and finished goods, into, within and out of Kazakhstan. Due to Kazakhstan's limited access to navigable water routes and underdeveloped roadways and its dependence on the export of raw materials (predominantly commodities) and import of finished goods, the railway system plays a crucial role in Kazakhstan's economic growth.

The Group is responsible for the maintenance, operation and modernisation of Kazakhstan's mainline railway network and provides railway transportation, infrastructure and support services, which include maintaining all railway infrastructure, machinery and equipment in Kazakhstan; ensuring the safety of railway operations; developing material and technical systems for the railway network; and establishing international railway transit corridors as agreed with the Ministry of Transportation.

In addition, in connection with Government initiatives for the development of transportation logistics, which is a relatively new priority in Kazakhstan's transportation sector (with the overall target of increasing the number of containers transiting through Kazakhstan to 2.0 million by 2020 in order to increase overall freight transportation), the President instructed the Government and Samruk-Kazyna to create a multi-level vertically-integrated transport and logistics holding company, combining, *inter alia*, logistics and transport companies with the objective of developing Kazakhstan's transit capacity and integrating its transportation and logistics infrastructure. Accordingly, in 2013, the Company's subsidiary, KTZ Express JSC ("**KTZ Express**"), became the national transportation and logistics operator responsible for the institutional development, operational coordination and expansion of transportation and logistics services throughout Kazakhstan; in particular, creating a viable infrastructure, consolidating operating assets and aimed at achieving the Government's freight transportation and handling objectives. Since 2013, the Group has transitioned from a railway company to a national logistics group and KTZ Express has been responsible for the management and operation of transport and logistics companies and centres, including a seaport and airport infrastructure, although the majority of such companies and infrastructure is owned by the State. KTZ Express' activities are expected to support the Group's core business of freight railway transportation and, in particular, transit freight transportation.

For the six months ended 30 June 2017, the Group had overall freight turnover of 98.0 billion tonne-kilometres, reflecting an 11.2% increase from 88.1 billion tonne-kilometres for the corresponding period in 2016. For the year ended 31 December 2016, the Group had overall freight turnover of 188.2 billion tonne-kilometres, reflecting a 0.8% decrease from 189.8 billion tonne-kilometres for 2015. The Group's freight turnover accounted for 59.5% (including freight transported in third-party wagons hauled by the Group, calculated in accordance with data published by the Statistics Committee) and 47% (excluding freight transported in third party wagons, according to the Company's own data) of all freight turnover in Kazakhstan by all modes of transport (excluding pipelines) for the year ended 31 December 2016, as compared to 59.8% and 46.4%, respectively, for the year ended 31 December 2015.

The Group's freight transportation revenue increased by 9.1% to KZT 352,326.4 million for the six months ended 30 June 2017, as compared to KZT 322,899.3 million for the corresponding period in 2016, accounting for 84.4% and 84.2%, respectively, of the Group's total consolidated revenue for the relevant periods. For the year ended 31 December 2016, the Group's freight transportation revenue increased by 9.4% to KZT 688,204.3 million, as compared to KZT 629,049.7 million for 2015, accounting for 83.6% of total consolidated revenue in each of 2016 and 2015.

For the six months ended 30 June 2017, revenue from export freight transportation accounted for 18.5% of total freight transportation revenue, as compared to 26.4% from domestic freight transportation, 26.2% from transit freight transportation, 11.2% from import freight transportation and 17.6% from other freight transportation (as compared to 18.3%, 29.5%, 31.0%, 10.2% and 11.1%, respectively, for the corresponding period in 2016). For the year ended 31 December 2016, revenue from export freight transportation accounted for 18.2% of total freight transportation revenue, as compared to 26.5% from domestic freight transportation, 30.9% from transit freight transportation, 10.5% from import freight transportation and 13.8% from other freight transportation (as compared to 19.8%, 28.7%, 24.9%, 11.5% and 15.1%, respectively, for 2015 and 22.6%, 30.3%, 21.1%, 11.6% and 19.6%, respectively, in 2014). See "*Business of the Group— Transportation Services—Freight Transportation*".

For the six months ended 30 June 2017, the Group had passenger turnover of 9.4 billion passenger-kilometres, reflecting a 6.8% increase from 8.8 billion passenger-kilometres for the corresponding period in 2016. For the year ended 31 December 2016, the Group had a passenger turnover of 16.5 billion passenger-kilometres, reflecting an increase of 6.4% from 17.1 billion passenger-kilometres for 2015. The Group's passenger transportation revenue increased by 4.2% to KZT 37,650.8 million for the six months ended 30 June 2017 from KZT 36,135.7 million for the corresponding period in 2016, accounting for 9.0% and 9.4%, respectively, of total consolidated revenue. For the year ended 31 December 2016, the Group's passenger transportation revenue increased by 11.6% to KZT 80,133.6 million from KZT 71,787.4 million for 2015, accounting for 9.7% and 9.5%, respectively, of total consolidated revenue. See "*Business of the Group— Transportation Services—Passenger Transportation*".

As at 31 December 2016, the assets of the Group included:

- 15,529.8 kilometres of operational rail track, of which 4,217.0 kilometres were electrified tracks;
- 824 stations and operating points, including: (i) six distributing stations, where trains are linked or unlinked and locomotives are changed; (ii) 72 freight stations, where freight can be processed; (iii) 66 division stations, where transit freight can be processed; and (iv) 680 wayside stations, where trains can be temporarily idled to make way for passing trains;
- 1,697 locomotives;
- 56,732 freight cars;
- 2,547 passenger cars;
- 20,277 track switches;
- eight airports (under trust management); and
- one seaport (under trust management).

Overview of Kaztemirtrans

JSC Kaztemirtrans ("**Kaztemirtrans**") is a joint stock company organised under the laws of Kazakhstan ("**Kazakhstan**"). Kaztemirtrans was initially registered with the Ministry of Justice of Kazakhstan on 21 October 2003 for an indefinite duration and was assigned business identification number 031040000572. As at 30 June 2017, Kaztemirtrans was the registered owner of the majority of the Group's freight rail cars. As at 30 June 2017, the total issued and outstanding share capital of Kaztemirtrans was 62,303,295 common shares, reflecting KZT 67,726.9 million. All issued and outstanding common shares of Kaztemirtrans are held by the Company.

The legal address of Kaztemirtrans is located in the office building of JSC "National Company "Kazakhstan Temir Zholy", 10 Konaeva Street, 9-12 Floor, Esil District, Astana, 010000, Republic of Kazakhstan, and its telephone number is +7 (7172) 93 02 76.

Overview of KTZFT

KTZFT (formerly JSC Lokomotiv) is a joint stock company organised under the laws of Kazakhstan. KTZFT's principal activity is railway freight transportation. KTZFT was registered with the Ministry of Justice on 14 October 2003 under the name JSC Lokomotiv for an indefinite duration and was assigned business identification number 031040001799. At an extraordinary meeting of the Board of Directors of the Company, on 16 June 2016, JSC Lokomotiv was renamed KTZFT. On 29 September 2017, the Government adopted Resolution No. 608 appointing KTZFT as the national carrier of goods and, accordingly, all necessary functions have been transferred to KTZFT to allow it to be referred to as the national carrier of goods. As at 30 June 2017, KTZFT had a total issued and outstanding share capital of 61,588,990 common shares, reflecting KZT 58,018.6 million. All issued and outstanding common shares of KTZFT are held by the Company.

The legal address of KTZFT is located in the office building of JSC "National Company "Kazakhstan Temir Zholy", Office 416, 4th Floor, 6 Konaeva Street, Astana 010000, the Republic of Kazakhstan and its telephone number is +7 (7172) 60 04 01.

OVERVIEW OF THE OFFERING

This overview does not purport to be complete and must be read as an introduction to this Offering Memorandum and any decision to invest in the Notes should be based on a consideration of this Offering Memorandum as a whole. Words and expressions defined in "Terms and Conditions of the Notes" shall have the same meanings in this overview.

Issuer	Joint Stock Company "National Company "Kazakhstan Temir Zholy"
Guarantors	Joint Stock Company "Kaztemirtrans" and Joint Stock Company "KTZ-Freight transportation"
Trustee	BNY Mellon Corporate Trustee Services Limited
Principal Paying Agent	The Bank of New York Mellon, London Branch
Registrar and Transfer Agent	The Bank of New York Mellon SA/NV, Luxembourg Branch
U.S Paying Agent and U.S. Transfer Agent	The Bank of New York Mellon
The Issue	U.S.$780,000,000 4.850% Guaranteed Notes due 2027
Joint Global Co-ordinators	J.P. Morgan Securities plc and Renaissance Securities (Cyprus) Limited.
Joint Bookrunners	J.P. Morgan Securities plc, JSC Halyk Finance, MUFG Securities EMEA plc and Renaissance Securities (Cyprus) Limited.
Issue Price	100.393% of the principal amount of the Notes.
Issue Date	17 November 2017
Maturity Date	17 November 2027
Interest Rate	The Notes will bear interest at the rate of 4.850% per annum from and including 17 November 2017 to but excluding the Maturity Date.
Yield	4.800%
Interest Payment Dates	Interest will be payable semi-annually in arrear on 17 May and 17 November in each year, commencing on 17 May 2018.
Ranking	The Notes constitute the direct, general, unconditional, unsubordinated and (subject to Condition 4(a) (*Negative Pledge*)) unsecured obligations of the Issuer and rank and will rank *pari passu*, without preference among themselves, with all other unsecured and unsubordinated obligations of the Issuer, from time-to-time outstanding, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

The Guarantee	The Guarantee of the Notes is full and unconditional and will constitute direct, general, unconditional, unsubordinated and (subject to Condition 4(a) (*Negative Pledge*)) unsecured obligations of each Guarantor and ranks and will rank *pari passu*, without preference among themselves, with all other unsecured and unsubordinated obligations of each Guarantor, from time-to-time outstanding, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Cross Default	The terms of the Notes will contain a cross default provision as further described in Condition 13 (*Events of Default*).
Negative Pledge..	The terms of the Notes will contain a negative pledge provision as further described in Condition 4(a) (*Negative Pledge*).
Certain Other Covenants........................	The Notes will contain covenants relating to limitations on changes in business and disposals of assets and limitations on certain consolidations or mergers. See Condition 5 (*Limitations on Changes in Business and Disposals of Assets*) and Condition 6 (*Limitations on Merger or Consolidation*).
Redemption for Taxation Reasons.........	The Issuer may at its option redeem the Notes, in whole but not in part, at their principal amount, plus accrued interest, in the event of certain changes affecting taxation in Kazakhstan as further specified in Condition 10(b) (*Redemption for Tax Reasons*).
Make Whole Redemption and Optional Redemption at Par	The Issuer may at its option redeem the Notes in whole but not in part, in accordance with Condition 10(c) (*Make-Whole Redemption at the Option of the Issuer*) and Condition 10(d) (*Optional Redemption at Par*).
Redemption at Option of Noteholders...	Noteholders shall have the option, in the event of a Relevant Event, to require the Issuer to redeem or purchase the relevant Notes at par, plus accrued interest, as further specified in Condition 10(e) (*Redemption at the Option of the Noteholders*).
Taxation	All payments of principal and interest in respect of the Notes (including payments by the Guarantor under the Guarantee) shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by the Republic of Kazakhstan to the extent provided in Condition 12 (*Taxation*). In the event that any such deduction is made, the Issuer (or, as the case may be, the Guarantors) will, save in certain limited circumstances provided in Condition 12 (*Taxation*), be required to pay additional amounts to cover the amounts so deducted.

Use of Proceeds	The net proceeds of the issue of the Notes, after deduction of the total expenses related to the admission to trading and before deduction of underwriting fees and expenses in connection with the offering, expected to amount to approximately U.S.$783,000,000, will be used to fund the purchase of any of the Existing Notes, tendered and accepted for purchase in the Tender Offer (as defined below) and the redemption of Existing Notes remaining outstanding after the Tender Offer upon the approval of the Mandatory Early Redemption (as defined below), as well as the payment of any early consent fees in connection therewith, all pursuant to the Tender Offer and Consent Solicitation Memorandum (as defined below). See "*Use of Proceeds*".
Tender Offer and Consent Solicitation..	On 27 October 2017, pursuant to a tender offer and consent solicitation memorandum dated 27 October 2017 (the "**Tender Offer and Consent Solicitation Memorandum**"), the Issuer invited holders of the Existing Notes to: (i) tender any or all of the Existing Notes held by them for purchase by the Company for cash (the "**Tender Offer**"); and (ii) concurrently consent to amend by extraordinary resolution the terms and conditions of the Existing Notes to provide for mandatory early redemption of the Existing Notes (the "**Mandatory Early Redemption**"), all on the terms and subject to the conditions set forth in the Tender Offer and Consent Solicitation Memorandum (the "**Tender Offer and Consent Solicitation**").
Form of the Notes	Notes which are offered and sold in reliance on Regulation S will be represented by beneficial interests in the Unrestricted Global Note in registered form, without interest coupons attached, which will be registered in the name of a nominee for, and shall be deposited on or about the Issue Date with a common depository for and in respect of interests held through Euroclear and Clearstream, Luxembourg. Notes which are offered and sold in reliance on Rule 144A will be represented by beneficial interests in the Restricted Global Notes in registered form, without interest coupons attached, which will be deposited on or about the Issue Date with The Bank of New York Mellon, as custodian for, and registered in the name of Cede & Co. as nominee for DTC. Notes will be issued in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. See Condition 1 (*Form, Denomination and Title*). Interests in the Restricted Global Notes will be subject to certain restrictions on transfer. See "*Form of the Notes and Transfer Restrictions*". Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, certificates for Notes will not be issued in exchange for beneficial interests in the Global Notes.

Listing and Clearing................................	Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and to trading on the Global Exchange Market. In addition, application has been made to list the Notes on the KASE. On 23 October 2017, the KASE granted its consent to include the Notes in the "bonds" category of the "debt securities" sector of the official list of the KASE. It is expected that the KASE consent will come into effect on or before 17 November 2017. The Notes have been accepted for clearance through DTC, Euroclear and Clearstream, Luxembourg with the following ISIN, Common Code and CUSIP:
ISIN..	XS1713475132 / US48669DAA00
Common Code	171347513 / 111730954
CUSIP..	48669DAA0
Governing Law	The Notes and any non-contractual obligations arising out of or in connection with them, will be governed by, and shall be construed in accordance with, English law.
Selling Restrictions..................................	The offering and sale of Notes is subject to applicable laws and regulations including, without limitation, those of the United States, the United Kingdom and Kazakhstan. See "*Subscription and Sale*".
Ratings...	The Notes are expected to be rated Baa3 by Moody's and BBB- by Fitch. The Issuer's current long-term rating by Moody's is Baa3 (stable outlook) and Fitch is BBB- (stable outlook). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Risk Factors	Investing in the Notes involves a high degree of risk. See "*Risk Factors*" beginning on page 6.

RISK FACTORS

Each of the Issuer and the Guarantors believes that the following factors may affect its ability to fulfil its obligations under the Notes and the Guarantee, as applicable. Most of these factors are contingencies which may or may not occur and none of the Issuer or the Guarantors is in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which the Issuer and the Guarantors believe are material for the purpose of assessing the market risks associated with the Notes are also described below.

Each of the Issuer and the Guarantors believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer (or the Guarantors) to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons and neither the Issuer nor the Guarantors represent that the statements below regarding the risks of holding the Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Memorandum and reach their own views prior to making any investment decision.

Risk Factors Relating to the Group

The Group has historically received, and continues to rely on, support from the Government, which may be delayed, reduced or discontinued.

The Group has historically received, and continues to rely on various forms of Government support, either directly or through the Company's sole shareholder, Samruk-Kazyna. Such support has historically included, among other things, capital contributions, grants and subsidies, loans and bonds granted on concessional terms. The Group relies on such support to finance its operations and fund capital expenditures both in respect of the expansion and maintenance of its railway infrastructure and in the further development of its logistics business. For example, in July 2016, the Group entered into an unsecured loan agreement with Samruk-Kazyna in an amount of KZT 5.5 billion for the purpose of funding the renewal of JSC Passenger Transportation's rolling stock of passenger coaches. In addition, between 2014 and 2016 the Group received concessional rate loans from Samruk-Kazyna in an aggregate amount of KZT 33.3 billion to finance the renewal of JSC Passenger Transportation's fleet of rolling stock, including KZT 18.9 billion in 2014, KZT 8.86 billion in 2015 and KZT 5.5 billion in 2016. Between 2014 and 2016, the Group received capital contributions from Samruk-Kazyna of KZT 279.5 billion to finance major infrastructure projects, including: KZT 105.5 billion for the construction of the Zhezkazgan – Beyneu railway line, KZT 26.9 billion for the construction of the Arkalyk – Shubarkol railway line, KZT 6.7 billion for the construction of the Borzhakty – Ersai railway line, KZT 27.7 billion for the construction of the Almaty – Shu railway line, KZT 36.8 billion for the development of the "Khorgos-Eastern Gateway" SEZ free-economic zone, KZT 29.1 billion for the construction of a ferry complex in the Kuryk port and KZT 42.5 billion for the development of Astana railway junction, including the construction of a new railroad complex.

The Group also receives Government grants as compensation for certain passenger transportation tariffs that are set at levels that are either low or not profitable. See "*—The position of the Company as a monopoly and the dominant entity, as well as the position of KTZFT as a member of the market of public importance, may result in adverse interference in the Group's operations.*" The level of Government grants received by the Group changes periodically. For the six months ended 30 June 2017, revenue from Government grants was KZT 8,549.9 million, as compared to KZT 10,250.7 million for the corresponding period in 2016, reflecting a decrease of KZT 1,700.8 million, or 16.6%, primarily due to the transfer of a number of state-subsidised routes to private carriers. For the year ended 31 December 2016, revenue from Government grants was KZT 22,528.8 million, as compared to KZT 21,721.7 million for 2015, reflecting an increase of KZT 807.1 million, or 3.7%, primarily due to the allocation of additional funds from the State budget, following changes to the composition of the passenger transportation tariff.

The Government (either acting directly or through Samruk-Kazyna) has no obligation to provide financial support to the Group, whether in the form of capital contributions, grants, loans or otherwise, and there can be no assurance that the Group will continue to receive the same level of such support, if at all, that it has received to date. In addition, there can be no assurance that Government support, if any, will be given in a timely fashion. Any delay in the receipt of Government support may result in an inability of the Group to complete key capital expenditure and investment projects on time, or at all.

If the Government delays, reduces or discontinues its financial support of the Group, whether through a delay, reduction or discontinuation of capital contributions, grants or loans, it would have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group's results of operations and financial condition are influenced by general economic conditions in Kazakhstan, which, in turn, are influenced by global economic conditions.

The Group's results of operations are influenced by general economic conditions in Kazakhstan, which, in turn, are influenced by global economic conditions. The Kazakhstan economy may be affected by market downturns and economic slowdowns elsewhere in the world. Between 2014 and 2016, the Kazakhstan economy was impacted by continuing low crude oil prices, as well as devaluations and depreciations of the Tenge against the U.S. Dollar. The rate of GDP growth in Kazakhstan, according to statistics published by the Statistics Committee, was 1.0% for 2016, 1.0% for 2015 and 4.1% for 2014. Partially as a result of the decline in GDP growth in 2015, as compared to 2014, the Group's revenue from freight transportation decreased by 15.4% to KZT 629,049.7 million in 2015 (as compared to KZT 743,243.1 million in 2014) and revenue from passenger transportation decreased by 7.2% to KZT 71,787.3 million in 2015 (as compared to KZT 77,386.4 million in 2014). In 2016, revenue from freight transportation increased by 9.4% to KZT 688,204.3 million and revenue from passenger transportation increased by 11.6% to KZT 80,133.6 million. There can be no assurance that Kazakhstan's economy and, in turn, the Group's freight transportation and passenger revenue will grow in future periods. If the Kazakhstan economy ceases to grow or experiences further downturns and, as a result, demand for railway freight transportation, and, to a lesser extent, passenger transportation services, declines, the Group's revenue could be adversely affected, which would have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group is also affected by the movement of the Tenge against the U.S. Dollar, the Russian Rouble, the Swiss Franc and other major currencies. See "*—The Group is subject to foreign currency exchange rate risk, which the Group has a limited ability to manage.*"

Economic conditions in Kazakhstan are also dependent on a number of large economic projects and enterprises. While the Group is not individually dependent on any one particular customer, a significant decline in freight demand or failure to complete a large project by one or more of the Group's major customers may nevertheless have a material adverse effect on the Group's results of operations. For example, SSGPO LLP, one of the Group's major customers, had previously announced its intention to transport up to 8.0 million tonnes per year of iron ore to China, which the Group, in turn, expected to result in an increase in the Group's transportation of iron ore. However, as a result of the financial crisis and a decrease in demand for iron ore in the Xinjiang region of China, SSGPO LLP's exports have decreased to less than 1.0 million tonne per year. Transportation of iron ore accounted for 15.3%, by volume, of the Group's freight transportation in 2016.

Kazakhstan's economy has in the past and may continue to be adversely affected by low commodity prices, particularly in respect of the oil and gas sector, as well as economic instability elsewhere in the world. See "*—The Group is subject to commodity price risk, which the Group has a limited ability to manage.*" Consequently, the Government has promoted economic reform, inbound foreign investment and the diversification of the Kazakhstan economy. Notwithstanding these efforts, weak demand in its export markets and low commodity prices, especially with respect to the oil and gas industry, may adversely affect Kazakhstan's economy, which could, in turn, have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Government, which indirectly controls the Company, may cause the Company to engage in business practices that conflict with the Company's commercial interests and the interests of the Noteholders.

The Group is the national transportation and logistics operator of Kazakhstan. The Government, through Samruk-Kazyna, wholly-owns and controls the Company and, indirectly, the other members of the Group. As the Government's national management holding company, with the goal of supporting and diversifying Kazakhstan's economy, the interests of Samruk-Kazyna may differ significantly from the interests of the Noteholders, which may cause the Group to engage or expand in business areas that may materially and adversely affect the Group's ability to operate on a commercial basis or may cause the Group to operate in a way that is inconsistent with the best interests of the Noteholders. For example, the Group is required to provide certain passenger transportation services, which are not profitable, and may in the future be required to provide other services that the Group may not consider to be in its best commercial interests, but are for the public good. In addition, the Group could be forced by the Government to engage in activities outside its core businesses or to acquire assets for its business in transactions that are not on an arm's length basis.

The Government may also impose on the Group other social duties, such as requiring it to construct social and recreational infrastructure, engage in charitable activities and implement community development programmes. For example, in July 2012, the Government directed the Group to construct a multi-functional ice arena in Astana at the Group's expense. The Group invested KZT 47.8 billion in the construction of this project. Following completion, this arena was donated to the Mayor's administration of Astana City in May 2017. Furthermore, the Government imposes obligations and restrictions on the Group that limit the Group's operations. Government interference in the operations of the Group could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

Although the Company and the Guarantors are indirectly controlled by the Government, the Company and the Guarantors are each legal entities separate from the Government and agencies of the Government. Furthermore, the boards of directors of the Company and each of the Guarantors include independent directors. The Notes, and interest due or to become due in respect of the Notes, constitute obligations only of the Company and the Guarantee constitutes obligations only of the Guarantors. The Notes and the Guarantee do not constitute obligations of, nor are they guaranteed by, the Government or any agency thereof.

The Group is subject to commodity price risk, which the Group has a limited ability to manage.

Kazakhstan is a major exporter of commodities, including oil, natural gas, steel, copper, ferroalloys, iron ore, aluminium, coal, lead, zinc and wheat. Kazakhstan's economy and the State budget particularly rely on fiscal revenues from the export of oil products and are also significantly affected by imports of capital equipment and foreign investments in oil sector infrastructure projects. In turn, the Group's operations also rely on exports of commodities, which are affected by demand and fluctuations in commodity prices. International crude oil prices have fluctuated widely in recent years in response to global supply and demand, general economic conditions, competition from other energy sources and other factors, in particular as the Group does not conduct hedging activities in respect of market fuel price increases. See "*—Risk Factors Relating to the Republic of Kazakhstan—Most of the Group's operations are conducted, and a substantial part of its assets are located, in Kazakhstan; therefore, the Group is largely dependent on the economic and political conditions prevailing in Kazakhstan*".

For the six months ended 30 June 2017 and 2016, and in 2016, 2015 and 2014, fuel and lubricants accounted for 12.1%, 10.0%, 11.0%, 10.7% and 15.1%, respectively, of the Group's total cost of sales. In particular, the Group purchases diesel fuel, the price of which can be subject to significant fluctuations, for its locomotives. The Group purchases diesel fuel and other types of fuel and lubricants, primarily through open tenders held in accordance with the procurement procedures established by Samruk-Kazyna. Although, the Group usually holds procurement tenders at the beginning of a calendar year on fixed price terms (with the flexibility to decrease such price if market prices decrease), any material increase in the price of diesel fuel or other types of fuel and lubricants used by the Group could have a significant impact on the Group's cost of sales and, in turn, on the Group's transportation and locomotive haulage services. International, political and economic circumstances and a number of other circumstances affect fuel prices and supplies. If a fuel supply shortage were to arise, higher fuel prices could also result. There can be no assurance that the Group will be able to enter into sufficient flexible procurement or hedging arrangements to protect against commodity price risk in the future. A significant increase in fuel prices could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group includes the cost of fuel in the tariff calculations it submits to the Natural Monopoly Committee (as defined below) for approval. All of the Group's freight tariffs are subject to the approval of the Natural Monopoly Committee, except for transit tariffs. Any increases or changes in the approved tariffs are subject to regulatory approval and applied after approval has been received, while the cost of fuel may change more frequently. Because of this timing difference between the changes in fuel prices and any approval by the Natural Monopoly Committee to increase tariffs, the Group may generally be unable to pass along increased fuel costs to its customers, at least on a timely basis.

The Group is subject to foreign currency exchange rate risk, which the Group has a limited ability to manage.

The Group is exposed to foreign currency exchange rate risk on selected receivables, payables and borrowings that are denominated in currencies other than the Tenge. The currencies in which these transactions are denominated are primarily the U.S. Dollar, Russian Rouble, Euro, Swiss Franc and Japanese Yen. In addition, the Group receives a portion of its transit-related revenue in Swiss Francs. The Group's principal exchange rate risk involves changes in the value of the U.S. Dollar relative to the Tenge and, to a lesser extent, relative to the Swiss Franc, the Russian Rouble and other currencies.

Since the NBK adopted a floating rate exchange policy for the Tenge in April 1999, the Tenge has fluctuated significantly and the NBK has adopted a number of exchange rate policies. The Tenge had generally appreciated in value against the U.S. Dollar over the previous decade until its devaluation by the NBK in February 2009. In February 2009, the NBK established a trading band of KZT 150: U.S.$1.00 +/- 3%. This trading band was widened in February 2010, and set at an asymmetric KZT 150/U.S.$1.00 +10/-15%. In February 2011, the trading band was officially abolished, and the formal exchange rate arrangement was changed from a pegged exchange rate within horizontal bands to a managed floating exchange rate regime. On 11 February 2014, the NBK devalued the Tenge by 18.3% against the U.S. Dollar to KZT 184.50 per U.S.$1.00, stating that such devaluation was made in light of the situation in the global financial and commodity markets and the depreciation of the Russian Rouble in 2013 and 2014, as well as the overall situation in the global financial and commodity markets. In September 2014, the NBK re-established the trading band at KZT 170-188: U.S.$1.00. In August 2015, the NBK announced the adoption of a free-floating exchange rate and medium-term inflation targeting policy, which resulted in a 26.2% depreciation against the U.S. Dollar. As at 30 June 2017, the official KZT/U.S.$ exchange rate reported by the NBK was KZT 321.46 per U.S.$1.00, as compared to KZT 333.29 per U.S.$1.00 as at 31 December 2016, KZT 339.47 per U.S.$1.00 as at 31 December 2015 and KZT 182.35 per U.S. $1.00 as at 31 December 2014. As at 26 October 2017, the official KZT/U.S.$ exchange rate reported by the NBK was KZT 332.94 per U.S.$1.00.

The devaluations and depreciations of the Tenge resulted in reduced access to capital, a higher cost of capital, increased inflation, the recording of large foreign exchange losses and uncertainty regarding economic growth. Such foreign exchange fluctuations have had, and if they continue, are expected to continue to have a material adverse effect on the Group's financial position, cash flows and results of operations. See *"—Risk Factors Relating to the Republic of Kazakhstan—Further devaluations of the Tenge or the adoption of a new currency exchange policy could have an adverse impact on the Group and Kazakhstan's public finances and economy"*.

As at 30 June 2017 and 31 December 2016, 2015 and 2014, 53.8%, 64.8%, 66.7% and 58.9%, respectively of the Group's borrowings and debt securities were denominated in U.S. Dollars. Accordingly, any devaluation of the Tenge against the U.S. Dollar has resulted, and in the future would result, in increased foreign exchange losses for the Group. By way of example, for the year ended 31 December 2016, the Group recorded (on its consolidated statement of profit or loss and other comprehensive income) a foreign exchange gain (excluding discontinued operations) of KZT 20,863.3 million, as compared to a foreign exchange loss of KZT 450,997.7 million for 2015.

In particular, the Group is also subject to exchange rate fluctuations in the KZT/RUB exchange rate as a result of borrowings denominated in Russian Roubles. In particular, in June 2017, KTZ Finance, a special purpose vehicle ("**SPV**"), issued its RUB 15.0 billion 8.75% Notes due 2022, guaranteed by the Company, which has increased the Group's exposure to any future devaluation of the Tenge against the Russian Rouble. As at 30 June 2017, the official KZT/RUB exchange rate reported by the NBK was KZT 5.45 per RUB 1.00, as compared to KZT 5.43 per RUB 1.00 as at 31 December 2016, KZT 4.65 per RUB 1.00 as at 31 December 2015 and KZT 3.17 per RUB 1.00 as at 31 December 2014. As at 26 October 2017, the official KZT/RUB exchange rate reported by the NBK was KZT 5.78 per U.S.$1.00.

There can be no assurance that there will not be further devaluation of the Tenge, which could be significant, and, because most of the Group's consolidated total borrowings are denominated in U.S. Dollars and, to a lesser extent, Russian Roubles, a devaluation of the Tenge against such currencies would have a net negative impact on the Group's financial condition and results of operations. The Group does maintain a portion of its cash in U.S. Dollars in order to partially offset foreign currency gain or loss on its borrowings denominated in U.S. Dollars; however, these reserves may be insufficient to offset fully foreign currency loss.

The Group generates Swiss Franc-denominated revenue from its freight transit tariffs based on the CIS Tariff Agreement (as defined below). For the six months ended 30 June 2017, the share of revenue from transit transportation denominated in Swiss Francs was 30%, as compared to 35% in the corresponding period in 2016, and, for the year ended 31 December 2016, the share of revenue from transit transportation denominated in Swiss Francs was 34%, as compared to 28% in 2015 and 25% in 2014. For the six months ended 30 June 2017, 26% of the Group's total revenue was denominated in Swiss Francs, as compared to 31% in the corresponding period in 2016. For the year ended 31 December 2016, 31% of total revenue was denominated in Swiss Francs, as compared to 25% in 2015 and 21% in 2014. Accordingly, fluctuations in the Tenge/Swiss Franc exchange rate may affect the Group's consolidated results of operations and any change in the value of the Tenge against the Swiss Francs will result in an increase or decrease in the Group's revenue, as the case may be. As at 30 June 2017, the official KZT/CHF exchange rate reported by the NBK was KZT 336.49 per CHF 1.00, as compared to KZT 328.14 per CHF 1.00 as at 31 December 2016, KZT 342.45 per CHF 1.00 as at 31 December 2015 and KZT 184.64 per CHF 1.00 as at 31 December 2014. As at 26 October 2017, the official KZT/CHF exchange rate reported by the NBK was KZT 335.19 per U.S.$1.00. On occasion, the Group may look to hedge its foreign currency exposure. In June 2014, the Group also issued Swiss Franc-denominated Eurobonds, which are admitted to trading on the SIX Swiss Exchange and the KASE and are used as hedging instruments. There can be no assurance, however, that such measures will be sufficient to hedge all fluctuations in the KZT/CHF exchange rate.

There can be no assurance that the Group will have the ability to, or choose to, enter into sufficient hedging arrangements, or enter into hedging arrangements at all, to protect against foreign currency exchange rate risk in the future. If the Tenge were to experience a further significant devaluation or depreciation relative to the U.S. Dollar or other currencies, it would have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

Railway transportation may be subject to increasing competition from other modes of freight transportation, and the Group may be subject to increasing competition from other transportation and logistics companies.

Although rail transportation is the leading mode of freight transportation in Kazakhstan, rail services are subject to increasing competition from other types of transportation. According to data published by the Statistics Committee, in 2016 and 2015, total freight turnover in Kazakhstan by type of transportation was: (i) 239.0 billion tonne-kilometres 46.3% and 239.8 billion tonne-kilometres (46.4%), respectively, by railway; (ii) 114.5 billion tonne-kilometres (22.1%) and 115.4 billion tonne-kilometres (21.1%), respectively, by pipeline; (iii) 163,262.7 million tonne-kilometres (31.5%) and 161,864.7 million tonne-kilometres (29.6%), respectively, by road; (iv) 1,772.2 million tonne-kilometres (0.3%) and 1,597.6 million tonne-kilometres (0.3%), respectively, by water; and (v) 42,903.5 thousand tonne-kilometres (0.01%) and 42,699.9 million tonne-kilometres (0.01%), respectively, by air.

Although the Group is the national transport and logistics operator, the Company's primary business is its railway transportation business. Accordingly, the Group faces its greatest competition in the transport of oil and oil products from the development of pipelines in Kazakhstan and countries that border Kazakhstan, as pipeline transportation is more cost efficient than rail transportation in transporting crude oil. For example, the expansion of the Caspian Pipeline Consortium pipeline (the "**CPC Pipeline**") in 2015 resulted in volumes of crude oil produced by TCO LLP that were previously transported by the Company being transported through the CPC Pipeline. Primarily as a result of this, transportation of crude oil, as a percentage of the Group's total revenue from freight transportation tariffs, decreased from 6% in 2014 to 3% in 2015 and 1% in 2016. Transportation of oil and oil products accounted for approximately 23% of the Group's total revenue from freight transportation tariffs in 2016.

While freight turnover by road decreased by 1.9% of total transportation in 2016, compared to 2015, the Government is developing Kazakhstan's highway infrastructure to foster short- and medium-distance truck transportation. While most of these initiatives are long-term projects, should they succeed, the level of competition in the transportation industry could significantly increase.

In addition, although private companies must pay the Group for access to Kazakhstan's mainline railway network, these private companies are able to compete with the Group by contracting their railcars and containers for freight transportation. Many of these private companies are affiliated with the Group's existing customers and could, over time, provided there is open access to the mainline railway network, reduce such customers' reliance on the Group's railcars.

If other modes of transportation become more competitive with rail transportation or if private companies increase their share of the freight transportation market, it could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

Maintenance, modernisation and upgrades of the Group's railway and logistics infrastructure requires continuing funding.

Historically, the Group's railway infrastructure and related assets had generally not been sufficiently developed, maintained or modernised since the break-up of the Soviet Union in the early 1990s. While the Group has undertaken upgrades and modernisation of locomotives and rolling stock to reduce the average life of such infrastructure to 14.4 years old (with regulated useful lives of 22 to 40 years for locomotives and rolling stock (depending on type)), the Group must continue to dedicate significant levels of capital expenditure to maintain its locomotives and rolling stock. In addition, the Group lacks adequate storage capacities at cargo terminals and warehouses at certain key rail cities in Kazakhstan; and the Group has insufficient capacity to efficiently transfer the high volume of freight crossing into and from China at the Dostyk station, where freight must be transferred between railcars equipped to travel on Kazakhstan's railroads and railcars equipped to travel on China's railroads, which are not the same gauge, or width, as railroads in Kazakhstan. Although a new Altynkol station located at the Kazakhstan-China border was commissioned in December 2012, and is expected to attract certain freight flows coming from China to relieve load of Dostyk station, it is not currently fully operational due to insufficient supporting infrastructure pending development of the SEZ Khorgos (as defined below). Additionally, the Group has in the past experienced delays in transporting coal to Russia as a result of having too few freight wagons available and has had to transfer freight wagons from other parts of Kazakhstan. There have also been instances where inadequate maintenance of track superstructure has resulted in accidents. Between 2012 and 30 June 2017, there were four safety violations, classified as significant accidents, which occurred as a result of inadequate maintenance of track superstructure, including a train derailment in February 2017 in the Pavlodar division of the mainline network due to a track unit fault. Such accidents may increase the expenditures required to maintain and repair the Group's infrastructure.

In addition, the Group is required to make significant capital expenditures in connection with the further development of its logistics business. Such capital expenditure projects include the construction of a ferry complex at Kuryk port and development works at the "Khorgos-Eastern Gateway SEZ free-economic zone on the border with China. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition of the Group—Liquidity and Capital Resources—Capital Expenditure*".

The Group intends to invest a significant amount over the next several years to maintain, develop and modernise its railway infrastructure, as well as to develop its logistics business in line with Government programmes and initiatives.

Modernisation and expansion projects are capital-intensive and may be possible only in favourable market conditions or with the support of the Government. For example, following the devaluation of the Tenge in 2015, the Group chose to postpone a number of its planned capital expenditure projects. In recent years, however, as a result of Government support and the Group's financial and economic policy, the amount of investments into renewal and modernisation of infrastructure and rolling stock and the construction of infrastructure has consistently increased. As a result of requirements to upgrade and construct infrastructure and rolling stock, in line with the Government's Infrastructure Development Programme, the Group's capital expenditure was KZT 304.6 billion for the year ended 31 December 2016 and KZT 312.3 billion for the year ended 31 December 2015. For the six months ended 30 June 2017, the Group's capital expenditure was KZT 106.1 billion, as compared to KZT 77.3 billion for the six months ended 30 June 2016. KTZFT's capital expenditure was KZT 39.8 billion for the year ended 31 December 2016 and KZT 2.5 billion for the six months ended 30 June 2017. In addition, the implementation of maintenance and modernisation projects involves many potential risks and uncertainties, including interruptions resulting from the unavailability of locomotives, rolling stock and parts, inclement weather, unforeseen engineering difficulties, environmental and geological problems and unanticipated cost increases and claims, any of which could give rise to delays or cost overruns. For example, the Kuryk port and the Almaty-Shu secondary railway line construction projects have each been subject to increased costs and construction delays, as compared to the initial construction agreements. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition of the Group—Liquidity and Capital Resources—Capital Expenditure*".

For the year ended 31 December 2016, 44% and 15% of cash paid for capital expenditures were funded by sources obtained from the Government and from financial institutions, respectively, as compared to 35% and 11%, respectively, in 2015. For the six months ended 30 June 2017, 11% and 9% of cash paid for capital expenditures were funded by sources obtained from the Government and from financial institutions, respectively, as compared to 28% and 21% of in the corresponding period of 2016.

While the Group currently receives financial support from Samruk-Kazyna and the Government, there can be no assurance that the Group will be able to obtain any such support in the future and that it will have access to sufficient financing on acceptable terms, or at all. See "*—The Group has historically received, and continues to rely on, support from the Government, which may be delayed, reduced or discontinued.*" There can be no assurance that market conditions will be favourable or that the Group will be able to continue to obtain, from the Government or other sources, financial support sufficient to continue its maintenance and modernisation projects. If the Group is unable to obtain such financial support and conduct the necessary maintenance, development and modernisation of the railway system and related infrastructure, as well as the continued development of its logistics business, the Group's operations may be adversely affected by equipment failures and accidents attributable to poor conditions of the railway system and related infrastructure, and planned capital investment projects may not be completed.

The Group has historically experienced liquidity problems.

Liquidity is a measure of the Group's ability to generate adequate amounts of cash to meet both current and future obligations as they mature and to provide for planned capital expenditures. In order to have a complete picture of the Group's liquidity, its statement of financial position, sources and uses of cash flow and external factors should be reviewed.

The Group's cash requirements for operations and capital expenditures are significant and the Group's sources of cash include revenue primarily from freight and passenger transportation and Government grants. Historically, primarily as a result of deteriorating economic conditions, the Group experienced liquidity problems and curtailed capital expenditures, and discontinued or delayed certain development projects. In addition, the Group's ability to comply with its financial covenants was significantly impacted by the devaluation of the Tenge in 2015 and the Group was required to seek waivers for non-compliance with covenants from certain lenders in each of 2015, 2016 and the six months ended 30 June 2017. See "*—The Group's operations may be restricted by its loan covenants and failure to comply with such covenants could have a material adverse effect on the Group*". The Company also postponed certain capital expenditure projects as a result of the Tenge devaluation. As at 30 June 2017, the Group's current assets were KZT 429,360.1 million (as compared to KZT 376,452.5 million as at 31 December 2016 and KZT 294,234.3 million as at 31 December 2015), while its current liabilities were KZT 516,093.0 million (as compared to KZT 514,373.9 million as at 31 December 2016 and KZT 432,090.9 million as at 31 December 2015). Accordingly, the Group's current liabilities exceeded its current assets by KZT 86,732.9 million as at 30 June 2017, KZT 137,921.4 million as at 31 December 2016 and KZT 137,856.6 million as at 31 December 2015. See "*—The Group's auditors have identified the Group's ability to operate as a going concern as a key audit matter.*" Although the Company's current liquidity ratio has improved since December 2015, it remains below 1. If the economy were to contract in the future and revenue of the Group were to decrease, the Group may be unable to meet its working capital requirements and could result in further covenant breaches, which could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations. The occurrence of such circumstances could also adversely impact the ability of the Guarantors to meet their obligations under the Guarantee.

The position of the Company as a monopoly and the dominant entity, as well as the position of KTZFT as a member of the market of public importance, may result in adverse interference in the Group's operations.

The Group's business activities are subject to regulation by the Government. As Kazakhstan's national railway company, the Company has a monopoly over Kazakhstan's mainline railway network. KTZFT is a member of the market of public importance in the sphere of freight transportation by rail. Accordingly, both the Company and KTZFT are regulated by the Committee for Regulation of Natural Monopolies, Protection of Competition and Consumers (the "**Natural Monopoly Committee**"). The Natural Monopoly Committee regulates the activities of the Company and KTZFT by establishing tariffs for domestic, import and export freight transportation on the mainline railway network, as well as tariffs for inter-regional, intercity and suburban passenger transportation. In determining tariffs, the Natural Monopoly Committee considers a range of factors, including the income and investment needs of the Group. However, the Government's tariff setting policies may not be transparent and the Government, through the Natural Monopoly Committee, may use tariff-setting as a means of supporting public policy initiatives in other sectors of the economy or otherwise to further Government policy without regard to its impact on the Group. For example, the provision of passenger rail services in Kazakhstan is considered a social responsibility of the rail operator and, accordingly, tariffs are kept artificially low to ensure affordable passenger rail services to all members of the public. As a result, the revenue generated from passenger operations services has historically been insufficient to meet the operational costs of these services and the Group is reliant on Government grants to support its passenger transportation business. See "*—The Group has historically received, and continues to rely on, support from the Government, which may be delayed, reduced or discontinued*" and "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Factors and Trends Affecting Financial Condition and Results of Operations—Tariffs and Government Grants*". The Group is also required to engage in certain freight transportation deemed to be in the public interest even if the provision of such services cannot be done profitably. See "*—The Government, which indirectly controls the Company, may cause the Company to engage in business practices that conflict with the Company's commercial interests and the interests of the Noteholders.*"

If the Natural Monopoly Committee establishes tariffs on one or more of the Group's services that are insufficient to cover the costs of the Group's provision of such services, or if tariff rates established by the Natural Monopoly Committee are at levels which do not meet the Group's budget, and the Group does not receive other support from the Government to offset the effects of such tariffs, the Group could experience a reduction in liquidity and, as a result, may be unable to meet its current and future obligations as they mature or provide for planned capital expenditures, including implementing the development strategy for 2015-2025, which was adopted by the Company's Board of Directors in November 2015 and subsequently amended in February 2016 (as amended, the "**Development Strategy**"). Moreover, other circumstances may arise in the future in which it would be in the commercial interests of the Group to discontinue an unprofitable service and the Group may not be permitted to do so by the Government, which would mean that the Group would have to continue to provide the service at a loss to the Group, which could, in turn, have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

As each of the Company and KTZFT are subject to Government oversight, the Government may interfere with their respective operations, which could result in a material adverse effect on their respective businesses, prospects, financial conditions, cash flows or results of operations.

The Group's operations may be restricted by its loan covenants and failure to comply with such covenants could result in a material adverse effect on the Group.

The Group is obliged to comply with various affirmative and negative covenants and restrictions contained in its financing arrangements. In addition, its own internal policies for compliance with such covenants and restrictions may be stricter than required under such covenants and restrictions. While the specific provisions of the relevant financing arrangements vary, the covenants generally include restrictions on the ability of Group members implementing any material change to the scope or nature of their respective businesses, entering into mergers, consolidations or reorganisations, encumbering assets and completing certain sales, transfers and dispositions of properties in excess of a specified value or which are essential to the conduct of its business. The Group may also be limited in incurring capital expenditures greater than specified amounts and in incurring additional indebtedness or guaranteeing the indebtedness of third parties without the prior approval of the relevant lender.

In addition to imposing affirmative and negative obligations regarding the conduct of the business of members of the Group, existing loan and guarantee agreements and other debt instruments require that the Group company subject to the agreement maintain on an ongoing basis or periodically satisfy as at particular dates certain financial tests. The most restrictive of these financial ratio tests requires the maintenance of a ratio of Group EBITDA (calculated as profit from continuing operations before taxation, finance costs, finance income and depreciation and amortisation, but after taking into account any material devaluation of the Tenge (which is accounted for as an extraordinary item)) to finance costs of 2.0 or more, a ratio of adjusted debt to equity of 0.75 or less, and a ratio of adjusted debt to Group EBITDA of 3.75 or less, with compliance computed using the definitions contained in the relevant loan and guarantee agreements. In addition, the Debt and Financial Stability Management Policy issued by Samruk-Kazyna sets the following key financial stability ratios: (i) debt to Group EBITDA of less than or equal to 3.50; (ii) Group EBITDA to interest expense of greater than or equal to 3.50; and (iii) debt to equity of less than or equal to 0.75. As a result, the Group's operations may be restricted. The Notes will also contain covenants that place certain limitations on the Group, including, *inter alia*, limitations on changes in business, the disposal of property and limitations on mergers and consolidations with other legal entities, as well as a cross default provision.

The Group's ability to comply with its financial covenants was significantly impacted by the devaluation of the Tenge in 2015, which, in particular, resulted in a significant increase in the Group's adjusted debt to Group EBITDA ratio. See "*Selected Financial Information and Operating Data*". In each of 2015, 2016 and the six months ended 30 June 2017, the Company agreed consecutive one-time amendments or waivers with certain of its creditors in respect of projected non-compliances with the financial covenants set out in its loan and guarantee agreements. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Liquidity and Capital resources—Borrowings*". Certain of the amendments or waivers cover the period only until 31 December 2017 and will have to be extended or renewed thereafter in respect of any projected future non-compliances. The Group is proactively working to achieve compliance with the ratios set out in its loan and guarantee arrangements, as well as those specified in the Samruk-Kazyna Debt Financial Stability Management Policy, and has approached certain lenders to negotiate changes to its covenant package, or to extend or obtain new amendments or waivers, in respect of any projected future non-compliances. There can be no assurance, however, that the Group will be able to comply with the covenants and restrictions set out in its loan and guarantee agreements and, if not, that it will be able to extend or obtain new amendments or waivers for projected non-compliances that may be required from time-to-time or on a repeated basis in the future. If the Group fails to extend or obtain any required amendment or waiver, the relevant Group borrower would be in breach of the applicable loan or guarantee agreement. Moreover, any such breach would likely trigger cross default provisions in the Group's financing agreements (including the Notes offered hereby) and any such default would permit the Group's lenders and other creditors to accelerate some or all of the Group's debt, which could, in turn, require the Group to restructure or refinance its outstanding indebtedness. There can also be no assurance that the Group would be able to complete any such required restructuring or refinancing. Any of the foregoing could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

Each of the Group and the railway industry in Kazakhstan has undergone and is continuing to undergo restructuring, which will require the Group to adapt and will likely result in a more competitive environment.

The Government has been actively reforming the railway industry in Kazakhstan since 1997. As the national transport and logistics operator, the Company implements Government initiatives and programmes aimed at developing the transport and logistics sector in Kazakhstan. The Development Strategy aims to transform the Group from a group of railway companies to a transport logistics group through, among other aims: (i) developing domestic market sales; (ii) increasing rail car utilisation; (iii) developing container transit; (iv) improving passenger transportation efficiency; (v) improving operational efficiency; (vi) launching a "project office"; (vii) promoting liberalisation of the rail industry and changes to the Government's regulatory system; and (ix) utilising China's support for transit via Kazakhstan. The Development Strategy was updated in February 2016 to include , *inter alia*, additional strategic initiatives, such as the implementation of digital rail programmes and debt management initiatives.

The aim of the Development Strategy is to build a more efficient organisational structure to enhance the commercial and operational performance of the Group, in order that it can compete effectively in the more competitive environment being fostered by the Government as part of the overall reform of the Kazakhstan transportation and logistics sector.

Reforms of the railway industry and transportation and logistics sector in Kazakhstan, together with implementation of the Development Strategy, will require further significant changes to the structure of the Group, including the transfer or contribution of assets among members of the Group in furtherance of the reorganisation of operations and functional responsibilities and privatisation of certain business lines or operations. See also "*—The Government, which indirectly controls the Company, may cause the appointment or removal of members of the Company's management team or require the Company to privatise certain of its assets.*"

In addition, it is possible that the Group may find it necessary to alter the services that it offers in response to developments that come about as a result of the significant changes that are expected to take place within Kazakhstan's railway industry and transportation and logistics sector as a result of the more competitive environment.

The success of the Development Strategy will depend on the Group's ability to restructure its businesses effectively, to adapt its management structure and managerial personnel to reflect the significant changes in its operational structure and to implement cost efficiency measures. If the Group is not able to implement these restructuring measures or adapt to new circumstances that result from reforms in the railway industry and transportation and logistics sector or the implementation of the Development Strategy, it may result in disruptions and difficulties in the Group's operations and increases in operating expenses, any of which could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

In addition, the timing of the implementation of the Development Strategy, as well as the Group's ability to implement the Development Strategy successfully, are subject to a number of other factors beyond the control of the Group, including the Group's ability to take actions that require the involvement or approval of the Government or the consent of certain of the Group's creditors. Failure to obtain any such approvals or consents could delay or otherwise hinder the Group's ability to restructure its business and, consequently, its ability to run its business and compete effectively. If the Group is unable to compete effectively as a result of these or other factors, it could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Government, which indirectly controls the Company, may cause the appointment or removal of members of the Company's management team or require the Company to privatise certain of its assets.

The Group is the national transportation and logistics operator of Kazakhstan. The State, through Samruk-Kazyna, indirectly wholly owns the Company and, therefore, is in a position to appoint and remove, or influence the appointment and removal of, the members of management of the Company and its subsidiaries. According to the Company's Charter, while the Board of Directors of the Company is responsible for appointing the members of the Management Board, including the Chairman of the Management Board, this is subject to the approval of Samruk-Kazyna as sole shareholder. Since July 2002, the Company has been included in the list of national holdings, companies, development institutions and state higher educational institutions of which only the Prime Minister may (or at least only with his agreement) appoint or dismiss the chief executive officer or president of the relevant company. In addition, as at the date of this Offering Memorandum, four of the eight members of the Company's Board of Directors representatives of the Government or Samruk-Kazyna and the Chairman of the Board of Directors is the First Deputy Prime Minister of Kazakhstan.

In September 2015, the Government announced plans to launch a new, large-scale privatisation programme. On 30 December 2015, the Government issued Decree № 1141, which sets out the Government's "Complex Privatisation Plan" to be implemented between 2016 and 2020 (the "**2016 Complex Privatisation Plan**"). The 2016 Complex Privatisation Plan includes a list of national companies and subsidiaries of national companies, including certain of the Company's subsidiaries, which have been identified as companies to be privatised. As at the date of this Offering Memorandum, the Group has sold interests in 12 companies pursuant to the 2016 Complex Privatisation Plan, including, among others, JSC Lokomotiv Kurastyru Zauyty, KTZE – Khorgos Gateway LLP, Temir Zhol Electrification LLP, Bas Balkhash LLP. The Company has announced its intention to sell interests in a further five companies in 2017, including, JSC Transtelecom, Elektrovoz Kurastyru Zauyty, Tulpar Talgo LLP, Aktau Marine North Terminal LLP and JSC VostokMashZavod, as well as certain assets under trust management, including Aktau International Sea Commercial Port National Company JSC and JSC Aktobe International Airport.

The 2016 Complex Privatisation Plan and a resolution of the Board of Directors of the Company dated 11 February 2016 sets forth a list of companies to be privatised and certain companies to be sold as a matter of priority, including the proposed sale of up to 75% minus one share of Kaztemirtrans and JSC Passenger Transportation. As at the date of this Offering Memorandum, however, it is the Company's view that Kaztemirtrans and JSC Passenger Transportation may be excluded from the list of companies to be privatised as a result of the low investment potential of both companies. See "*Business of the Group—Ongoing Restructuring and Initiatives—Restructurings and privatisations*". Thirty-seven Group companies are also identified as to be sold, reorganised or liquidated. The method and timing of any such disposals have not yet been agreed and will be subject to review and consultation with independent consultants. There can be no assurance, however, as to the terms on which any such disposals will take place, if at all. Such privatisations may result in reduced dividends being paid to the Company, which, in turn, may have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

A potential initial public offering by Samruk-Kazyna of a minority stake in the Company (not to exceed 49%) is also contemplated by the Government's 2016 Complex Privatisation Plan, although the terms and timing of any such offering have not been finalised. On 17 October 2016, the State Committee on Modernisation of Economy of Kazakhstan, chaired by the Prime Minister of Kazakhstan, concluded that any privatisation of the Company should not take place before 2020. There can be no assurance as to the effect of such initial public offering would have on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group's auditors have identified the Group's ability to continue as a going concern as a key audit matter.

The Financial Statements included elsewhere in this Offering Memorandum have been prepared on a going concern basis. In assessing its going concern basis, Management has considered the Group's financial position, expected future performance, borrowings, available credit facilities and capital expenditure commitments, tariffs, currency exchange rates and other risks facing the Group. As at 31 December 2016, the Group's current liabilities exceeded its current assets by KZT 137,921.4 million and, as at 30 June 2017, the Group's current liabilities exceeded its current assets by KZT 86,732.9 million. Historically, the Group has financed large investment and capital expenditure projects through capital contributions from the Government and external borrowings, in addition to cash flows from operating activities. As at 30 June 2017, KZT 181,359.0 million of the Group's borrowings were payable within 12 months. The Group's loans and borrowings include certain financial covenants, non-compliance with which may result in such loans and borrowings becoming payable on demand and potentially, through the triggering of cross-default provisions in other agreements, resulting in additional loans and borrowings becoming due and payable. In each of 2015, 2016 and the six months ended 30 June 2017, the Company agreed one-time waivers with certain of its creditors in respect of non-compliances with the financial covenants set out in its loan and guarantee arrangements. See "*—The Group's operations may be restricted by its loan covenants and failure to comply with such covenants could have a material adverse effect on the Group*".

The Group has estimated its need for cash, including for the repayment of borrowings and its development plans. After making appropriate enquiries with respect to such matters, Management has considered that the Group has adequate resources to continue in operational existence and settle its liabilities and that the going concern basis is appropriate in preparing the Group's Financial Statements.

In connection with the audit of the 2016 Financial Statements, the Group's auditors identified the Group's going concern basis as a key audit matter, performing additional procedures primarily focused on a critical evaluation of key assumptions made by Management and its plans to settle current liabilities. These procedures included, *inter alia*, examining the classification of assets and liabilities, analysing events and conditions (including financial and operating events and conditions) that could cast doubt on the Group's ability to continue as a going concern, analysing Management's evaluation of going concern principles and plans to settle current liabilities, examining the reliability and reasonableness of data and assumptions applied in preparing forecasted cash flows, including consistency of input data to other tests, such as impairment, actuarial valuation and hedge effectiveness testing, analysing possible scenarios with respect to forecasts, which affect the liquidity of the Group and its ability to settle its obligations, including the ability of the Group to generate a sufficient level of cash flows from operating activities to serve and settle its loans, as well as the impact of possible changes in exchange rates on

amounts of liabilities and revenues, examining the documents supporting the availability of financing sources, including credit agreements, negotiations with financial institutions and Board of Directors' minutes, where applicable, recalculating financial covenants for mathematical accuracy, examining the waivers received with respect to existing financial covenants prior to 31 December 2016 and assessing the completeness and correctness of the information disclosed in the Group's Financial Statements. Following the conclusion of such assessment, the auditors noted that they found that the going concern assumption made in connection with the 2016 Financial Statements was appropriate and that the information disclosed in the 2016 Financial Statement reflected the Group's then-current financial situation.

There can be no assurance, however, that Management will be able to make the same assumptions in respect of going-concern principles in future periods or that the Group's auditors will consider such assumptions to continue to be appropriate. In addition, Management may not be able to realise its plans to settle current liabilities. Any failure to be able to operate on a going concern basis would have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations. See also "*—The Group has historically experienced liquidity problems.*"

The Group may not be successful in implementing its strategic aims.

The Group's plays a key role in the implementation of key Government projects and such role has been reaffirmed by recent initiatives. See "*Kazakhstan's Economy and the Railway Industry in Kazakhstan—Kazakhstan's Economy—Economic Programmes and Initiatives*". In particular, in line with the targets set out in the President's January 2017 message to the nation, the Company aims to increase the volume of transit container traffic seven-fold, to 2.0 million TEU by 2020 and the Company is taking a number of measures to: (i) develop infrastructure in line with the targets and reforms set out in the Infrastructure Development Programme and the National Plan; (ii) continue to develop its framework of strategic alliances with partners in the main transport corridors to, *inter alia*, increase service levels, develop competitive tariff rates and increase the speed of cargo delivery; (iii) conduct marketing initiatives to attract new cargo flows; and (iv) work with Government agencies to reduce administrative barriers to transit activities and improve transit-related logistics. A number of targets are also set out in the Group's Development Strategy and other State programmes. There can be no assurance, however, that the Group will be successful in fulfilling in these projects or strategic aims or that the cost of implementing such strategic aims will be in line with the Group's expectations. Any failure to achieve such aims or need to incur unexpected costs to achieve such aims could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

Insufficient supply of, or increases in the prices, of locomotives or rolling stock may limit the Group's investment in its infrastructure

A significant part of the Group's locomotives and rolling stock are approaching the end of their useful lives and require replacement. Although the Group has purchased rolling stock in recent years in an effort to upgrade its fleet of rolling stock, the Company expects that a large portion of the Group's capital expenditures over the next several years will continue to be for these purposes. There is still a relatively limited number of quality rolling stock manufacturers in Kazakhstan and the Commonwealth of Independent States (the "**CIS**"), and their output is limited. In addition, the adaptability of these manufacturers' production facilities from one type of rolling stock to another is limited. The Company has entered into, and plans to continue to enter into, joint ventures with foreign railway operators and companies, which have expertise in locomotive and rolling stock assembly and repair with an aim, in part, to provide the Group with a sufficient quantity of locomotives and rolling stock. However, there can be no assurance that the Group will be able to source sufficient supplies of new locomotives or rolling stock for its fleet on commercially acceptable terms, or at all, and there can be no assurance that the Group will be successful in continuing to enter into, or will realise the benefits from entering into, joint ventures and other agreements in order to address these supply shortfalls. If the Group is unable to procure the requisite amount of new locomotives or rolling stock on commercially acceptable terms, whether from third party manufacturers or its anticipated joint ventures, or experiences delays or failures in delivery of locomotives or rolling stock, it could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group is required to comply with commitments arising from Kazakhstan's participation in multilateral and bilateral international treaties and in international organisations.

The Group is subject to Kazakhstan foreign policy relating to arrangements in the railway industry. For example, the Group's operations are, and will continue to be, subject to the Customs Union and Eurasian Economic Union ("**EEU**") among Kazakhstan, Armenia, Belarus, Russia and the Kyrgyz Republic. As part of the SES (as defined below) established by Belarus, Kazakhstan and Russia, the unification of tariffs, by route, was envisaged by 1 January 2013, covering freight tariffs for domestic, export and import routes within each of these countries and permitting rail transportation operators, at their discretion, based on certain economic factors, to amend the tariffs. The Group completed unification of its domestic, export and import transportation tariffs and currently charges a unified tariff for freight transportation by rail which does not take into account whether the cargo is transported within, imported into or exported from Kazakhstan.

In the context of implementation of the treaty establishing the EEU, a unified transport policy for member states was agreed, which sets out the general principles for the functioning of the transport industry in the context of integration, including provisions for the phased formation of a common market and the liberalisation of transport services. Such principles aim to ensure the effective use of member states' transit potential and to develop Eurasian rail transport corridors. In 2014, the EEU Treaty was signed, which entered into force on 1 January 2015 and marked the transition to a new level of integration. This introduced freedom of movement of goods, services, labour, and freedom of movement. It also introduced co-ordinated or unified policy in key sectors of the economy, including transport, technical, and customs regulation.

In 2017, the member states of the EEU approved a new Customs Code, which is expected to enter into force in January 2018. The new Customs Code provides for the full transition to electronic customs declarations, a reduction in the time required for customs clearance of transit goods from one working day to four hours and a 50% reduction in the time permitted for customs authority inspections from 10 days to five days.

Failure by the Group to adapt its operations to further rules or regional integration supported by the EEU or similar future organisations, or acceptance by Kazakhstan of any international commitments that are not in accordance with the interests of the Group, could make it difficult for the Group to compete effectively with regional railway companies or enjoy the benefits that the EEU and similar organisations may bring to its member states. If the Group is unable to compete effectively as a result of these or other factors, it could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group's business is dependent on economic conditions in the countries bordering Kazakhstan and maintaining good relations with neighbouring countries to have open access to international commodities markets.

The Group's business is dependent on exports of products from, and imports of products to, Kazakhstan. The volumes of such shipments vary based on economic conditions in Kazakhstan and the countries bordering Kazakhstan, as well as the demand elsewhere for commodities and other products produced in Kazakhstan and their shipments to Kazakhstan or transport through Kazakhstan to other countries. Accordingly, economic conditions in those countries have an impact on demand for the Group's transportation services. Moreover, the Group's continued efforts to expand its logistics and transhipment services will make it increasingly dependent on economic conditions in other countries. Should economic conditions in such countries be substantially impaired, it may have a material adverse effect on the Group's exports, imports and transit transportation operations, and the ability to offer logistics services to the Group's customers in these countries.

Kazakhstan further depends on neighbouring states for access to world markets for a number of its major exports, including uranium, oil, natural gas, steel, copper, ferroalloys, iron ore, aluminium, coal, lead, zinc and wheat. Accordingly, Kazakhstan is dependent upon maintaining good relations with its neighbours to ensure its ability to export.

As a result of the role assigned to the Group in Government economic programmes and initiatives, the Group is at the forefront of Kazakhstan's intention to be a large transit player on the trade route between China and the EU. As such, the Group has been, continues to be and has future plans to be, involved in cooperation with foreign and international partners. Any failure to create or maintain relationships with such partners could have a material adverse effect on the Group's ability to fulfil its strategic aims and, in turn, on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group relies heavily on information technology systems to operate its business and any failure of these systems or cyber security breaches could harm its business.

The Group relies heavily on its telecommunications network and computer systems for coordination of scheduling, dispatching and other aspects of its railway operations, as well as accounting, ticket sales for passenger trains, tracking freight deliveries and numerous other functions. While the Group has undertaken and is continuing to undertake, a number of information technology investment projects, in particular, in respect of the Group's railway infrastructure, the Group's telecommunications network and computer systems require development and modernisation. The hardware and software that is used by the Group may be damaged by human error, natural disasters, power loss, sabotage, computer viruses, cyber intrusion, network attacks and other events. The Group's operations may also be vulnerable to the system failures of other companies with whom such operations are closely linked, such as utility providers, telecommunication service providers and financial institutions. Problems that may occur as a result of system failures include, but are not limited to:

- the incorrect recognition of train schedule or route control data, which could disrupt railway operations and lead to railway accidents;

- system failures in ticketing, reservations and sales functions, which could cause significant confusion, inconvenience to passengers and loss of revenue; and

- difficulties in repairing systems over an extensive network that includes many remote areas, which could delay the re-establishment of operations and result in a further loss of revenue.

System failures may also reduce the attractiveness of the Group's services and result in its customers choosing alternative means of transportation. Such system-related problems could lead to increased expenses and decreased revenue and, in turn, have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

Moreover, the Group intends to increase further the use of advanced technologies in its operations. Specifically, the Company plans to create a single information space for the railway industry in Kazakhstan, which is integrated with neighbouring countries, other types of transportation and additional services such as customs and forwarding agents. Certain interrelated projects, such as automated processes for the planning and measuring of freight transportation, as well as the geographic mapping of the mainline railway to calculate safe interval systems between trains, are currently in a pre-design or implementation stage. There can be no assurance that the Group will be able successfully to implement any such advanced technologies or upgrade its computer systems, and any failure to do so may have a material adverse effect on the Group's business, prospects, financial condition, cash flows and results of operations.

The Group faces numerous operating risks that may result in loss and additional expenditures, which may not be fully covered by insurance.

The Group is the owner and operator of the national railway system, as well as the largest operator of passenger and freight rolling stock and locomotives in Kazakhstan. As a result, the Group's infrastructure and transportation operations may be adversely affected by many factors, including the breakdown or failure of equipment or processes, natural disasters, terrorist attacks or sabotage of the Group's extensive infrastructure and related assets. An accident, derailment or other incident involving the Group's railway operations could result in damage to, or loss of, the Group's track network, locomotives and railcar fleet, disrupt the Group's services, give rise to potential claims by freight shippers, injured passengers and others and have a material adverse effect on the attractiveness of the Group's services in the future. A negative change in the perception of the Group's safety record could result in, among other things, customers switching to other means or providers of transportation. As a carrier and operator of rolling stock, members of the Group may also be responsible for spillage or leakage from railcars transporting environmentally sensitive materials where such spillage or leakage is the fault of the Group.

The insurance market is relatively undeveloped in Kazakhstan. While the Group maintains an insurance programme pursuant to requirements of Samruk-Kazyna, the Group does not procure insurance coverage to the same extent as what might be considered customary in more developed economies in Western Europe and North America. Except for holding the required statutory insurance coverage, including with respect to automobile insurance, employer liability insurance, environmental insurance and passenger insurance for personal injury, death and loss or damage to passenger property, the Group does not maintain any insurance (including business interruption insurance). In addition, while subsidiaries of the Company insure their respective rolling stock, tracks and rails owned by the Group are not insured and, in general, the Group's infrastructure assets are not insured unless insurance is required pursuant to any relevant financing agreements.

The Group is responsible for damage or loss of freight during its transportation if such damage or loss was the Group's fault. If a significant uninsured event was to occur, it the Group would incur additional expenditures for which it would not be compensated, which could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group may be subject to the laws of various countries imposing U.S. and EU sanctions and the ongoing or future impact of such sanctions may have an adverse effect on the Group.

As a result of the Group's transportation activities, which include importing into, exporting from and transiting through Kazakhstan petroleum and petroleum products, construction materials and other freight, the Group may be subject to certain laws and regulations of the United States, the United Kingdom, other member states of the EU, and other countries, as well as the United Nations, imposing economic sanctions or export controls. Kazakhstan law, international treaties to which Kazakhstan is a party and the nature of the Group's business may prohibit or limit the Group's ability to refrain from transacting business with sanctioned countries, persons or entities.

The U.S. government imposes economic sanctions and trade embargoes with respect to certain countries in support of its foreign policy and national security goals. These laws and regulations are administered by the U.S. Treasury Department's Office of Foreign Assets Control ("**OFAC**"), and in certain instances by the U.S. Department of State. U.S. economic sanctions impose restrictions on U.S. persons and, in certain circumstances, non-U.S. persons with respect to activities or transactions with certain countries, governments, entities or individuals that are the target of the relevant U.S. economic sanctions. Under applicable U.S. economic sanctions, U.S. persons also are prohibited from facilitating such activities or transactions, and non-U.S. persons are prohibited from causing other persons to violate applicable prohibitions. The United Kingdom, the other Member States of the EU and various other countries (such as Australia, Canada, Japan and Switzerland), as well as the United Nations, have also implemented measures aimed at prohibiting or restricting engagements in financial and other dealings with sanctioned countries, entities and individuals. In connection with the instability and unrest in Ukraine since 2014, the United States and the EU have imposed sanctions on certain individuals and companies in Russia. In addition, sanctions imposed against Iran by the United States, as well as sanctions imposed against specified individuals and companies in Iran by the United States and other countries, continue to exist and could be expanded in the future.

The Group's operations may result in contact with countries, persons and entities that are subject to sanctions administered by OFAC, the EU, the UK, the United Nations and other relevant authorities. While the Group has no current relationships with any sanctioned companies in Russia, Iran or elsewhere, the Group may in the future wish to engage in transactions with such persons or entities controlled by such persons. Moreover, Kazakhstan law, international treaties to which Kazakhstan is a party and the nature of the Group's business may result in the Group being unable to refrain from engaging in transactions with countries, persons or entities that may be the subject of OFAC or other sanctions.

While none of the Group's members have been sanctioned and no Group entity has engaged in or expects to engage in, any actions that would cause it to be sanctioned by any relevant authority, there can be no assurance that a Group company will not be sanctioned in the future. If a Group company were to be sanctioned in the future, certain of the Group's investors, in the United States, in the EU and in other jurisdictions where sanctions similar to the U.S. economic sanctions apply, may be required (by operation of law or regulations or under internal investment policies, or both) to divest their interests in Notes and some potential investors may forgo the purchase of future debt securities of the Group. Moreover, under such circumstances, other counterparties to the Group, both U.S. and non-U.S. and including various sources of funding for the Group, may be required, or may decide for reputational reasons or otherwise, to cease their business relationships with or divest their investments in the Group. Any of these factors could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group could incur significant costs for violations of applicable environmental laws and regulations.

Like other transportation companies, the Group's operations are subject to extensive national and local laws and regulations governing emissions and the transportation of products that are hazardous to the environment. In carrying out its environmental policies, the Group seeks to adhere to international standards and best practices. In light of the extensiveness of the railway network, however, the Group has experienced certain irregularities and incompliances with applicable environmental laws, mainly due to its outdated infrastructure. The Group is further subject to regular inspections from the Environmental and Ecological authorities of Kazakhstan, which may apply fines and request monetary compensation of damages to the environment, in case of discovery of any extensive damage. Compliance with environmental regulations is an ongoing process and as such, new laws and regulations, the imposition of tougher requirements, increasingly strict enforcement or new interpretations of existing environmental laws may require the Group to modify its operations, incur substantial unbudgeted costs to comply with current or future regulations or incur fines or penalties for environmental violations, which could, in turn, have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group's operations depend on obtaining and maintaining licences and permits necessary for the operation of its business.

The Group conducts its business operations under various licences and permits which authorise it to carry out a full range of railway-related business activities, such as the transport of hazardous materials and the performance of expert works and engineering services, including planning, surveying, building and installation services. As a result, the Group's activities are dependent upon the grant, renewal or continuance in force of these licences and permits, which in certain circumstances may be valid only for a defined time period, may be subject to limitations and may provide for withdrawal in certain circumstances. There can be no assurance that such licences and permits will be granted, renewed or continue in force and, if so, on what terms. Failure to obtain necessary licences or permits or any suspension or termination thereof could have a material adverse effect on the Group's business, financial condition, cash flows or results of operations.

The Group may be unable to retain key personnel or attract and retain highly qualified personnel.

The Group's ability to maintain its competitive position and to implement its business strategy, including the Development Strategy, is dependent on the services of its personnel, including key engineering, managerial, financial, commercial, marketing and processing personnel, as well as the maintenance of good labour relations. Competition for qualified personnel, especially for managerial positions and engineering positions to oversee increasingly automated processes, is intense, due to the small pool of qualified individuals and strong demand for such individuals. In recent years, the Group has also imposed a Group-wide ban on employing persons from outside of the Group, subject to limited exceptions and waivers of this policy. Accordingly, the pool of persons available to fill vacant positions in the Group has been further narrowed.

In addition, in 2015, the Group entered into 13 collective bargaining agreements for 2015-2017 with the Public Association of Railway Workers and Employees Trade Union (the "**Trade Union**"), including a collective bargaining agreements in respect of KTZFT and Kaztemirtrans and their respective employees for 2015-2017. The vast majority of the Group's employees are members of the Trade Union. The Group is in the process of negotiating collective bargaining agreements for 2018-2020 with the Trade Union. These collective bargaining agreements are expected to be signed by the end of 2017. There can be no assurance, however, that these collective bargaining agreements will be concluded on materially the same terms as the existing agreements, in a timely fashion or at all. Although there have been no recent strikes or material employee relations issues, the collective bargaining agreements with the Trade Union provide the Trade Union with a range of methods by which it could seek to influence the activity of the Group, as well as the Group's implementation of the Development Strategy. These methods include, among others, notification or coordination procedures or the requirement for Trade Union approval in respect of certain employee terminations, notification or co-ordination procedures in respect of employee wage matters, notification of the Group's intention to eliminate structural subdivisions of the Group, including eliminations that may be necessary to implement the Development Strategy, and the institution of employee strikes or commencement of judicial proceedings.

The loss or diminution in the services of key personnel, an inability to attract and retain additional qualified personnel or an inability to reduce or restructure its workforce (whether in connection with the Development Strategy or otherwise) without violating the terms of the collective bargaining agreements with the Trade Union, or a deterioration in relations with the Trade Union, could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

Risk Factors Relating to the Republic of Kazakhstan

The Group's operations are almost exclusively conducted in Kazakhstan, which causes the Group to be subject to Kazakhstan-specific risks, including, but not limited to, those described below. The occurrence of any of the factors described below could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

Emerging markets are generally subject to greater risk than more developed markets and actual and perceived risks associated with investing in emerging economies could dampen foreign investment in Kazakhstan.

The disruptions experienced due to the impact of the global financial and economic crisis in the international and domestic capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Companies located in emerging markets such as Kazakhstan may be particularly susceptible to such disruptions, reductions in the availability of credit and increases in financing costs, which could result in them experiencing financial difficulty.

In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by the level of investor confidence in such markets as a whole and, as such, any factors that affect investor confidence (for example, a decrease in credit ratings or state or central bank intervention) could affect the price or availability of funding for entities within any of these markets.

Investors in emerging markets such as Kazakhstan should be aware that these markets are subject to greater risk than more developed markets, including, in some cases, significant legal, economic and political risks. For example, the continued instability and unrest in Ukraine and related events have had and may continue to have an adverse effect on the economy in Russia, which could, in turn, have a "contagion effect" on economies in the region, including, in particular, Kazakhstan, which is a close trading partner of Russia. In connection with such instability and unrest in Ukraine, the EU, the United States and Canada have imposed sanctions on certain individuals and companies in Russia and Russia has, in turn, imposed trade sanctions on certain goods and services originating in the EU and the United States. If the instability in Ukraine continues, tensions between Russian and Ukraine escalate further or new tensions between Russia and other countries emerge, or if further economic or other sanctions, such as further limitations on trade, are imposed in response to such instability and tensions, this could have a further adverse effect on the economies in the region, including the Kazakhstan economy, as well as on companies active in the region, including the Group.

Investors should also note that emerging economies such as Kazakhstan's are subject to rapid change and that the information set out in this Offering Memorandum may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable only for sophisticated investors who fully appreciate the significance of the risks involved. Investors are urged to consult with their own legal and financial advisers before making an investment in the Notes.

Financial problems or an increase in the perceived risks associated with investing in emerging economies may dampen foreign investment in Kazakhstan and adversely affect Kazakhstan's economy. In addition, companies operating in emerging markets can face severe liquidity constraints as foreign funding resources are withdrawn. Accordingly, whether or not Kazakhstan's economy is relatively stable, financial turmoil in any emerging market country, in particular those in the CIS or Central Asian regions which have recently experienced significant political instability (including terrorism), could seriously disrupt the Group's business, which could, in turn, have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

Most of the Group's operations are conducted, and a substantial part of its assets are located, in Kazakhstan; therefore, the Group is largely dependent on the economic and political conditions prevailing in Kazakhstan.

Kazakhstan became an independent sovereign state in 1991 as a result of the dissolution of the former Soviet Union. Since then, Kazakhstan, under President Nursultan Nazarbayev, has experienced significant changes as it emerged from a centrally controlled command economy to a market-oriented economy. The transition was initially marked by political uncertainty and tension, a stagnant economy marked by high inflation, instability of the local currency and rapid, but incomplete, changes in the legal environment. However, Kazakhstan actively pursued a programme of economic reform designed to establish a free market economy through privatisation of government-owned enterprises and deregulation and it is more advanced in this respect than some other countries of the former Soviet Union. Under President Nazarbayev's leadership, Kazakhstan has moved toward a market-oriented economy. If the current administration changes its outlook or, in the event of a change in administration, such future administration has a different outlook, the economy in Kazakhstan could be adversely affected. Changes to Kazakhstan's economy, including in property, tax or regulatory regimes or other changes could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

Kazakhstan is a major exporter of commodities, including oil, natural gas, steel, copper, ferroalloys, iron ore, aluminium, coal, lead, zinc and wheat. Kazakhstan's economy and the State budget particularly rely on fiscal revenues from the export of oil products and are also significantly affected by imports of capital equipment and foreign investments in oil sector infrastructure projects. International crude oil prices have fluctuated widely in recent years in response to global supply and demand, general economic conditions, competition from other energy sources and other factors. See "*—Risk Factors Relating to the Group—The Group is subject to commodity price risk, which the Group has a limited ability to manage.*" The decline in world prices for oil and other commodities from 2008 through early 2009 had a negative impact on the growth prospects of the Kazakhstan economy. The State budget for 2009-2014 initially projected revenue on the basis of world oil prices of U.S.$60 per barrel. Budget projections, which were initially revised to U.S.$40 per barrel in light of then-decline in world oil prices, were further revised to U.S.$90 per barrel for 2013 and U.S.$95 per barrel for each of 2014, 2015 and 2016 as the price of oil began to recover. Following the decrease in global oil prices in 2014, and the devaluation of the Tenge against the U.S. Dollar in 2015, the State budget set projections based on U.S.$40 per barrel for 2016-2018; the State budget was further revised in 2016 to reflect an assumed world oil price of U.S.$35 per barrel for 2017-2019. This was subsequently revised up to U.S.$50 per barrel in February 2017. There can be no assurance that further revisions of the State budget will not be required in light of continuing oil price volatility. Any material reduction in commodity prices generally would have an adverse effect on Kazakhstan's economy and a sustained or further material decline in the price of crude oil will have a significant effect on Kazakhstan's budgetary revenues and foreign reserves, which could, in turn, have a material adverse effect on the Group's business, financial condition, results of operations and prospects, financial condition, cash flows or results of operations.

Kazakhstan depends on neighbouring states to access world markets for a number of its major exports, including oil, natural gas, steel, copper, ferroalloys, iron ore, aluminium, coal, lead, zinc and wheat. Accordingly, Kazakhstan is dependent upon maintaining good relations with its neighbours to ensure its ability to export. Should access to these export routes be materially impaired, this could adversely impact the economy of Kazakhstan. Moreover, adverse economic factors in regional markets may adversely impact Kazakhstan's economy.

In addition, Kazakhstan could be adversely affected by political unrest in the region, such as the continuing unrest in Ukraine. Like other countries in Central Asia, Kazakhstan could also be adversely affected by terrorism or military or other action taken against sponsors of terrorism in the region. Moreover, adverse economic, political or social factors in other jurisdictions within or outside the region may also adversely impact the Kazakhstan economy.

Since the dissolution of the Soviet Union, a number of former Soviet Republics have experienced periods of political instability, civil unrest, military action and popular changes in governments or incidents of violence. Kazakhstan has had only one president, Nursultan Nazarbayev, who is 77 years old as at the date of this Offering Memorandum. Under President Nazarbayev's leadership, the foundations of a market economy have taken hold, including the privatisation of state assets, liberalisation of capital controls, tax reforms and pension system development and the country has been largely free from political violence. In 2007, Kazakhstan's Parliament amended Kazakhstan's constitution to allow President Nazarbayev to run in an unlimited number of consecutive re-elections. The 2007 amendment permitted President Nazarbayev to seek re-election at the end of his terms in

2011 and 2015 and, in April 2015, President Nazarbayev was re-elected with 97.8% of the votes for a new five-year term.

In the last quarter of 2016, President Nazarbayev announced planned constitutional reforms that contemplate a distribution of authority among governmental bodies. The law amending the constitution was promulgated by President Nazarbayev on 10 March 2017. The law provides for 26 amendments, which transfer certain powers of the President to the Parliament and the Government. Despite this, given that Kazakhstan has not had a presidential succession and that there is no clear successor to Mr. Nazarbayev, there can be no assurance that any succession will result in a smooth transfer of office and economic policies. Thus, should he fail to complete his current term of office for any reason or should a new president be elected at the next election, Kazakhstan's political situation and economy could become unstable and the investment climate in Kazakhstan could deteriorate, which would have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations. As there is currently no clear successor to President Nazarbayev, the issue is a potential cause of instability in Kazakhstan. If a future president is elected with a different political outlook, the business regime in Kazakhstan could change. Political instability in Kazakhstan or changes to its property, tax or regulatory regimes or other changes, resulting from a new administration or otherwise, could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

On 29 August 2017, the Government adopted a draft budget for 2018-2020. The draft budget allocates funds for further implementation of key Government projects and economic reform programmes. See "*Kazakhstan's Economy and the Railway Industry in Kazakhstan—Kazakhstan's Economy—Economic Programmes and Initiatives*". The draft budget allocates KZT 292.6 billion for the further development of transport and logistics infrastructure in 2018. Pursuant to the requirements of the Kazakhstan Budget Code, the draft budget must be adopted by Parliament by 1 December 2017.

Kazakhstan's economy and finances have and continue to experience slower levels of growth since the global financial crisis which began in 2008. According to Government statistics, real GDP growth was 4.1% in 2014, 1.2% in 2015 and 1.0% in 2016. The IMF forecasts real GDP growth to be 3.3% for 2017.

Weaknesses in the global financial markets since the onset of the global financial crisis also contributed to several major bank failures in Kazakhstan and subsequent restructurings. The Kazakhstan banking system overall remains under stress with persistently high levels of non-performing loans, and there can be no assurance that the reforms recently implemented with the aim of reducing non-performing loans will be successful or sufficient. There is also a high level of concentration in the banking sector, with the five largest banks holding more than half of all customer deposits. While measures have been taken to address and reduce systemic risk, such measures are ongoing and there remains a risk that further reforms may be required, the impact of which is not certain. There is also a risk further financial assistance to the banking sector may be needed from the State, which it may not be willing or able to provide.

Samruk-Kazyna's policy is for entities that it controls (including the Company) to limit their cash and cash equivalents (including deposits) in international banks. The Company has approved maximum permissible limits on direct (balance sheet) liabilities to counterparty banks. The limits are established in accordance with Samruk-Kazyna's policy. Depending on the levels of cash maintained by the Company, compliance with this policy could increase the Company's exposure to the Kazakhstan banking sector. In the event that the Kazakhstan banking sector encounters difficulties, it could result in a *de facto* or *de jure* freezing of all or a portion of the Group's cash, which could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

In addition, the Company's subsidiaries, joint ventures and associates are in many regions the largest employers in cities in which they operate. While the Group does not have any specific legal obligation or responsibilities with respect to these regions, its ability to reduce the number of its employees may nevertheless be subject to political and social considerations. Any inability to reduce the number of employees or make other changes to the Group's operations in such regions could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

Further devaluations of the Tenge or the adoption of a new currency exchange policy could have an adverse impact on the Group and Kazakhstan's public finances and economy.

Although the Tenge is convertible for current account transactions, it is not a fully convertible currency for capital account transactions outside Kazakhstan. Since the NBK adopted a floating rate exchange policy for the Tenge in April 1999, the Tenge has fluctuated significantly and the NBK has adopted a number of exchange rate policies. The Tenge had generally appreciated in value against the U.S. Dollar over the previous decade until its devaluation by the NBK in February 2009. In February 2009, the NBK established a trading band of KZT 150: U.S.$1.00 +/-3%. This trading band was widened in February 2010, and set at an asymmetric KZT 150/U.S.$1.00 +10/-15%. In February 2011, the trading band was officially abolished, and the formal exchange rate arrangement was changed from a pegged exchange rate within horizontal bands to a managed floating exchange rate regime. On 11 February 2014, the NBK devalued the Tenge by 18.3% against the U.S. Dollar to KZT 184.50 per U.S.$1.00, stating that such devaluation was made in light of the situation in the global financial and commodity markets and the depreciation of the Russian Rouble in 2013 and 2014, as well as the overall situation in the global financial and commodity markets. In September 2014, the NBK re-established the trading band at KZT 170-188: U.S.$1.00. In August 2015, the NBK announced the adoption of a free-floating exchange rate and medium-term inflation targeting policy, which resulted in a 26.2% depreciation against the U.S. Dollar. As at 30 June 2017, the official KZT/U.S.$ exchange rate reported by the NBK was KZT 321.46 per U.S.$1.00, as compared to KZT 333.29 per U.S.$1.00 as at 31 December 2016, KZT 339.47 per U.S.$1.00 as at 31 December 2015 and KZT 182.35 per U.S. $1.00 as at 31 December 2014.

As a significant majority of the Group's borrowings and debt securities are denominated in U.S. Dollars, the Group's accounts are sensitive to currency exchange rate fluctuations, and any devaluation of the Tenge against the U.S. Dollar may have an overall adverse effect on the Group. In addition, certain of the Group companies are regulated companies that operate on the basis of tariffs or maximum prices established by the regulator in Tenge, such tariffs may not always be amended to reflect currency exchange fluctuations in a timely manner or at all. See "*—Risk Factors Relating to the Group—The Group is subject to foreign currency exchange rate risk, which the Group has a limited ability to manage.*"

There can be no assurance that the NBK will maintain its managed exchange rate policy. Any change in the NBK's exchange rate policy could have an adverse effect on Kazakhstan's public finances and economy, which could, in turn, have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

Sustained periods of high inflation could adversely affect the Group's business.

The Group's operations are located principally in Kazakhstan and a majority of the Group's costs are incurred in Kazakhstan. Since the majority of the Group's expenses are denominated in Tenge, inflationary pressures in Kazakhstan are a significant factor affecting the Group's expenses. For example, employee and contractor wages, consumable prices and energy costs have been, and are likely to continue to be, particularly sensitive to monetary inflation in Kazakhstan. On 11 February 2014, the NBK devalued the Tenge by 18.3% to KZT 184.50 per U.S.$1.00. The NBK stated that such devaluation was made in light of the situation in the global financial and commodity markets and the depreciation of the Russian Rouble over the course of 2013 and 2014. In August 2015, the NBK announced its adoption of a free-floating exchange rate and medium-term inflation targeting policy. According to the NBK, annual consumer price inflation for the years ended 31 December 2016, 2015 and 2014 was 8.5%, 13.6% and 7.4%, respectively. The IMF forecasts inflation to be 7.3% in 2017.

Any further increase in inflation could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

Sanctions imposed on Russia could have an indirect adverse impact on Kazakhstan's economy.

The U.S. and the EU (as well as other nations, such as Australia, Canada, Japan and Switzerland) have extended sanctions on certain Russian and Ukrainian persons and entities in connection with the current conflict in Ukraine. The sanctions imposed to date have had an adverse effect on the Russian economy, prompting downward revisions to the credit ratings of the Russian Federation and a number of major Russian companies that are ultimately controlled by the Russian Federation, causing extensive capital outflows from Russia and impairing the ability of Russian issuers to access the international capital markets. The governments of the U.S. and certain EU member states, as well as certain EU officials, have indicated that they may consider additional sanctions should such tensions between Russia and Ukraine continue.

While Kazakhstan maintains strong independent diplomatic relationships with both Russia and Ukraine and has confirmed its neutral position with respect to the tensions between Russia and Ukraine, Kazakhstan has significant economic and political relations with Russia. In 2014, Kazakhstan, Russia and Belarus signed the treaty establishing the EEU (which came into force in 2015), marking a new milestone of economic integration and ensuring the free of movement of goods, services, capital and labour within the EEU and establishing coordinated, coherent or unified policies in key sectors of the economy, including transport, technical and customs regulations. A new customs code is also expected to enter into force on 1 January 2018. The EEU is expected to continue to strengthen Kazakhstan's economic relations with Russia going forward. In 2015, based on actual trade flows, Kazakhstan's imports from Russia accounted for 32.9% of Kazakhstan's total imports, and its exports to Russia accounted for approximately 7.7% of its total exports.

Kazakhstan's close economic links with Russia, the existing sanctions imposed on Russia or any future sanctions could have a material adverse effect on Kazakhstan's economy, which could, in turn, have an adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

Currency control laws affect the Group's foreign currency dealings.

The Law of Kazakhstan "On Currency Regulation and Currency Control" empowers the Government, by special action and under circumstances when the economic stability of Kazakhstan is threatened, to introduce a special currency regime that would (i) require the compulsory sale of foreign currency received by Kazakhstan residents; (ii) require the placement of a certain portion of funds resulting from currency transactions into a non-interest bearing deposit in an authorised bank or the NBK; (iii) restrict the use of accounts in foreign banks; (iv) limit the volumes, amounts and currency of settlements under currency transactions; and (v) require a special permit from the NBK to conduct currency transactions. Moreover, the Government may impose other requirements and restrictions on currency transactions when the economic stability of Kazakhstan is threatened.

In order for Kazakhstan to remain in compliance with its membership obligations under the charter of the IMF, the currency regime cannot restrict residents from repaying foreign currency-denominated obligations. As at the date of this Offering Memorandum, the President has not invoked the provisions of these amendments. Accordingly, it is unclear how any implementation of the currency regime would ultimately impact the Group's. However, any imposition of significant restrictions on the Group foreign currency dealings could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The outcome of the implementation of further market based economic reforms is uncertain.

In recent years, the Government has introduced a number of measures to encourage privatisation and competition among Kazakhstan entities. In 2012, the Government launched the programme of "People's IPOs" in order to, among other aims, stimulate the domestic equities market. The "People's IPO" programme was terminated at the end of 2015.

In January 2014, President Nazarbayev instructed the Government to prepare a list of state-owned companies that should be privatised and approve a comprehensive privatisation programme for 2014-2016. On 31 March 2014, the Government adopted Decree № 280, which set out its 2014 Complex Privatisation Plan. Samruk-Kazyna sold 37 assets for an aggregate consideration of KZT49.97 billion pursuant to the 2014 Complex Privatisation Plan. In September 2015, the Government announced plans to launch a new, large-scale privatisation programme. On 30 December 2015, the Government issued the 2016 Complex Privatisation Plan. The 2016 Complex Privatisation Plan includes a list of national companies and subsidiaries of national companies, including certain of the Company's subsidiaries, which have been identified as companies to be privatised. Pursuant to data published by the Register of Privatisation Assets, for the period from 1 January 2016 to 25 October 2017, 259 assets had been sold pursuant to the Complex Privatisation Plan for aggregate consideration of KZT 113.8 billion, including 12 companies that had been members of the Group. See "*—Risk Factors Relating to the Group—The Government, which indirectly controls the Company, may cause the appointment or removal of members of the Company's management team or require the Company to privatise certain of its assets.*"

The Government's privatisation programme is driven by the need for substantial investment in many enterprises. The programme has, however, excluded certain enterprises deemed strategically significant by the Government and there remains a need for substantial investment in many sectors of the Kazakhstan economy, including business infrastructure. Further, the significant size of the shadow economy (or black market in Kazakhstan) may adversely affect the implementation of reforms and hamper the efficient collection of taxes. The Government has stated that it intends to address these problems by improving the business infrastructure and tax administration and by continuing the privatisation process. There can be no assurance, however, that these measures will be effective or that any failure to implement them will not have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Company's credit ratings may be affected by actions related to credit rating assigned to Kazakhstan.

The international credit ratings agencies have indicated that the ratings and outlook assigned by them to the Company remain constrained principally by the sovereign risk of Kazakhstan. In July 2017, Moody's changed the outlook of Kazakhstan's credit rating to stable from negative, citing Moody's assessment that the adjustment of Kazakhstan's economy, public finances and banking system to structurally lower oil prices had advanced. In September 2017, S&P changed the outlook of Kazakhstan's credit rating from negative to stable. Any further changes to Kazakhstan's outlook or a rating downgrade is likely to result in changes to the outlook or ratings of the Company.

For example, in February 2016, in line with the change of outlook to the sovereign rating, S&P revised its outlook on the Company's long-term foreign currency rating from stable to negative. Similarly, however, Moody's changed its outlook on the Company's long-term foreign currency rating from negative to stable in July 2017 and S&P changed its outlook on the Company's long-term foreign currency rating from negative to stable in September 2017, in each case, following a corresponding change to Kazakhstan's credit ratings. In the past, the Company's credit rating has also been affected by its exposure to the Kazakhstan banking sector. Any future downgrade of Kazakhstan's sovereign credit rating and liquidity problems in Kazakhstan's economy could adversely affect its economic development, which could in turn, materially and adversely affect the Group's, business, prospects, financial condition, cash flows or results of operations.

The Kazakhstan economy is highly dependent on oil exports, foreign investment in domestic oil sector infrastructure and the overall condition of the global oil industry.

Countries in the Central Asian region, such as Kazakhstan, whose economies and state budgets rely in part on the export of oil and oil products and other commodities, the import of capital equipment and significant foreign investments in infrastructure projects, could be adversely affected by volatility or a sustained decline in oil and other commodity prices or by the frustration or delay of any infrastructure projects caused by political or economic instability in countries engaged in such projects. Such negative effects have been visible in recent years as a result of the lower global oil price environment. In addition, any fluctuations in the value of the U.S. Dollar relative to other currencies may cause volatility in earnings from U.S. Dollar-denominated oil exports. An oversupply of oil or other commodities in world markets or a general downturn in the economies of any significant markets for oil or other commodities or weakening of the U.S. Dollar relative to other currencies would have a material adverse effect on the Kazakhstan economy, which, in turn, could indirectly have an adverse effect on the Group's business, prospects financial condition, cash flows or results of operations.

Kazakhstan's legislative, tax and regulatory framework is underdeveloped and evolving; therefore, court decisions can be difficult to predict and tax liabilities can be difficult to ascertain.

Although a large volume of legislation has been enacted since early 1995 (including new tax codes in January 2002 and January 2009 and new or amended laws relating to foreign arbitration and foreign investment, additional regulation of the banking sector and other legislation covering such matters as securities exchanges, economic partnerships and companies, and State enterprise reform and privatisation throughout the period), the legal framework in Kazakhstan (although one of the most developed among the countries of the former Soviet Union) is still evolving compared to countries with established market economies.

The judicial system, judicial officials and other Government officials in Kazakhstan may not be fully independent of external social, economic and political forces. For example, there have been instances of improper payments being made to public officials. Therefore, court decisions can be difficult to predict and administrative decisions have on occasion been inconsistent. Kazakhstan is a civil law-based jurisdiction and, as such, judicial precedents have no binding effect on subsequent decisions.

Further, the legal and tax authorities may make arbitrary judgments and assessments of tax liabilities and challenge previous judgments and tax assessments, thereby rendering it difficult for companies to ascertain whether they are liable for additional taxes, penalties and interest. As a result of these ambiguities, including, in particular, the uncertainty surrounding judgments rendered under the tax code introduced with effect from 1 January 2009 (as amended from time-to-time, the "**2009 Tax Code**"), as well as a lack of an established system of precedent or consistency in legal interpretation, the legal and tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed legal and tax system.

In past years, the Group's tax burden has increased as a result of changes to tax legislation. Kazakhstan's tax system is still in a transitional phase and it is expected that tax legislation in Kazakhstan will continue to evolve. There can be no assurance that new taxes and duties or new tax rates will not be introduced in the future or that any tax legislation passed in the future will not materially adversely affect the Group's business, prospects, financial condition, cash flows or results of operations.

For example, the Ministry of the National Economy proposed a new Tax Code, which contains a number of novelties, such as presumption of innocence concept pursuant to which any ambiguities arising out of the application of law in the process of tax audit must be interpreted in favour of the taxpayer. The draft Tax Code further provides that all amendments to the Tax Code must be accumulated in one law, which must be adopted no later than 1 July of that year. The law must then become effective no earlier than 1 January of the following year. There can be no assurance as to the final provisions of the new Tax Code or whether, if and when adopted, the new Tax Code would have a material adverse effect on the Group.

In addition, investors in Notes should be aware that further changes in the withholding tax regime may give the Group the right to redeem Notes prior to their stated maturity.

Kazakhstan has a less developed securities market than the United States, the United Kingdom and the rest of Western Europe, which may hinder the development of Kazakhstan's economy.

Kazakhstan has a less-developed securities market than the United States or the United Kingdom and other Western European countries, which may hinder the development of the Kazakhstan economy. An organised securities market was established in Kazakhstan only in the mid-to-late 1990s and procedures for settlement, clearing and registration of securities transactions may therefore be subject to legal uncertainties, technical difficulties and delays. Although significant developments have occurred in recent years, including an initiative to develop Almaty as a regional financial centre, the sophisticated legal and regulatory frameworks necessary for the efficient functioning of modern capital markets have yet to be fully developed in Kazakhstan. In particular, legal protections against market manipulation and insider trading are not as well developed or as strictly enforced in Kazakhstan as they are in the United States or the United Kingdom and other Western European countries, and existing laws and regulations may be applied inconsistently. In addition, less information relating to Kazakhstan-based entities, such as the Group companies, may be publicly-available to investors in such entities than is available to investors in entities organised in the United States or the United Kingdom and other Western European countries. The above-mentioned factors may impair foreign investment in Kazakhstan and hinder the development of Kazakhstan's economy.

There are perceived risks of corruption and business environment weaknesses in Kazakhstan.

As in many other emerging market jurisdictions, the incidence and perception of elevated levels of corruption remains a significant issue in Kazakhstan. Kazakhstan was ranked 131 out of 176 countries in Transparency International's 2016 Corruption Perceptions Index. Kazakhstan's score in the 2016 index was 29 (with 1 the most corrupt score and 100 being the least corrupt). Kazakhstan's business climate and competitive indicators are also negatively affected by the need for reform in investor protection arrangements, the cost of establishing a business, the tax system, resolving insolvency and contract enforcement. In the World Bank's Doing Business Survey, Kazakhstan ranked 35 out of 190 countries for ease of doing business, while Kazakhstan ranked 53rd out of 138 countries in the World Economic Forum 2016-17 Global Competitiveness Index.

Failure to address continued or perceived corruption and governance failures in the public sector and any future allegations, or perceived risk, of corruption in Kazakhstan, could have a material adverse effect upon Kazakhstan's ability to attract foreign investment, which could, in turn, have a material adverse effect on Kazakhstan's economy and on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group cannot ensure the accuracy of official statistics and other data in this Offering Memorandum published by Kazakhstan authorities.

Official statistics and other data published by State authorities may not be as complete or reliable as those of more developed countries. Official statistics and other data may also be produced on different bases from those used in more developed countries. Neither the Company nor the Group has independently verified such official statistics and other data and any discussion of matters relating to Kazakhstan in this Offering Memorandum is, therefore, subject to uncertainty due to questions regarding the completeness or reliability of such information. Specifically, investors should be aware that certain statistical information and other data contained in this Offering Memorandum has been extracted from official Government sources and was not prepared in connection with the preparation of this Offering Memorandum.

In addition, certain information contained in this Offering Memorandum is based on the knowledge and research of the Group's management using information obtained from non-official sources. The Group has accurately reproduced such information and, so far as the Group is aware and is able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. This information has not been independently verified and, therefore, is subject to uncertainties due to questions regarding the completeness or reliability of such information, which was not prepared in connection with the preparation of this Offering Memorandum.

Risk Factors Related to the Notes and the Trading Market

The Notes may not be a suitable investment for all investors.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Memorandum or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes are complex financial instruments. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Payments made in respect of Notes may be subject to withholding tax and have other tax consequences for investors.

Generally, payments of interest on borrowed funds made by a Kazakhstan entity to a non-resident are subject to Kazakhstan withholding tax at the rate of 15% for legal entities, unless such withholding tax is reduced or eliminated pursuant to the terms of an applicable double tax treaty.

If payments in respect of any Notes are subject to withholding of Kazakhstan tax as a result of which the Issuer or the Guarantors (as the case may be) would reduce such payments by the amount of such withholding, the Issuer or the Guarantors (as the case may be) is obliged to increase payments as may be necessary so that the net payments received by Noteholders will not be less than the amounts they would have received in the absence of such withholding. It should be noted, however, that gross-up provisions may not be enforceable under Kazakhstan law where such provisions may be viewed by the Kazakhstan tax authorities as constituting payments of taxes on behalf of third parties.

The Notes may be redeemed prior to maturity following a change in the tax laws of Kazakhstan or under certain circumstances at the option of the Issuer.

In the event that the Issuer or any Guarantor would be obliged to increase the amounts payable in respect of the Notes due to any change in or amendment to the laws or regulations of Kazakhstan or any political sub-division thereof or of any authority therein or thereof having the power to tax or in the interpretation or administration thereof, the Issuer may redeem all outstanding Notes in accordance with the Conditions of the Notes. In addition, Notes may be redeemed at the option of the Issuer at certain other times and circumstances as specified in Condition 10 (*Redemption, Purchase and Cancellation*).

Payments under the Notes may be subject to withholding tax pursuant to the U.S. Foreign Account Tax Compliance Act.

Sections 1471 through 1474 of the Code (commonly referred to as "**FATCA**") may impose a 30% withholding tax on all or a portion of payments of principal or interest made in respect of the Notes which are treated as "foreign passthru payments" made on or after 1 January, 2019, or the date that final regulations defining the term "foreign passthru payment" are published. Any such withholding would apply to payments made to or through a foreign financial institution unless the payee foreign financial institution agrees, among other things, to disclose the identity of certain U.S. account holders at the institution (or the institution's affiliates) and to annually report certain information about such accounts in compliance with FATCA.

Under current guidance, Notes that are classified as debt for U.S. federal income tax purposes and that are issued on or prior to the date (the "**grandfathering date**") that is six months after the date on which final U.S. Treasury regulations defining the term "foreign passthru payments" are filed should not be subject to withholding under FATCA unless the Notes are significantly modified after the grandfathering date (including as a result of any substitution of the Issuer).

Further guidance may affect the application of FATCA to the Notes, including the potential future release of an intergovernmental agreement between the United States and Nigeria to implement the provisions of FATCA.

If an amount in respect of FATCA were to be deducted or withheld from interest, principal or other payments on the Notes, none of the Issuer, any intermediary or agent would, pursuant to the Conditions, be required to pay additional amounts as a result of the deduction or withholding of such tax.

Risks Factors Related to the Notes Generally.

Set out below is a brief description of certain risks relating to the Notes generally:

Modification and waivers

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of any provision of the Notes which is of a formal, minor or technical nature or is made to correct a manifest error and (ii) to any other modification and any waiver or authorisation of any breach or proposed breach of any provision of the Notes which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. See Condition 16(c) (*Modification and Waiver*).

Risk Factors Related to the Market Generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of the Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in U.S. Dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. Dollars. These include the risk that exchange rates may significantly change (including changes due to a devaluation of U.S. Dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to U.S. Dollars would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Credit ratings may not reflect all risks

The credit rating(s) assigned to the Notes at any time may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

The market price of the Notes may be volatile

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Issuer's operating results and those of its competitors, adverse business developments, changes to the regulatory environment in which the Issuer operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations, which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Issuer's results of operations, prospects or financial condition. Factors including increased competition, fluctuations in the Group's operating results, the regulatory environment, availability of reserves, general market conditions, natural disasters and armed conflict may have an adverse effect on the market price of the Notes.

Insolvency laws in Kazakhstan may not be as favourable to holders of Notes as English or U.S. insolvency laws or those of another jurisdiction with which the Noteholders may be familiar.

The Issuer and the Guarantors are organised in Kazakhstan and are subject to the bankruptcy law of Kazakhstan. Kazakhstan bankruptcy law may prohibit the Guarantors from making payments pursuant to the Guarantee under certain circumstances. From the moment bankruptcy proceedings are initiated in court, a Kazakhstan debtor is prohibited from paying any debts outstanding prior to the bankruptcy proceedings, subject to specified exceptions.

After the initiation of bankruptcy proceedings, creditors of the debtor may not pursue any legal action to obtain payment to set aside a contract for non-payment or to enforce the creditor's rights against any asset of the debtor until completion of the bankruptcy procedure. Contractual provisions, such as those contained in the Guarantee, which would accelerate the payment of the debtor's obligations upon the occurrence of certain bankruptcy events, would accelerate the amount due but each accelerated amount becomes part of the total liabilities within the proper priority class.

Specifically, Kazakhstan bankruptcy law provides that transactions of a debtor can be recognised as invalid if they are entered into or made within three years prior to the institution of the bankruptcy or rehabilitation proceedings and contain elements which can form the grounds of invalidation under Kazakhstan Civil Code or contain the following elements: (i) the price of the transaction or other conditions which are more onerous for the debtor than the price and conditions for similar transactions in the market concluded under similar circumstances; (ii) transactions that are beyond the framework of activities authorised for the debtor by the law, its constituent documents or the competence of the corporate bodies of the debtor; (iii) assets transferred free of charge or at price which was worse for the debtor than a price of other transactions under similar economic circumstances or otherwise the transfer infringes the interests of the creditors; (iv) transactions were entered into six months before the bankruptcy or rehabilitation proceedings and resulted in preferential payments to certain creditors; or (v) the debtor has gifted its assets and entered into transactions, which are significantly different from the transactions entered into during the year before the institution of bankruptcy or rehabilitation proceedings. As Kazakhstan's courts are not experienced with complex commercial issues, there is no way to predict the outcome of a bankruptcy proceeding.

It may be difficult to effect service of legal process and enforce judgments obtained outside of Kazakhstan against the Issuer and its management.

The Issuer is a company organised under the laws of Kazakhstan and a substantial part of its businesses, assets and operations are located in Kazakhstan. In addition, a substantial majority of its directors and executive officers reside in Kazakhstan and substantially all of their assets are located in Kazakhstan. As a result, it may not be possible to effect service of process within the United States or elsewhere outside Kazakhstan upon the Issuer or such directors or executive officers, including with respect to matters arising under U.S. federal securities laws or applicable United States state securities laws. Moreover, Kazakhstan does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom and many other countries. As a result, recognition and enforcement in Kazakhstan of judgments of a court in the United States, the United Kingdom and many other jurisdictions in relation to any matter may be difficult. See "*Enforcement of Civil Liabilities*".

In February 2010, Parliament passed legislation amending Kazakhstan law to provide for certain immunities to government entities, including national companies, such as the Issuer, in the context of arbitration and foreign court judgments. While these immunities should apply only to government entities to the extent they are performing sovereign functions and not commercial activities, and the issuance of Notes should be considered a commercial activity (and, under the Trust Deed, the Issuer and each of the Guarantors have, to the full extent permitted by applicable law, waived any immunity that may be attributed to them in respect of the Notes or the Guarantee, as applicable), under the amendments, whether a particular activity is deemed to be sovereign or commercial in nature is subject to determination by a Kazakhstan court on a case by case basis.

On 8 April 2016, the Arbitration Law was signed by the President. Whilst the introductory language to the Arbitration Law, as well as other provisions of this law, imply that the Arbitration Law should only apply where the matter involves dispute resolution in Kazakhstan (*i.e.*, in respect of arbitration bodies with a seat in Kazakhstan) and should not apply to foreign arbitration such as the LCIA. In particular, the preamble to the Arbitration Law states that: "*This [l]aw regulates social relations arisen in the process of arbitration activity on the territory of the Republic of Kazakhstan as well as the procedure and terms of recognition and enforcement of arbitral awards in Kazakhstan…*". There are, however, certain novelties in the Arbitration Law which may have implications (as described below) in respect of the arbitration provisions contained in the Notes and the Trust Deed. In particular, the provisions of the Arbitration Law do not clearly differentiate between domestic and foreign arbitration. However, given that the Arbitration Law has not been tested in practice, there can be no assurance that Kazakhstan courts would support the interpretation of the Arbitration Law set out in "*Enforcement of Civil Liabilities*" and that an award against the Issuer and/or any Guarantor in arbitral proceedings in London under English law would be enforced in Kazakhstan. If the Arbitration Law applies to disputes under the Notes and the Trust Deed, there is a risk that an LCIA award in a proceeding related to the Notes and the Trust Deed may not be recognised and enforced in Kazakhstan as being contrary to Kazakhstan public order and/or a dispute under the Notes and the Trust Deed cannot be resolved by arbitration. Furthermore, an event of default could occur under the Notes and the Trust Deed to the extent that the Issuer's or any Guarantor's obligations under the Notes or the Trust Deed to settle disputes by arbitration in the LCIA or under English law become illegal or unenforceable.

In addition, certain of the assets owned by the Issuer or its subsidiaries, as well as certain of the shares in the Issuer's Subsidiaries, are considered to be strategic assets of Kazakhstan. Kazakhstan law provides that the State shall have a priority right to purchase the strategic assets of Kazakhstan in the event of the disposition (whether through sale, bankruptcy or receivership).

Return on an investment in the Notes will be affected by charges incurred by investors

An investor's total return on an investment in any Notes will be affected by the level of fees charged by an agent, nominee service provider and/or clearing system used by the investor. Such a person or institution may charge fees for the opening and operation of an investment account, transfers of Notes, custody services and on payments of interest and principal. Potential investors are, therefore, advised to investigate the basis on which any such fees will be charged on the Notes.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Because the Global Notes are held by or on behalf of DTC, Euroclear and/or Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer.

Notes may be represented by one or more Global Notes. Such Global Notes will be deposited with (i) (in the case of Bearer Notes) a common depositary for Euroclear and Clearstream, Luxembourg or (ii) (in the case of Registered Notes) either (a) a custodian for, and registered in the name of a nominee of, DTC or (b) a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant Global Note, investors will not be entitled to receive definitive notes. DTC, Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by one or more Global Notes, investors will be able to trade their beneficial interests only through DTC, Euroclear and Clearstream, Luxembourg.

While the Notes are represented by one or more Global Notes, the Issuer will discharge its payment obligations under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing system to receive payments under the relevant Notes. The Issuer shall have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system to appoint appropriate proxies.

TERMS AND CONDITIONS OF THE NOTES

The following (subject to amendment and save for the text in italics) are the terms and conditions of the Notes which will be endorsed on each Definitive Note Certificate and will be attached and (subject to the provisions thereof) apply to each relevant Global Note.

This Note is one of a duly authorised issue of U.S.$780,000,000 4.850% Notes due 2027 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 18 (*Further Issues*) and forming a single series therewith), issued by Joint Stock Company "National Company "Kazakhstan Temir Zholy" (the "**Issuer**") and guaranteed by Joint Stock Company "Kaztemirtrans" and Joint Stock Company "KTZ – Freight transportation" (each a "**Guarantor**" and together, the "**Guarantors**", which term shall also include any Person becoming a Guarantor pursuant to Condition 5 (*Limitations on Changes in Business and Disposals of Assets*)) pursuant to a guarantee (the "**Guarantee**") contained in the Trust Deed referred to below. The Notes are constituted by, subject to, and have the benefit of, a Trust Deed dated 17 November 2017 (the "**Trust Deed**") among the Issuer, each Guarantor and BNY Mellon Corporate Trustee Services Limited (the "**Trustee**", which expression includes all persons for the time being appointed as trustee for the Noteholders (as defined below) under the Trust Deed). The Issuer and each Guarantor have entered into an Agency Agreement (the "**Agency Agreement**") dated 17 November 2017 with the Trustee, The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar and transfer agent (the "**Registrar and Transfer Agent**", which expression shall include any successor registrar and transfer agent appointed from time-to-time in connection with the Notes), The Bank of New York Mellon, London Branch, as principal paying agent (the "**Principal Paying Agent**" which expression includes any successor principal paying agent appointed from time-to-time in connection with the Notes), The Bank of New York Mellon as U.S. paying agent and U.S. transfer agent (the "**U.S. Paying Agent and U.S. Transfer Agent**", which expression includes any successor U.S. paying agent and U.S. transfer agent appointed from time-to-time in connection with the Notes) and the other paying agents named therein (together with the Principal Paying Agent , the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time-to-time in connection with the Notes). The Registrar and Transfer Agent, the Principal Paying Agent, the U.S. Paying Agent and U.S. Transfer Agent and the Paying Agents are collectively referred to herein as the "**Agents**", which expression and each of which definitions encompassed thereby include any successor agents appointed in these capacities from time-to-time in connection with the Notes.

The Noteholders (as defined below) are bound by, subject to, and are deemed to have notice of, all the provisions of the Notes, the Agency Agreement and the Trust Deed (including the Guarantee). Certain provisions of these terms and conditions (the "**Conditions**") are summaries of the Trust Deed (including the Guarantee) and the Agency Agreement and are subject to the more detailed provisions contained therein. Copies of the Trust Deed (including the Guarantee) and the Agency Agreement are available for inspection during normal business hours and upon reasonable notice at the specified office, for the time being, of each of the Agents. The initial Agents and their initial specified offices are listed below.

References to Conditions are, unless the context otherwise requires, to the numbered paragraphs of these Conditions.

1. Form, Denomination and Title

(a) Form and Denomination

The Notes are in registered form and will be issued in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each such denomination, an "**authorised denomination**"). The Notes will be represented by (i) one or more registered global notes representing the Notes which are resold pursuant to Rule 144A ("**Rule 144A**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), in the form or substantially in the form set out in Schedule 2, Part 2 (*Form of Restricted Global Note*) of the Trust Deed (each, a "**Restricted Global Note**") and (ii) the registered global note representing the Notes which are sold outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**") , in the form or substantially in the form set out in Schedule 2, Part 1 (*Form of Unrestricted Global Note*) of the Trust Deed (the "**Unrestricted Global Note**" and, together with the Restricted Global Notes, the "**Global Notes**"). A certificate in definitive form (each, a "**Definitive Note Certificate**") will be issued to each Noteholder in respect of its registered holding or holdings of Notes upon exchange of the Global Notes (only in accordance with the terms thereof) for Definitive Note Certificates. Each Definitive Note Certificate will be numbered serially with an identifying number which will be recorded in the register (the "**Register**") which the Issuer shall procure to be kept by the Registrar and Transfer Agent at its specified office. The names and addresses of the holders of the Notes and the particulars of the Notes held by them and all transfers and redemptions of the Notes will be recorded in the Register by the Registrar and Transfer Agent.

(b) **Title**

Title to the Notes will pass by transfer and upon registration of such transfer in the Register. In these Conditions, each "Noteholder" and "holder" means the Person (as such term is defined below) in whose name a Note is registered in the Register (or, in the case of joint holders, the first-named thereof) and "holders" will be construed accordingly. The holder of any Note will (except as otherwise ordered by a court of competent jurisdiction or required by law) be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or any interest therein, any writing thereon by any Person (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous theft or loss thereof and no Person will be liable for so treating the holder.

In these Conditions, "**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or other judicial entity including, without limitation, any state or agency of a state or other entity, whether or not having separate legal personality.

*Notes sold to qualified institutional buyers in the United States in reliance on Rule 144A under the Securities Act will be represented by one or more Restricted Global Notes. Notes sold to investors outside the United States in reliance on Regulation S under the Securities Act will be represented by the Unrestricted Global Note. The Unrestricted Global Note will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**"). The Restricted* Global *Notes will be deposited with a custodian for, and registered in the name of, Cede & Co., as nominee of the Depositary Trust Company ("**DTC**").*

Ownership of beneficial interests in a Restricted Global Note will be limited to Persons that have accounts with DTC or Persons that may hold interests through such participants. Ownership of beneficial interests in the Unrestricted Global Note will be limited to Persons that have accounts with Euroclear or Clearstream, Luxembourg or Persons that may hold interests through such participants. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected through, records maintained in book entry form by DTC and its participants or by Euroclear, Clearstream, Luxembourg and their participants as applicable. Interests in the Global Notes will be exchangeable for Definitive Note Certificates only in certain limited circumstances specified in the relevant Global Note.

2. Transfer of Notes and Issue of Notes

(a) **Transfer**

Subject to Conditions 2(d) and 2(e), a Note may be transferred in whole or in part in an authorised denomination upon the surrender of the relevant Definitive Note Certificate representing that Note, together with the form of transfer endorsed thereon (the "**Transfer Form**") (including any certification as to compliance with restrictions on transfer included in the Transfer Form) duly completed and executed, at the specified office of the Registrar and Transfer Agent or any Paying Agent, together with such evidence as the Registrar and Transfer Agent or, as the case may be, such Paying Agent may reasonably require to prove the title of the transferor and the authority of the Person(s) who have executed the Transfer Form. Transfer Forms are available from any Paying Agent, the Registrar and Transfer Agent and the Issuer upon the request of any holder. No Note may be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of the Notes not transferred are authorised denominations.

(b) **Delivery**

Each new Definitive Note Certificate to be issued upon a transfer of any Notes will, within five Business Days of due surrender of the Definitive Note Certificate in accordance with Condition 2(a), be delivered at the specified office of the Registrar and Transfer Agent or, as the case may be, any Paying Agent or (at the request and the risk of such transferee) mailed free of charge to the transferee by uninsured post to such address as the transferee entitled to the Notes represented by such Definitive Note Certificate may have specified. In this Condition 2(b), "**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business (including in respect of dealings in U.S. dollars) in the city in which the Registrar and Transfer Agent or the relevant Paying Agent has its specified office.

(c) **No Charge**

Registration or transfer of Notes will be effected without charge to the holder or transferee(s) thereof, but upon payment (or against such indemnity from the holder or the transferee(s) thereof as the Registrar and Transfer Agent or the relevant Paying Agent may require) in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such registration or transfer.

(d) **Closed Periods**

No Noteholder may require the transfer of a Note to be registered during the period of 15 calendar days prior to the due date for any payment of principal or interest in respect of such Note.

(e) **Regulations Concerning Transfer and Registration**

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer to reflect changes in legal requirements or in any other manner which is not prejudicial to the interests of Noteholders with the prior written approval of the Registrar and Transfer Agent and the Trustee. A copy of the current regulations will be sent, free of charge, by the Registrar and Transfer Agent to any Noteholder who so requests in writing.

3. Status

(a) **Status of the Notes**

The Notes constitute direct, general, unconditional, unsubordinated and (subject to Condition 4(a) (*Negative* Pledge)) unsecured obligations of the Issuer and rank and will rank *pari passu*, without preference among themselves, with all other unsecured and unsubordinated obligations of the Issuer, from time-to-time outstanding, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(b) **Status of the Guarantee**

Pursuant to the Guarantee, each Guarantor has unconditionally and irrevocably guaranteed and each of the Additional Guarantors pursuant to Condition 7 (*Additional Guarantors*) will unconditionally and irrevocably guarantee (or, in the case of a Person becoming a Guarantor pursuant to the provisions of Condition 5 (*Limitations on Changes in Business and Disposals of Assets*), will unconditionally and irrevocably guarantee) on a joint and several basis, the due and punctual payment of all sums from time-to-time payable by the Issuer in respect of the Notes and the Trust Deed. The obligations of each Guarantor under the Guarantee constitute (or, in the case of any Additional Guarantor or any Person becoming a Guarantor as provided above, will constitute) direct, general, unconditional, unsubordinated and (subject to Condition 4(a) (*Negative Pledge))* unsecured obligations of the Guarantors and ranks and will rank *pari passu*, without preference among themselves, with all other unsecured and unsubordinated obligations of each Guarantor, from time-to-time outstanding, save for such obligations as may be preferred by provisions of law both mandatory and of general application.

4. (a) **Negative Pledge**

So long as any Note remains outstanding (as defined in the Trust Deed), the Issuer and each Guarantor shall not, and the Issuer shall procure that each Material Subsidiary shall not, create, incur, assume or permit to arise or subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of their respective present or future undertakings, assets or revenues (including uncalled capital), to secure any Financial Indebtedness of the Issuer, any Material Subsidiary, any *Guarantor* or any other Person, or any Indebtedness Guarantee in respect thereof, unless, at the same time or prior thereto, the Issuer's obligations under the Notes and the Trust Deed or the relevant Guarantor's obligations under the Trust Deed (including, in particular, but without limitation, the Guarantee), as the case may be, are secured, to the satisfaction of the Trustee, equally and rateably therewith or have the benefit of such other arrangement as may be approved by an Extraordinary Resolution of Noteholders or as the Trustee in its discretion shall deem to be not materially less beneficial to the Noteholders.

(b) **Certain Definitions**

For the purposes of these Conditions:

"**Code**" means the U.S. Internal Revenue Code of 1986, as amended.

"**Consolidated EBITDA**" means, in relation to any year and without double counting, the net profit of the Issuer and the Consolidated Subsidiaries for such period (i) before deducting any depreciation or amortisation, (ii) before deducting income tax or withholding tax (in each case whether current or deferred) and their equivalents in any relevant jurisdiction or any other tax on income or gains, (iii) before taking into account interest and other amounts in the nature of interest treated under IFRS as or in a like manner to interest accrued in respect of Financial Indebtedness as an obligation of or owed to the Issuer or any Consolidated Subsidiary, in each case whether or not paid, deferred or capitalised during such period, (iv) after deducting any gain over book value and after adding back any loss on book value arising on the sale, lease or other disposal of property, plant and equipment by the Issuer or any Consolidated Subsidiary during such period and any gain or loss arising on revaluation of property, plant and equipment during such period which has been reflected in the Issuer's consolidated statement of income and (v) after deducting any gains and adding any losses attributable to the foreign currency exchange differences applicable to the Issuer or any Consolidated Subsidiary.

"**Consolidated Subsidiaries**" means, at any time, those Subsidiaries of the Issuer that are consolidated in the most recent consolidated audited accounts of the Issuer prepared in accordance with IFRS.

"**Control**" means the power to direct the management and the policies of the relevant Person, whether through the ownership of share capital, by contract or otherwise, "Controlled" being construed accordingly.

"**FATCA**" means sections 1471 to 1474 of the Code, any regulations or agreements promulgated thereunder, any official interpretations thereof, any agreement described in section 1471(b) of the Code, or any law implementing an intergovernmental approach thereto.

"**Financial Indebtedness**" means any Indebtedness of any Person for or in respect of (i) Indebtedness for Borrowed Money, (ii) documentary credit facilities or (iii) bonds, standby letters of credit or other similar instruments issued in connection with the performance of contracts and Indebtedness Guarantees in respect of any of the foregoing Indebtedness.

"**IFRS**" means international financial reporting standards issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re issued from time-to-time).

"**Indebtedness**" means any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent.

"**Indebtedness for Borrowed Money**" means any Indebtedness for or in respect of (i) moneys borrowed, (ii) amounts raised by acceptance under any acceptance credit facility, (iii) amounts raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or similar instruments, (iv) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with IFRS, be treated as finance or capital leases, (v) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred primarily as a means of raising finance or financing the acquisition of the relevant asset or service, (vi) amounts raised under any other transaction (including any forward sale or purchase agreement and the sale of receivables on a "with recourse" basis) having the commercial effect of a borrowing and (vii) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the mark to market value shall be taken into account).

"**Indebtedness Guarantee**" means in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation) (i) any obligation to purchase such Indebtedness, (ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness, (iii) any indemnity against the consequences of a default in the payment of such Indebtedness and (iv) any other agreement to be responsible for such Indebtedness.

"**Material Subsidiary**" means, at any given time, any Subsidiary of the Issuer (including each of the Guarantors) whose gross assets or gross revenues attributable to the Issuer represent 10.0% or more of the consolidated gross assets or consolidated gross revenues, as the case may be, of the Issuer and the Consolidated Subsidiaries; whether or not a Subsidiary is a Material Subsidiary shall be established in the first instance by an annual certificate of the Issuer delivered to the Trustee stating which of its Subsidiaries are Material Subsidiaries and, for the avoidance of doubt, a Subsidiary of the Issuer may become, or cease to be, a Material Subsidiary as a result of an amalgamation, reorganisation or restructuring (but without prejudice to any restrictions on amalgamation, reorganisation or restructuring under these Conditions), in which event calculations shall be made as if the financial statements for such Subsidiary had been drawn up immediately after such amalgamation, reorganisation or restructuring and such financial statements formed the basis of the relevant calculation and, in addition, a certificate provided by the Issuer that in the Issuer's management's opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any period a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties and the Trustee shall be entitled to rely upon any such certificate prepared by the Issuer and shall not be responsible for any loss occasioned by acting or not acting on any such certificate.

"**Permitted Security Interest**" means any Security Interest:

(a) existing on the Issue Date;

(b) granted in favour of the Issuer or any Guarantor by any Material Subsidiary to secure Financial Indebtedness owed by such Material Subsidiary to the Issuer or such Guarantor;

(c) being liens or rights of set off arising by operation of law and in the ordinary course of business, including, without limitation, any rights of set off with respect to demand or time deposits maintained with financial institutions and bankers' liens with respect to property of the Issuer or any Guarantor or any Material Subsidiary held by financial institutions;

(d) granted upon or with regard to any property or assets to secure the purchase price thereof or the cost of construction, improvement or repair of all or any part of such property or assets or to secure Financial Indebtedness incurred solely for the purpose of financing the acquisition, construction, improvement or repair of all or any part of such property or assets and transactional expenses related thereto (so long as such Security Interest was not created in contemplation thereof), provided that the maximum amount of Financial Indebtedness thereafter secured by such Security Interest does not exceed the purchase price or cost of construction, improvement or repair of such property or assets (including transactional expenses) or the Financial Indebtedness incurred solely for the purpose of financing the acquisition, construction, improvement or repair of such property or assets;

(e) on, or relating to, any property or assets hereafter acquired by the Issuer or any Guarantor or any Material Subsidiary and existing on the date of acquisition (so long as such Security Interest was not created in contemplation of the acquisition of such property or assets);

(f) on or over goods or related documents of title arising or created in the ordinary course of business as security only for Financial Indebtedness under export credit or trade finance facilities relating to those goods or documents of title;

(g) granted upon or with regard to any property or assets of the Issuer or any Guarantor or any Material Subsidiary to secure Financial Indebtedness incurred in connection with any securitisation relating to such property or assets, provided that the revenues attributable to property or assets subject to any such Security Interest are less than, in aggregate, 25.0% of Consolidated EBITDA in the most recent financial year for which the Issuer has audited consolidated financial statements prepared in accordance with IFRS;

(h) in respect of any interest rate swap, option, cap, collar or floor agreement or any foreign currency swap agreement or other similar agreement or arrangement designed to protect the Issuer or any Guarantor or any Material Subsidiary against fluctuations in interest or foreign currency rates;

(i) not covered by any of the provisions under paragraphs (a) to (h) above (inclusive) of this definition of Permitted Security Interest which secures Financial Indebtedness with an aggregate value at any time not exceeding 10.0% of the Issuer's consolidated total assets in the most recent financial year for which the Issuer has audited consolidated financial statements prepared in accordance with IFRS; or

(j) arising out of the refinancing, extension, renewal or refunding of any Financial Indebtedness secured by a Security Interest permitted by any of the above exceptions, provided that the Financial Indebtedness thereafter secured by such Security Interest does not exceed the amount of the original Financial Indebtedness and such Security Interest is not extended to cover any property not previously subject to such Security Interest.

(k) "**Security Interest**" means a mortgage, charge, pledge, lien security interest or other encumbrance of any kind whatsoever securing any obligation of any Person or any other type of preferential arrangement having a similar effect over any assets or revenues of such Person.

(l) **"Subsidiary**" means, in relation to any Person (the "**first Person**") at a given time, any other Person (i) whose affairs and policies the first Person directly or indirectly Controls or (ii) as to whom the first Person owns directly or indirectly more than 50% of the capital, voting stock or other right of ownership.

5. Limitations on Changes in Business and Disposals of Assets

(a) **Limitation on Changes in Business**

The Issuer shall procure that the business of the Issuer and its Subsidiaries shall comprise at a minimum the business of owning and operating Kazakhstan's national railway network and the infrastructure relating thereto and of providing, either by itself or its Subsidiaries or by the procurement of the relevant services from third parties, of all relevant network services in relation thereto.

(b) **Limitations on Disposals**

For so long as any Note remains outstanding, except as permitted by Condition 6 (*Limitations on Merger or Consolidation*), the Issuer and each Guarantor will not, and (in the case of the Issuer) will procure that the Material Subsidiaries will not, either in a single transaction or in a series of transactions, whether related or not and whether voluntarily or involuntarily, sell, assign, convey, transfer, grant or otherwise dispose of all or any of its or their assets or property to any Person, except as follows:

(i) disposals of Core Assets (otherwise than under paragraph (iii) below) to the Issuer or a Subsidiary of the Issuer (each, a "Transferee Subsidiary") or to an Eligible Transferee, provided, however, that (A) after giving effect to such disposal and any related transactions, the Transferee Subsidiary (in the case of a disposal to a Transferee Subsidiary) remains a Subsidiary of the Issuer and (in the case of a disposal to either a Transferee Subsidiary or an Eligible Transferee) no Event of Default (as defined in Condition 13 (Events of Default)) nor any event which, with the giving of notice or lapse of time or the satisfaction of any other condition, would be an Event of Default has occurred and is continuing and (B) in the case of a Transferee Subsidiary, if either (X) the relevant Transferee Subsidiary is, or after giving effect to such disposal will become, a Material Subsidiary or (Y) in case such Transferee Subsidiary is not the Issuer or a Guarantor, after giving pro forma effect to such disposal as if such disposal occurred on 1 January of the last Fiscal Year, the Issuer and the Guarantors would not have been in compliance with the Guarantor Threshold Test in Condition 7 as of 31 December of the last Fiscal Year, then such Transferee Subsidiary or, in the case of a transfer to an Eligible Transferee, such Eligible Transferee, will become an Additional Guarantor in accordance with the terms of Condition 7 (Additional Guarantors);

(ii) disposals of assets, other than Core Assets;

(iii) disposals of Core Assets which are obsolete, redundant or surplus and not necessary for compliance with Condition 5(a); or

(iv) disposals of other Core Assets provided that the aggregate value of all such other Core Assets disposed of since 31 December 2016 does not exceed at any time 15% of the value of property, plant and equipment as shown in the Issuer's then most recent audited consolidated financial statements prepared in accordance with IFRS.

(c) **Defined Terms**

For the purposes of these Conditions:

"**Core Assets**" means (i) the mainline railway network, (ii) the locomotives and cargo wagons now owned or hereafter acquired by Joint Stock Company "KTZ - Freight transportation" or Joint Stock Company "Kaztemirtrans", as the case may be, and (iii) ownership interests in any Person owning or controlling directly or indirectly, Core Assets referred to in (i) or (ii) of this definition;

"**Eligible Transferee**" means any Person which is not a Subsidiary of the Issuer but is engaged in business in the railway transportation sector in Kazakhstan and is controlled by the Government of Kazakhstan;

"**mainline railway network**" means the mainline railway infrastructure of the Republic of Kazakhstan that consists of main tracks and station tracks as well as objects of power supply, signalling, communications, devices, equipment, buildings and other objects, technologically necessary for its operation;

"**maintenance**" includes the detection and rectification of any faults;

"**network services**" means services of providing mainline railway network in exploitation and operation of rolling stock traffic; and

"**track**" means land or other property comprising the permanent way of any railway, together with the ballast, sleepers and metals laid thereon and overhead power lines related thereto, whether or not the land or other property is also used for other purposes, along with crossings, bridges, viaducts, tunnels, culverts, retaining walls or other structures used or to be used for the support, or otherwise in connection with, track and any walls, fences or other structures bounding the railway or bounding any adjacent or adjoining property.

6. Limitations on Merger or Consolidation

(a) Limitations on the Issuer and each Guarantor

Neither the Issuer nor any Guarantor shall, except as approved by an Extraordinary Resolution, consolidate with or merge into any Person other than the Issuer or a Guarantor unless:

(i) the Person formed by the consolidation or into which the Issuer or the relevant Guarantor, as the case may be, is merged (the "**Successor Company**") agrees in writing to assume the obligation to make due and punctual payment of all amounts payable under the Notes and the Guarantee (as the case may be) and all other obligations of the Issuer or the relevant Guarantor (as the case may be) under the Notes and the Trust Deed (including the Guarantee);

(ii) immediately after giving effect to the transaction, no Event of Default will have occurred and be continuing;

(iii) the Issuer or the relevant Guarantor, as the case may be, has delivered to the Trustee (A) a certificate of the General Manager of the Issuer or the relevant Guarantor, stating that the consolidation or merger complies with this Condition and that all requirements set forth herein relating to the transaction have been complied with and (B) an opinion of independent legal advisers of recognised standing in form and substance satisfactory to the Trustee that the Successor Company has validly assumed the obligations to be assumed by it pursuant to Condition 6(a)(i) and that the Trust Deed (including the Guarantee) and the Notes constitute legal, valid, binding and enforceable obligations of the Successor Company, and the Trustee shall be entitled to rely upon any such certificate or opinion and shall not be responsible for any loss occasioned by acting (or not acting) on any such certificate or opinion, as the case may be; and

(iii) the Successor Company expressly agrees, subject to Condition 12 (*Taxation*), (A) to pay such Additional Amounts as may be necessary in order that the net amounts received by each Noteholder shall, after any deduction or withholding of Taxes and any present or future taxes, duties, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of, or within any political subdivision of, or any authority having power to tax in the jurisdiction in which the Successor Company is incorporated or is engaged in business, equal the amounts that would have been received by such Noteholder in respect of the Notes held by it in the absence of the consolidation or merger and (B) to indemnify and hold harmless each holder of a Note from and against, and reimburse each such holder for, the amount of any Taxes withheld or deducted from, or paid by such holder in respect of payments made under or with respect to the Notes or the Trust Deed in circumstances where the said obligation to pay Additional Amounts is or may have become illegal, unenforceable or otherwise invalid.

(b) Effect of Consolidation or Merger

Upon any consolidation, merger, conveyance or transfer in accordance with this Condition 6 the Successor Company shall succeed to, and be substituted for, may exercise every right and power of, and shall be bound by every obligation of, the Issuer or the relevant Guarantor, as the case may be, under the Notes and the Trust Deed (including, *inter alia*, in the case of a Guarantor, the Guarantee) with the same effect as if the Successor Company had been named as the Issuer or a Guarantor, as the case may be.

7. Additional Guarantors

The Issuer and each Guarantor shall ensure that on the Issue Date and as at the end of each of the Issuer's fiscal years beginning with the fiscal year ending 31 December 2017 (each, a "**Fiscal Year**"), the aggregate combined total assets and total revenue of the Issuer and the Guarantors (determined separately and calculated on a stand-alone non-consolidated basis for each entity and without double counting (for the avoidance of doubt, all intra-group items and investments in Subsidiaries by the Issuer or a Guarantor, as the case may be, or any of their Subsidiaries shall be excluded) for the most recently ended Fiscal Year shall equal or exceed 85.0% of the aggregate combined total assets and total revenue, respectively, of the Issuer and its Subsidiaries (determined on a consolidated basis) (the "**Guarantor Threshold Test**"), by causing one or more of its Subsidiaries that are not Guarantors to become Guarantors in accordance with the terms of these Conditions to the extent necessary to ensure the foregoing thresholds are met (each such Subsidiary, an "**Additional Guarantor**"). Such Guarantor Threshold Test shall be tested following each annual audit of the Issuer using financial information prepared in accordance with IFRS.

The Issuer and each Guarantor shall procure that any Subsidiary, Transferee Subsidiary or Eligible Transferee that needs to become an Additional Guarantor pursuant to these Conditions shall execute a supplemental trust deed and a supplemental agency agreement in a form specified by the Trustee, subject to the Trustee having been provided with such information as it may require in relation to any proposed Additional Guarantor prior to any supplemental trust deed or supplemental agency agreement being executed (the "**Additional Guarantee Agreements**"). The Issuer and each Guarantor shall give not less than 30 days' notice to the Trustee and the Noteholders in accordance with Condition 17 (*Notices*) of the addition of each Additional Guarantor and, so long as the Notes are listed on the Stock Exchange and/ or any other stock exchange on which the Notes may be listed or quoted from time-to-time, shall comply with applicable rules of the Stock Exchange and/or such other exchange. The accession of the Additional Guarantors pursuant to this Condition 7 shall be conditional upon receipt by the Trustee of a legal opinion, in form and substance satisfactory to the Trustee, of independent legal counsel of recognised standing as to the enforceability of the Guarantee under the Additional Guarantee Agreements from such Additional Guarantor. The Trustee shall be entitled to accept the legal opinion referred to above without further enquiry or liability to any Person as sufficient evidence of the matters contained therein.

The obligations of each Additional Guarantor will be limited under relevant laws applicable to such Additional Guarantor to the extent that the granting of the relevant Guarantee would:

(i) not be consistent with corporate benefit, capital preservation, financial assistance or fraudulent conveyance rules or any other general statutory laws or regulations (or analogous restrictions) of any applicable jurisdiction; or

(ii) cause the directors of such Additional Guarantor to contravene their fiduciary duties, to incur civil or criminal liability or to contravene any legal prohibition.

The guarantee of a Guarantor will be released automatically and without further action on the part of any Noteholder or the Trustee:

(i) in connection with any sale, assignment, transfer, conveyance or other disposition of all or substantially all of the assets of that Guarantor (including by way of merger, consolidation, amalgamation, combination, transfer or conveyance of substantially all of its assets to, or liquidation into), provided that the sale or other disposition does not breach Condition 5 (*Limitations on Changes in Business and Disposals of Assets*) and Condition 6 (*Limitations on Merger or Consolidation*); or

(ii) in connection with any sale or other disposition of share capital of that Guarantor, provided that the sale or other disposition does not breach Condition 5 (*Limitations on Changes in Business and Disposals of Assets*) and Condition 6 (*Limitations on Merger or Consolidation*)

provided that, (A) the release of such Guarantor or (B) the release and simultaneous replacement of such Guarantor with one or more Additional Guarantors in accordance with (iii) or (iv) above is in compliance with this Condition 7.

The Issuer shall promptly notify the Trustee and the Noteholders in accordance with Condition 17 (*Notices*) of the release of any Guarantor.

8. Provision of Certain Information

For so long as any Notes are outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, each of the Issuer and each Guarantor will furnish upon the request of a holder of Notes or a beneficial owner of an interest therein to such holder or beneficial owner or to a prospective purchaser of Notes designated by such holder or beneficial owner, the information required to be delivered under Rule 144A(d)(4) under the Securities Act, and will otherwise comply with the requirements of Rule 144A under the Securities Act, if, at the time of such request, the Issuer or the relevant Guarantor is not a reporting company under Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended, or exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

9. Interest

(a) Interest Payment Dates

The Notes bear interest from (and including), 17 November 2017 (the "**Issue Date**") to (but excluding) the Final Redemption Date (as defined in Condition 10 (*Redemption, Purchase and Cancellation*) at the rate of 4.850% per annum, payable semi-annually in arrear on 17 May and 17 November in each year commencing on 17 May 2018 (each, an "**Interest Payment Date**"), subject as provided in Condition 11 (*Payments*). Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an "Interest Period".

(b) Cessation of Interest

Each Note will cease to bear interest from the Final Redemption Date unless, after presentation of the relevant Definitive Note Certificate, payment of principal is improperly withheld or refused. In such event, it will continue to bear interest at such rate (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder and (ii) the day which is seven days after the Trustee or the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of the Notes up to that seventh day (except to the extent that there is any subsequent default in payment).

(c) Day-Count Fraction

If interest is required to be calculated for any period other than an Interest Period, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

10. Redemption, Purchase and Cancellation

(a) Final Redemption

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 17 November 2027 (the "**Final Redemption Date**"), subject as provided in Condition 11 (*Payments*).

(b) Redemption for Tax Reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption and any Additional Amounts then payable, if the Issuer satisfies the Trustee immediately prior to the giving of such notice by the Issuer that it has or will become or a Guarantor has or (if a demand was made under the Guarantee) would become obliged to pay Additional Amounts as provided or referred to in Condition 12 (*Taxation*) or the Guarantee, as the case may be, as a result of any change in, or amendment to, the laws, treaties or regulations of the Republic of Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws, treaties or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 15 November 2017, and such obligation cannot be avoided by the Issuer or the relevant Guarantor, as the case may be, taking reasonable measures available to it; provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or such Guarantor, as the case may be, would be obliged to pay such Additional Amounts or make such withholding or deduction. Prior to the publication of any notice of redemption pursuant to this Condition 0, the Issuer shall deliver or procure that there is delivered to the Trustee a certificate signed by the Managing

Director of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and an opinion of independent legal advisers of recognised standing in form and substance satisfactory to the Trustee to the effect that the Issuer or (as the case may be) the relevant Guarantor, has or will become obliged to pay such Additional Amounts to make such withholding or deduction as a result of such change or amendment. The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above in which event such certificate and opinion shall be conclusive and binding on the Noteholders. Upon the expiry of any such notice as is referred to in this Condition 10(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 10(b).

(c) **Make Whole Redemption at the Option of the Issuer**

At any time prior to the Final Redemption Date, the Issuer may, at its option, on giving not less than 30 nor more than 60 days' irrevocable notice to the Noteholders and to the Trustee and the Agents (the "**Call Option Notice**") in accordance with Condition 17 (*Notices*) redeem the Notes in whole, but not in part, at the following price:

(i) the aggregate principal amount of the outstanding Notes; plus

(ii) interest and other amounts that may be due pursuant to these Conditions (if any) accrued but unpaid to, but excluding, the date on which the call option is to be settled (the "**Call Settlement Date**"); plus

(iii) the Make Whole Premium.

The Call Option Notice shall specify the date fixed for redemption (the "**Call Settlement Date**").

For the purposes of this Condition 10(c):

"**Make Whole Premium**" means, with respect to a Note at any time, the excess of (a) the present value of the Notes at the Call Settlement Date, plus any required interest payments that would otherwise accrue and be payable on such Notes from the Call Settlement Date through to the Final Redemption Date (but excluding any interest accrued and unpaid to, but excluding the Call Settlement Date) calculated using a discount rate equal to the Treasury Rate at the Call Settlement Date plus 50 basis points, over (b) the outstanding aggregate principal amount of the Notes at the Call Settlement Date, provided that if the value of the Make Whole Premium at any time would otherwise be less than zero, then in such circumstances, the value of the Make Whole Premium will be equal to zero.

"**Treasury Rate**" means the yield to maturity at the time of computation of U.S. Treasury securities with a constant maturity most nearly equal to the period from the Call Settlement Date to the Final Redemption Date. The Issuer will obtain such yield to maturity from information compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) (or any successor thereto), which has become publicly available at least three Business Days (but not more than five Business Days) prior to the Call Settlement Date and shall notify the Noteholders (in accordance with Condition 17 (*Notices*)) and the Trustee and the Agents thereof not less than two Business Days prior to the Call Settlement Date (or, if such Statistical Release is not so published or available, any publicly available source of similar market data selected by the Issuer in good faith); provided, however, that if the period from the Call Settlement Date to the Final Redemption Date is not equal to the constant maturity of a U.S. Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of U.S. Treasury securities for which such yields are given, except that if the period from the Call Settlement Date to the Final Redemption Date is less than one year, the weekly average yield on actually traded U.S. Treasury securities adjusted to a constant maturity of one year shall be used.

(d) **Optional Redemption at Par**

The Issuer may, at any time on or after 17 August 2027, on giving not less than 30 nor more than 60 days' irrevocable notice to the Noteholders (which notice shall specify the date fixed for redemption (the "**Par Optional Redemption Date**")) in accordance with Condition 17 (*Notices*) and to the Trustee and Agents, redeem the Notes in whole or in part, at 100% of the principal amount thereof, together with interest accrued and unpaid and Additional Amounts (if any) to but excluding the Par Optional Redemption Date. In the case of a partial redemption, the Notes shall be selected for redemption either: (a) in accordance with the procedures of the relevant clearing systems; or (b) if the Notes are not held in a clearing system or if the relevant clearing systems prescribe no method of selection, the Notes will be redeemed on a pro rata basis according to the holding of each Noteholder; subject, in each case, to compliance with any applicable laws and stock exchange or other relevant regulatory requirements. Neither the Trustee nor any Agent shall have any liability for any selection made pursuant to this Condition 10(d).

(e) **Redemption at the Option of the Noteholders**

Following the occurrence of a Relevant Event, the Issuer will give notice in accordance with Condition 17 *(Notices)* within 30 days of such Relevant Event, with a copy to the Trustee, at the option of the holder of any Note, redeem such Note on the sixtieth day after notice thereof has been given by the Issuer to the Noteholders (the "**Put Settlement Date**") (with a copy to the Trustee) at 100% of its principal amount together with interest accrued and unpaid to the Put Settlement Date. In order to exercise the option contained in this Condition 10(e) the holder of a Note must, not less than 15 days before the Put Settlement Date, deposit with any Paying Agent the relevant Definitive Note Certificate and a duly completed put option notice (a "**Put Option Notice**") in the form obtainable from any Paying Agent. No Definitive Note Certificate, once deposited with a duly completed Put Option Notice in accordance with this Condition 10(e) may be withdrawn; provided, however, that if, prior to the Put Settlement Date, any such Note becomes immediately due and payable or, upon due presentation of any such Definitive Note Certificate on the Put Settlement Date, payment of the redemption moneys is improperly withheld or refused, such Definitive Note Certificate shall, without prejudice to the exercise of the relevant option, be returned to the holder by uninsured first class mail (airmail if overseas) at such address as may have been given by such Noteholder in the relevant Put Option Notice. The Trustee shall not be required to take any steps to ascertain whether a Relevant Event or any event which could lead to a Relevant Event has occurred or may occur and will not be responsible or liable to the holder of any Note for any loss arising from any failure by it to do so.

"**Relevant Event**" means the Issuer ceasing to be Controlled by the Government of the Republic of Kazakhstan or any Guarantor ceasing to be a Subsidiary of the Issuer or otherwise Controlled by the Government of Kazakhstan.

If this Note is represented by a Global Note or is in definitive form and held through DTC, Euroclear or Clearstream, Luxembourg to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Paying Agent of such exercise in accordance with the standard procedures of DTC, Euroclear and Clearstream, Luxembourg (which may include notice being given on its instruction by DTC, Euroclear or Clearstream, Luxembourg or any common depositary for them to the Paying Agent by electronic means) in a form acceptable to DTC, Euroclear and Clearstream, Luxembourg from time-to-time and, if this Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Paying Agent for notation accordingly.

(f) **Redemption by the Issuer following a partial redemption of the Notes at the option of Noteholders**

If 75% or more of the aggregate principal amount of the Notes originally issued shall have been redeemed on the Put Settlement Date in accordance with the provisions of Condition 10(e), the Issuer shall, within 90 days of the Put Settlement Date, having given not less than 30 or more than 60 days' notice to the Noteholders in accordance with Condition 17 (*Notices*) (which notice shall be irrevocable) (with a copy to the Trustee), redeem on the expiry date of such notice all (but not some only) of the then-outstanding Notes at their principal amount together with interest accrued to, but excluding, the date of such redemption.

(g) **No other redemption**

The Issuer shall not be entitled to redeem the Notes other than as provided in this Condition 10.

(h) **Purchase**

The Issuer or any Guarantor, or any Person acting on behalf of the Issuer or any Guarantor, may at any time purchase or procure others to purchase for its account Notes, at any price, in the open market or otherwise. Notes so purchased may be held or resold (provided that such resale is outside the United States as defined in Regulation S under the Securities Act or, in the case of any Notes resold pursuant to Rule 144A, is only made to "QIBs" (as defined in Rule 144A under the Securities Act) or surrendered for cancellation), at the option of the Issuer or such Guarantor, as the case may be. Any Notes so purchased, while held by or on behalf of the Issuer or a Guarantor, or any Person acting on behalf of the Issuer or a Guarantor, shall not entitle the holder to vote at any meeting of Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of Noteholders.

(i) **Cancellation**

All Notes redeemed, or purchased and surrendered for cancellation as aforesaid, will be cancelled forthwith and may not be re-issued or re-sold. For so long as the Notes are admitted to trading on the Global Exchange Market of the Irish Stock Exchange plc (the "**Stock Exchange**") and the rules of such exchange so require, the Issuer shall promptly inform the Stock Exchange of the cancellation of any Notes under this Condition 10(i) *(Cancellation).*

11. Payments

(a) **Principal**

Payment of principal in respect of each Note and payment of interest due other than on an Interest Payment Date will be made to the Person shown in the Register at the close of business on the Record Date (as defined below) and subject to the surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Note Certificate at the specified office of the Registrar and Transfer Agent or any Paying Agent.

(b) **Interest**

Payment of interest due on an Interest Payment Date will be made to the Persons shown in the Register at close of business on the Record Date.

(c) **Record Date**

"**Record Date**" means the Business Day before the due date for the relevant payment.

(d) **Payments**

Each payment in respect to the Notes pursuant to Conditions 11(a) (*Principal*) and 11(b) (*Interest*) will be made by U.S. dollar cheque drawn on a bank in New York City and mailed to the relevant Noteholder at the address appearing in the Register as provided below. However, upon application by the Noteholder to the specified office of the Registrar and Transfer Agent or any Paying Agent not less than 15 days before the due date for any payment in respect of a Note, such payment may be made by transfer to a U.S. dollar account maintained by the payee with a bank in New York City.

Where payment is to be made by cheque, the cheque will be mailed on the Business Day (as defined below) immediately preceding the due date for payment or, in the case of payments referred to in Condition 11(a) (*Principal*), if later, on the Business Day on which the relevant Definitive Note Certificate is surrendered (or endorsed as the case may be) as specified in Condition 11(a) (*Principal*) (at the risk and, if mailed at the request of the Noteholder otherwise than by ordinary mail, expense of the Noteholder).

Where payment is to be made by transfer to the U.S. dollar account, payment instructions (for value the due date or, if the due date is not a Business Day, for value the next succeeding Business Day) will be initiated, in the case of principal, on the later of the due date for payment and the day on which the relevant Definitive Note Certificate is surrendered (or, in case of part payment only, endorsed) and, in the case of interest and other amounts, on the due date for payment.

(e) **Agents**

The names of the initial Agents and their initial specified offices are set forth below. The Issuer and the Guarantors reserve the right under the Agency Agreement by giving to the Principal Paying Agent and any other Agent concerned at least 60 days' prior written notice, which notice shall expire at least 30 days before or after any due date for payment in respect of the Notes, to remove any Paying Agent or the Registrar and Transfer Agent and to appoint successor or additional Paying Agents or another Registrar and Transfer Agent, provided that it will at all times maintain:

(i) a Principal Paying Agent;

(ii) Paying Agents in at least one major European city approved by the Trustee;

(iii) a U.S. Paying Agent and U.S. Transfer Agent; and

(iv) a Registrar and Transfer Agent.

Notice of such removal or appointment and of any change in the specified office of any Paying Agent or Registrar and Transfer Agent will be given to Noteholders in accordance with Condition 17 *(Notices)* as soon as practicable.

(f) **Payments subject to Fiscal Laws**

All payments of principal and interest in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(g) **Delay in Payment**

Noteholders will not be entitled to any interest or other payment in respect of any delay in payment resulting from (i) the due date for payment not being a Business Day or (ii) a cheque mailed in accordance with this Condition 11 arriving after the due date for the payment or being lost in the mail.

(h) **Business Days**

In this Condition, "**Business Day**" means any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in New York City and London and, in the case of surrender of a Definitive Note Certificate, in the place of the specified office of the Registrar and Transfer Agent or relevant Paying Agent, to whom the Definitive Note Certificate is surrendered.

12. Taxation

All payments of principal and interest in respect of the Notes (including payments by a Guarantor under the Guarantee or otherwise under the Trust Deed) shall be made free and clear of, and without deduction or withholding for, any taxes, duties, assessments, or governmental charges imposed, levied, collected, withheld or assessed by the Republic of Kazakhstan or any political subdivision or any authority thereof or therein having the power to tax (collectively "Taxes"), unless such withholding or deduction is required by law. In such event, the Issuer or (as the case may be) the relevant Guarantor will, subject to certain exceptions and limitations set forth below, pay such additional amounts ("**Additional Amounts**") to the holder of any Note as may be necessary in order that every net payment of the principal of and interest on such Note, after withholding for or on account of such Taxes upon or as a result of such payment will not be less than the amount provided for in such Note to be then due and payable. Notwithstanding the foregoing, neither the Issuer nor any Guarantor will be required to make any payment of Additional Amounts:

(a) to any such holder for or on account of any such Taxes which would not have been so imposed but for the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary, member or shareholder of such holder) and the Republic of Kazakhstan, (including but not limited to, citizenship, nationality residence, domicile, or existence of a business, a permanent establishment, a dependent agent, a place of business or a place of management present or deemed to be present within that jurisdiction) other than the mere holding of the Note;

(b) where the relevant Note is surrendered for payment on a date more than 30 days after the date (the "**Relevant Date**") which is the later of the date on which such payment became due and payable and the date on which payment thereof is duly provided for, except to the extent that the holder would have been entitled to Additional Amounts on presenting the same for payment on the last day of such 30-day period; or

(c) where the relevant Note is surrendered for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by surrendering the relevant Note to another Paying Agent in a Member State of the European Union.

In addition, if and to the extent that the obligations of the Issuer or a Guarantor, as the case may be, to pay Additional Amounts pursuant to this Condition 12 are or have become illegal, unenforceable or otherwise invalid, the Issuer and each Guarantor will indemnify and hold harmless each holder of a Note from and against, and will, upon written request of a holder and presentation of reasonable supporting documentation, reimburse each such holder for, the amount of any Taxes withheld or deducted from, or paid by such holder in respect of, payments made under or with respect to the Notes or the Trust Deed and which would not have been withheld, deducted or paid had the said obligations not been or become illegal, unenforceable or otherwise invalid. Solely for purposes of these Conditions, any payment made pursuant to this paragraph shall be considered an Additional Amount.

If the Issuer or a Guarantor becomes generally subject at any time to any taxing jurisdiction other than or in addition to the Republic of Kazakhstan, references in these Conditions to the Republic of Kazakhstan shall be read and construed as a reference to the Republic of Kazakhstan and/or such other jurisdiction.

Any reference in these Conditions to principal, redemption amount and/or interest in respect of the Notes shall be deemed also to include a reference to any Additional Amounts which may be payable under this Condition 12.

Notwithstanding anything to the contrary in this Condition 12, none of the Issuer, the Guarantor, any Agent or any other person shall be required to pay any Additional Amounts with respect to any withholding or deduction imposed on or in respect of any Note pursuant to FATCA, the laws of the Republic of Kazakhstan implementing FATCA, or any agreement between the Issuer and the United States or any authority thereof entered into for FATCA purposes.

13. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of not less than one-quarter in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction) shall, by notice to the Issuer, declare the Notes to be, and whereupon they shall immediately become, due and repayable at their principal amount, together with accrued interest and all other amounts (including Additional Amounts), if any, then due and payable in respect thereof, if any of the following events (each an "**Event of Default**") occurs:

(a) **Non-payment:** the Issuer or a Guarantor, as the case may be, fails to pay any principal or redemption amount in respect of any of the Notes when the same becomes due and payable, either at maturity, upon redemption, by declaration or otherwise, and such default continues for a period of five Business Days, or the Issuer or a Guarantor, as the case may be, is in default with respect to the payment of interest on, or any other amounts, including Additional Amounts, due in respect of, any of the Notes and such default continues for a period of five Business Days; or

(b) **Breach of other obligations:** the Issuer or any Guarantor is in default in the performance, or is otherwise in breach, of any covenant, obligation, undertaking or other agreement under the Notes, the Trust Deed (including, in the case of each Guarantor, under the Guarantee) or the Agency Agreement (other than a default or breach elsewhere specifically dealt with in this Condition 13) and such default or breach (which is, in the opinion of the Trustee, capable of remedy) is not remedied within 40 days (or such longer period as the Trustee may in its sole discretion determine) after notice thereof has been given to the Issuer by the Trustee; or

(c) **Cross-default:** (i) any Financial Indebtedness of the Issuer or any Guarantor or Material Subsidiary becomes or becomes capable of being declared due and payable prior to the due date for payment thereof by reason of default by the Issuer or a Guarantor or a Material Subsidiary thereunder or is not repaid at maturity, as may be extended by any grace period or agreement applicable thereto or (ii) any Indebtedness Guarantee given by the Issuer or any Guarantor or Material Subsidiary is not honoured when due and called, provided that the aggregate principal amount of such Financial Indebtedness and the Financial Indebtedness covered by such Indebtedness Guarantee exceeds U.S.$50,000,000 (or its equivalent in other currency); or

(d) **Invalidity or Unenforceability:** (i) the validity of the Notes or the Trust Deed (including the Guarantee) is contested by the Issuer or any Guarantor or the Issuer or any Guarantor shall deny any of its obligations under the Notes, the Trust Deed (including the Guarantee) or the Agency Agreement (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise), (ii) it is or becomes (or the Trustee determines that it will become) unlawful for the Issuer or any Guarantor to perform or comply with all or any of its obligations set out in the Notes, the Trust Deed (including the Guarantee) or the Agency Agreement or (iii) all or any of the Issuer's or any Guarantor's obligations set out in the Notes, the Trust Deed (including the Guarantee) or the Agency Agreement shall be or become unenforceable or invalid; or

(e) **Insolvency or Bankruptcy:** (i) a proceeding shall have been instituted or a decree or order shall have been entered for the appointment of a receiver, administrator, liquidator or other similar officer in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities or similar arrangements involving the Issuer or any Guarantor or Material Subsidiary or all or substantially all of any of their respective properties and such proceeding, decree or order shall not have been vacated or shall have remained in force undischarged or unstayed for a period of 60 days or (ii) the Issuer or any Guarantor or Material Subsidiary shall institute proceedings under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect to be adjudicated a bankrupt or shall consent to the filing of a bankruptcy, insolvency or similar proceeding against it or shall file a petition or answer or consent seeking reorganisation under any such law or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver, administrator or liquidator or trustee or assignee in bankruptcy or liquidation of it or in respect of its property or shall make an assignment for the benefit of its creditors or shall otherwise be unable or admit its inability to pay its debts generally as they become due or is (or could be deemed by law or a court to be) insolvent or bankrupt or commences proceedings with a view to the general adjustment of its Indebtedness; or

(f) **Enforcement proceeding:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against a substantial part of the property, assets or revenues of the Issuer or any Guarantor or Material Subsidiary and is not discharged or stayed within 60 days; or

(g) **Security enforced:** any Security Interest, present or future, created or assumed by the Issuer or any Guarantor or Material Subsidiary becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar Person) and the aggregate amount secured by any such Security Interests so enforced exceeds U.S.$50,000,000 (or its equivalent in any other currency); or

(h) **Judgments:** a final judgment or judgments for the payment of money have been entered by a court or courts of competent jurisdiction against the Issuer or any Guarantor or Material Subsidiary and remain undischarged for a period of at least 60 days without stay of execution of the relevant judgment or judgments during the period and the aggregate amount of all such judgments at any time outstanding (to the extent not paid or to be paid by insurance) exceeds U.S.$50,000,000 or the equivalent in any other currency (for this purpose, any deductibles, self-insurance or retention shall not be treated as covered by insurance); or

(i) **Winding-Up:** an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer or any Guarantor or Material Subsidiary or the Issuer or any Guarantor or Material Subsidiary ceases to carry on all or a material part of its business or operations, except for the purpose of and followed by a merger or consolidation which is permitted by Condition 6 (*Limitations on Merger or Consolidation*) or on terms approved by an Extraordinary Resolution of the Noteholders; or

(j) **Analogous events:** any event occurs, which, under the laws of the Republic of Kazakhstan, has an analogous effect to any of the events referred to in paragraphs (e) to (i) above; or

(k) **Authorisations and consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration, the entering into of all necessary agreements or other documents and the compliance in all material respects with any applicable laws or regulations (including any foreign exchange rules or regulations pertaining to the Issuer's or any Guarantor's ability to make payments in respect of the Notes or otherwise under the Guarantee or the Trust Deed) of any governmental or other regulatory authority) which is at any time required to be taken, fulfilled or done in order (i) to enable the Issuer or any Guarantor lawfully to enter into, exercise its rights and perform and comply with its obligations under the Notes and the Trust Deed (including the Guarantee) or (ii) to ensure that those obligations are legally binding and enforceable is not done, lapses and is not renewed or is cancelled or otherwise ceases to be maintained in full force and effect; or

(l) **Maintenance of business:** any Guarantor or Material Subsidiary fails to take any action as is required of it under applicable regulations in the Republic of Kazakhstan to maintain in effect any material rights, privileges, titles to property, franchises and the like necessary or desirable in the normal conduct of its business, activities or operations and such failure is not remedied within 30 days (or such longer period as the Trustee may in its sole discretion determine) after notice thereof has been given to the Issuer and is materially prejudicial (in the opinion of the Trustee) to the interests of the Noteholders; or

(m) **Government Intervention:** (i) all or a substantial part of the undertaking, assets and revenues of the Issuer or any Guarantor or Material Subsidiary is condemned, seized or otherwise appropriated or (ii) the Issuer or any Guarantor or Material Subsidiary is prevented from exercising normal control over all or a substantial part of its undertaking, assets and revenues.

14. Prescription

Claims in respect of principal of and interest or other amounts (including Additional Amounts) payable under the Notes will become void unless made within a period of ten years (in the case of principal) or (in the case of interest and other amounts) five years from the appropriate Relevant Date.

15. Replacement of Note Certificates

If any Definitive Note Certificate is mutilated, defaced, destroyed, stolen or lost it may be replaced at the specified office of the Registrar and Transfer Agent or any Paying Agent subject to all applicable laws and stock exchange requirements (if applicable), upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence, security and indemnity or otherwise as the Issuer and/or the Registrar and Transfer Agent may reasonably require. Mutilated or defaced Definitive Note Certificates must be surrendered before replacements will be issued.

16. Meetings of Noteholders, Amendment, Modification and Waiver

(a) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the modification of these Conditions or the Trust Deed (including the Guarantee) or the waiver of past defaults. Except for the purpose of passing an Extraordinary Resolution, the quorum at any such meeting shall be one or more persons present holding a Voting Certificate (as defined in the Trust Deed) or being proxies or representatives and holding or representing in the aggregate not less than one-tenth in principal amount of such Notes for the time being outstanding. The quorum at any meeting for passing an Extraordinary Resolution shall be one or more persons present in person holding a Voting Certificate or being proxies or representatives and holding or representing in the aggregate a clear majority in principal amount of such Notes for the time being outstanding, or at any adjourned meeting, one or more Persons holding or representing any Notes for the time being outstanding, except that the adoption of any proposal (i) to alter the status or maturity of the Notes or the due date for any amount payable in respect of the Notes or under the Guarantee, (ii) to reduce or cancel the principal amount of, or interest on, the Notes, (iii) to modify or cancel the Guarantee, (iv) to change the currency of payment in respect of the Notes or under the Guarantee, (v) to change the obligation of the Issuer and each Guarantor to pay Additional Amounts pursuant to Condition 12 (*Taxation*) or under the Trust Deed; (vi) to modify the covenants of the Issuer or any Guarantor in Conditions 4 (*Negative Pledge*), 5 (*Limitations on Changes in Business and Disposals of Assets*), 6 (*Limitations on Merger or Consolidation*), 10(e) (*Redemption at the option of the Noteholders*) or 10(f) (*Redemption by the Issuer following a partial redemption of the Notes at the option of the Noteholders*), (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or (viii) to modify the percentage required to amend or modify the Notes or the Trust Deed (including the Guarantee) or waive any future compliance or past default by the Issuer or any Guarantor or reduce the percentage of the aggregate principal amount of Notes required for the taking of action or the quorum required at any meeting of Noteholders at which a resolution is adopted (each of such matters in (i) through (viii) a "**Reserved Matter**")), requires the approval of Noteholders pursuant to an Extraordinary Resolution adopted at a meeting at which one or more Persons holding or representing not less than three-quarters or, at an adjourned meeting, not less than one-quarter of the principal amount of the Notes for the time being outstanding form a quorum or at any adjourned meeting at which one or more Persons form a quorum. An Extraordinary Resolution passed at any meeting of Noteholders will be binding on all Noteholders, whether or not they are present at the meeting.

(b) **Written resolution and Electronic Consent**

The Trust Deed provides that a resolution in writing will take effect as if it were an Extraordinary Resolution if it is signed by or on behalf of persons holding not less than three-quarters of the aggregate principal amount of the Notes outstanding. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders. The Trust Deed also provides that, subject to the terms therein, a resolution approved by an Electronic Consent communicated through the electronic communications systems of the relevant clearing system by or on behalf of persons holding not less than three-quarters in aggregate principal amount of the Notes outstanding shall take effect as an Extraordinary Resolution.

(c) **Modification and Waiver**

Subject to the Trust Deed, the Trustee may agree, without the consent of the Noteholders, (i) to any modification of any provision of the Trust Deed (including the Guarantee), the Agency Agreement or the Notes (including these Conditions) which is of a formal, minor or technical nature or is made to correct a manifest error and (ii) any other modification and any waiver or authorisation of any breach or proposed breach of any provision of the Trust Deed (including the Guarantee), the Agency Agreement or the Notes (including these Conditions) which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and shall be notified to the Noteholders as soon as practicable thereafter.

(d) **Entitlement of the Trustee**

In connection with the exercise of its functions (including but not limited to those referred to in this Condition 16), the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer or any Guarantor, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

17. Notices

(a) To Noteholders

Notices to Noteholders will be sent to them by first class mail (or equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register and shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as the Notes are listed on the Stock Exchange and the rules of the Stock Exchange so require, notices to Noteholders will be published on the internet website of the Stock Exchange.

So long as any of the Notes are represented by the Global Notes, notices required to be published in accordance with Condition 17 (Notices) may be given by delivery of the relevant notice to DTC, Euroclear and Clearstream, Luxembourg (as applicable) for communication by them to the relevant accountholders, provided: (i) that such notice is also delivered to the Stock Exchange; and (ii) so long as the Notes are admitted to trading on the Stock Exchange and the rules of the Stock Exchange so require, publication will also be made on the internet website of the Stock Exchange.

(b) To the Issuer and any Guarantor

Notices to the Issuer or any Guarantor will be deemed to be validly given if delivered to the Issuer at Konaeva Street, 6, Astana City, 010000, Republic of Kazakhstan for the attention of the General Manager (or at such other address and for such other attention as may have been notified to the holders in accordance with Condition 17(a)) and will be deemed to have been validly given when delivered.

(c) To the Trustee and Registrar and Transfer Agent

Notices to the Trustee or the Registrar and Transfer Agent will be deemed to have been validly given if delivered to the specified office, for the time being, of the Trustee or the Registrar and Transfer Agent, as the case may be, and will be validly given when delivered.

18. Further Issues

Subject to the Issuer's and Guarantors' covenants and in accordance with the Trust Deed, the Issuer may from time-to-time without the consent of the Noteholders create and issue further notes having the same terms and conditions as the Notes in all respects (except for the issue price, issue date and the first payment of interest on them) and so that such further issues shall be consolidated and form a single series with the outstanding Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any other notes issued pursuant this Condition. Any such further notes shall be constituted by a deed supplemental to the Trust Deed.

Noteholders should note that additional securities that are treated as a single series for non-tax purposes may be treated as a separate series for U.S. federal income tax purposes. In such case, the new securities may be considered to have been issued with original issue discount, as defined in the U.S. Internal Revenue Code of 1986, as amended, and the U.S. Treasury regulations issued thereunder, which may affect the market value of the Notes since such additional securities may not be distinguishable from the Notes.

19. Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer and/or any Guarantor as it may think fit to enforce the terms of the Trust Deed (including the Guarantee) and the Notes (whether by arbitration pursuant to the Trust Deed or by litigation), but it need not take any such proceedings unless it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-quarter in principal amount of the Notes outstanding and it shall have been indemnified and/or secured and/or prefunded to its satisfaction. Except as provided in the Trust Deed, no Noteholder may proceed directly against the Issuer or each Guarantor in respect of the Notes or otherwise under the Trust Deed unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing. The Notes provide for the Trustee to take action on behalf of the Noteholders in certain circumstances, but only if the Trustee is indemnified to its satisfaction. It may not be possible for the Trustee to take certain actions in relation to the Notes, and, accordingly, in such circumstances the

Trustee will be unable to take action notwithstanding the provision of an indemnity to it, and it will be for Noteholders to take such action directly.

20. The Trustee

The Trustee may, in making any determination under these Conditions, act on the opinion or advice, or information obtained from, any expert and will not be responsible for any loss, liability, cost, claim, action, demand, expense or inconvenience which may result from it so acting.

Until the Trustee has actual or express knowledge to the contrary, the Trustee may assume that no Event of Default has occurred.

The Trustee is not liable for any failure to monitor compliance by the Issuer or the Guarantors with the Conditions (including the Issuer's and Guarantors' covenants and Condition 13 (*Events of Default*)) and may rely upon the information provided to it in any certificate of the General Manager of the Issuer or any Guarantor pursuant to these Conditions or the Trust Deed.

Unless ordered to do so by a court of competent jurisdiction or unless required by the rules of the Stock Exchange, the Trustee shall not be required to disclose to any Noteholder any confidential financial or other information made available to the Trustee by the Issuer or any Guarantor.

21. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility and for payment of its costs and expenses in priority to the claims of the Noteholders. The Trustee is entitled to enter into business transactions with the Issuer, any Guarantor or any entity related to the Issuer or any Guarantor without accounting for any profit.

22. Currency Indemnity

Each reference in these Conditions to a specified currency is of the essence. To the fullest extent permitted by applicable law, the obligations of the Issuer and each Guarantor in respect of any amount due under the Notes or the Trust Deed (including the Guarantee) shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in U.S. Dollars that the Noteholder entitled to receive that payment may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the Business Day immediately following the date on which that Noteholder receives that payment and the Issuer and each Guarantor shall indemnify the Noteholders against any deficiency arising or resulting from any variation in rates of exchange between the date as of which such amount of U.S. Dollars is notionally converted into another currency for the purposes of any such judgment or otherwise and the date of actual payment in such other currency. If the amount in U.S. Dollars that may be so purchased for any reason falls short of the amount originally due, the Issuer or the relevant Guarantor shall pay such additional amount, in U.S. Dollars, as may be necessary to compensate for the shortfall. Any obligation of the Issuer or a Guarantor not discharged by payment in such other currency shall be due as a separate and independent obligation which, to the extent permitted by applicable law, shall continue in full force and effect until discharged, notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due in respect of the Notes or under any such judgment or order or any indulgence granted from time-to-time and shall give rise to a separate and independent cause of action. Any such shortfall will be deemed to constitute a loss suffered by the relevant Noteholders and no proof or evidence of any loss will be required.

23. Rights of Third Parties

No Person shall have any right to enforce any term or condition of the Notes or the Guarantee under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any Person which exists or is available apart from that Act.

24. Governing Law, Jurisdiction and Arbitration

(a) Governing Law

The Notes, the Guarantee, the Trust Deed and the Agency Agreement, including any non-contractual obligations arising out of or in connection with them, are governed by, and construed in accordance with, English law.

(b) Arbitration

Subject to Condition 24(c) (*Trustee's Option*) and Condition 24(d) (*Jurisdiction*), the Issuer and each Guarantor have agreed that any claim, dispute or difference of whatever nature arising under, out of, or in connection with, the Notes or the Trust Deed (including a claim, dispute or difference regarding its existence, termination or validity or any non-contractual obligations arising out of or in connection with the Trust Deed or the Notes) (a "**Dispute**"), shall be referred to and finally settled by arbitration in accordance with the rules of the London Court of International Arbitration (the "**Rules**") as at present in force and as modified by this Condition, which Rules shall be deemed incorporated into this Condition. The number of arbitrators shall be three, one of whom shall be nominated by the Issuer, one by the Trustee and the third of whom, who shall act as Chairman, shall be nominated by the two party-nominated arbitrators, provided that if the third arbitrator has not been nominated within 30 days of the nomination of the second party-nominated arbitrator, such third arbitrator shall be appointed by the LCIA Court. The parties may nominate and the LCIA Court may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. The seat of arbitration shall be London, England and the language of arbitration shall be English. Sections 45 and 69 of the Arbitration Act 1996 shall not apply.

(c) Trustee's Option

At any time before the Trustee has nominated an arbitrator to resolve any Dispute(s) pursuant to Condition 24(b) *(Arbitration),* the Trustee, at its sole option, may elect by notice in writing to the Issuer and the Guarantors that such Dispute(s) shall instead be resolved in the manner set out in Condition 24(d) *(Jurisdiction).* Following any such election, no arbitral tribunal shall have jurisdiction in respect of such Dispute(s).

(d) Jurisdiction

In the event that the Trustee serves a written notice of election in respect of any Dispute(s) pursuant to Condition 24(c) (*Trustee's Option*), the Trustee and the Issuer and each Guarantor agree for the benefit of the Noteholders and the Trustee, that the courts of England shall have exclusive jurisdiction to hear and determine any such Dispute(s) and that neither the Issuer nor any Guarantor may commence proceedings ("**Proceedings**") for the determination of any such Dispute(s) in any other jurisdiction. Subject to Condition 24(b) (*Arbitration*), following the service of an election notice by the Trustee, nothing in this Condition shall (or shall be construed so as to) limit the right of the Trustee to bring Proceedings for the determination of any Dispute(s) in the courts of England or in any other court of competent jurisdiction, nor shall the bringing of such Proceedings in any one or more jurisdictions preclude the bringing of Proceedings by the Trustee in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

(e) Appropriate Forum

For the purposes of Condition 24(d) *(Jurisdiction),* the Issuer and each Guarantor have irrevocably submit to the jurisdiction of the courts of England and waive any objection which they might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings in connection with a Dispute and have each agreed not to claim that any such court is not a convenient or appropriate forum.

(f) Process Agent

The Issuer and each Guarantor agreed in the Trust Deed that the process by which any Proceedings are commenced in England pursuant to Condition 24(d) (*Jurisdiction*) may be served on it by being delivered to Law Debenture Corporate Services Limited at its registered office at Fifth Floor, 100 Wood Street, London EC2V 7EX, or, if different, its registered office for the time being or at any address of the Issuer or the relevant Guarantor, as the case may be, in Great Britain at which process may be served on it in accordance with Part 34 of the Companies Act 2006. If such person is not or ceases to be effectively appointed so to accept service of process on behalf of the Issuer or the relevant Guarantor, as the case may be, the Issuer or the relevant Guarantor, as the case may be, shall notify the Trustee and appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Trustee shall be entitled to appoint such a person by written notice to the Issuer in accordance with Condition 17 (*Notices*) and the relevant Guarantor. Nothing in this paragraph shall affect the right of the Trustee to serve process in any other manner permitted by law.

(g) **Consent to Enforcement, etc.**

The Issuer and each Guarantor consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings, including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment that may be given in such Proceedings.

(h) **Enforcement of Awards and Judgments; Waiver of Immunity**

The Issuer and each Guarantor agree that any award made pursuant to Condition 24(b) (*Arbitration*) in relation to a Dispute or any final judgment in any Proceeding may be enforced in a tribunal or court (as the case may be) of competent jurisdiction of which the Issuer or any Guarantor is or may be subject. If and to the extent that the Issuer or any Guarantor may in respect of any Proceedings or Dispute in any jurisdiction be entitled to claim for itself or its assets, property or revenues (irrespective of their use or intended use) immunity from jurisdiction, suit, enforcement, execution, attachment (whether in aid of execution of a judgment, before the making of a judgment or award or otherwise) or any other relief or other legal process, including in relation to the enforcement of any arbitration award, and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or such Guarantor or its assets, property or revenues, the Issuer and each Guarantor have irrevocably agreed not to claim and have irrevocably waived such immunity to the fullest extent permitted now or hereafter by the laws of such jurisdiction in which such Proceedings or Dispute are commenced.

(i) **Language**

These Conditions have been prepared and negotiated in English, which shall be the governing language. In order to comply with internal requirements of the Issuer and the Guarantors, a Russian version of these Conditions may be prepared. In the event of any inconsistency between the Russian- and English-language versions, the English-language version shall prevail to the extent of such inconsistency and the Russian-version shall be amended accordingly, without any act or approval by any party hereto, to reflect the meaning of the English-version. The existence of multiple versions of these Conditions shall not be construed to create multiple obligations on the Issuer.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, after deduction of the total expenses related to the admission to trading, and before deduction of underwriting fees and expenses in connection with the offering, expected to amount to approximately U.S.$783,000,000, will be used to fund the purchase of any or all of the Existing Notes, tendered and accepted for purchase in the Tender Offer and the redemption of Existing Notes remaining outstanding after the Tender Offer upon the approval of the Mandatory Early Redemption, as well as the payment of any early consent fees in connection therewith, all pursuant to the Tender Offer and Consent Solicitation Memorandum.

On 27 October 2017, pursuant to the Tender Offer and Consent Solicitation Memorandum, the Issuer launched the Tender Offer and Consent Solicitation, inviting holders of the Existing Notes to: (i) tender any or all of the Existing Notes held by them for purchase by the Company for cash; and (ii) concurrently consent to amend by extraordinary resolution the terms and conditions of the Existing Notes to provide for Mandatory Early Redemption of the Existing Notes, all on the terms and subject to the conditions set forth in the Tender Offer and Consent Solicitation Memorandum.

As of 27 October 2017 there was U.S.$700,000,000 in principal amount of the Existing Notes outstanding. Existing Notes tendered in the Tender Offer and Consent Solicitation and accepted for purchase by the Company are expected to be settled, and the Mandatory Early Redemption to be completed, on or about 29 November 2017.

SELECTED FINANCIAL INFORMATION AND OPERATING DATA

The following selected consolidated financial information as at and for the six months ended 30 June 2017 and 2016 has been extracted from the Interim Financial Statements and the selected consolidated financial information as at and for the years ended 31 December 2016, 2015 and 2014 has been extracted from the Annual Financial Statements, all of which are included elsewhere in this Offering Memorandum.

Prospective investors should read the following selected consolidated financial and other information in conjunction with the information contained in "Presentation of Financial and Certain Other Information", "Risk Factors", "Management's Discussion and Analysis of Results of Operations and Financial Condition of the Group", and "Business of the Group", as well as the Interim Financial Statements and the Annual Financial Statements, together, in each case, with the related notes thereto, all of which appear elsewhere in this Offering Memorandum.

Statement of Comprehensive Income Data

	For the six months ended 30 June		
	2017[1]	**2017**	**2016**
		(unaudited)	
	(U.S.$ millions)	*(KZT millions)*	
Continuing operations			
Revenue			
Freight transportation	1,096.0	352,326.4	322,899.3
Passenger transportation	117.1	37,650.8	36,135.7
Government grants	26.6	8,549.9	10,250.7
Other revenue	58.4	18,782.6	14,194.0
Total revenue	**1,298.1**	**417,309.7**	**383,479.7**
Cost of sales	(1,064.8)	(342,301.8)	(312,310.5)
Gross profit	**233.3**	**75,007.9**	**71,169.2**
General and administrative expenses	(120.2)	(38,634.7)	(35,962.9)
(Impairment of assets)/recovery of impairment	(42.4)	(13,627.6)	(1,716.8)
Other income and expenses	2.2	669.6	2,093.7
Finance income	10.1	3,255.9	3,333.1
Finance costs	(149.0)	(47,897.8)	(39,897.2)
Foreign exchange gain/(loss)	87.9	28,245.1	1,213.6
Share of profit of associates and joint ventures	1.7	588.3	1,990.6
Gain from disposal of subsidiaries not qualifying as discontinued operations	0.8	250.8	189.4
Gain from disposal of shares in joint ventures	24.8	7,966.5	7,099.1
Profit/(loss) before income tax	**49.2**	**15,824.0**	**9,511.8**
Income tax (expense)/benefit	(29.5)	(9,490.5)	(1,719.2)
Profit/(loss) from continuing operations for the period	**19.7**	**6,333.5**	**7,792.6**
Discontinued operations			
Loss for the period from discontinued operations	**(0.3)**	(97.1)	(3,022.0)
Profit for the period	**19.4**	**6,236.4**	**4,770.6**

Note:

(1) The Group's presentation currency is the Tenge. These figures have been converted into U.S. Dollars at the KZT/U.S.$ exchange rate as at 30 June 2017 of KZT 321.46 per U.S.$1.00. Such conversion should not be construed as a representation that Tenge amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

	For the year ended 31 December			
	2016[(1)]	2016	2015	2014
	(unaudited) (U.S.$ millions)		*(KZT millions)*	
Continuing operations				
Revenue				
Freight transportation	2,064.9	688,204.3	629,049.7	743,243.1
Passenger transportation	240.4	80,133.6	71,787.4	77,386.4
Government grants	67.6	22,528.8	21,721.7	24,637.8
Other revenue	96.7	32,244.9	29,946.5	36,001.3
Total revenue	**2,469.6**	**823,111.6**	**752,505.3**	**881,268.6**
Cost of sales	(1,976.8)	(658,852.6)	(616,768.8)	(643,893.5)
Gross profit	**492.8**	**164,259.0**	**135,736.5**	**237,375.1**
General and administrative expenses	(229.4)	(76,444.0)	(75,922.5)	(71,326.8)
Impairment of assets	(6.5)	(2,168.3)	(4,960.7)	(2,735.9)
Other profit and loss	10.8	3,585.5	814.8	3,662.9
Finance income	19.0	6,325.2	5,581.8	10,529.8
Finance costs	(256.3)	(85,417.9)	(60,884.3)	(46,981.0)
Foreign exchange gain/(loss)	62.6	20,863.3	(450,997.7)	(71,978.9)
Share of profit/(loss) of associates and joint ventures	2.0	670.2	(12,187.7)	45.3
Gain from disposal of shares in joint ventures	21.8	7,253.7	—	—
Gain from disposal of subsidiaries not qualifying as discontinued operations	7.5	2,494.4	1,512.0	821.2
Profit/(loss) before income tax	**124.3**	**41,421.1**	**(461,307.8)**	**59,411.7**
Income tax benefit/(expense)	14.3	4,763.2	9,001.2	(21,104.6)
Profit/(loss) for the year from continuing operations	**138.6**	**46,184.3**	**(452,306.6)**	**38,307.1**
Discontinued operations				
Loss for the year from discontinued operations	(14.7)	(4,907.7)	(7,675.1)	(4,750.3)
Profit/(loss) for the year	**123.9**	**41,276.6**	**(459,981.7)**	**33,556.8**

Note:

(1) The Group's presentation currency is the Tenge. These figures have been converted into U.S. Dollars at the KZT/U.S.$ exchange rate as at 31 December 2016 of KZT 333.29 per U.S.$1.00. Such conversion should not be construed as a representation that Tenge amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

Statement of Financial Position Data

	As at 30 June		As at 31 December			
	2017(1)	2017	2016(2)	2016	2015	2014
		(unaudited)				
	(U.S.$ millions)	*(KZT millions)*	*(U.S.$ millions)*	*(KZT millions)*		
Property, plant and equipment.	8,000.6	2,571,875.9	7,565.0	2,521,329.4	2,395,441.6	2,228,942.1
Total non-current assets...........	8,430.4	2,710,042.5	7,978.0	2,658,999.3	2,589,740.1	2,486,534.5
Other current financial assets...	61.8	19,853.9	48.6	16,186.7	41,466.8	38,753.3
Cash and cash equivalents	478.3	153,754.1	147.0	48,978.2	67,838.1	86,552.2
Total current assets	1,335.7	429,360.1	1,129.5	376,452.5	294,234.3	348,919.0
Total assets	9,766.1	3,139,402.6	9,107.5	3,035,451.8	2,883,974.4	2,835,453.5
Total equity.............................	3,783.1	1,216,107.6	3,504.6	1,168,033.2	968,264.1	1,409,573.7
Non-current borrowings(3)........	3,556.4	1,143,236.3	3,294.8	1,098,118.0	1,177,067.7	811,683.4
Total non-current liabilities......	4,377.5	1,407,202.0	4,059.7	1,353,044.7	1,483,619.4	1,128,343.9
Current borrowings(4)...............	564.2	181,359.0	424.7	141,561.8	200,253.3	46,242.3
Total current liabilities.............	1,605.5	516,093.0	1,543.3	514,373.9	432,090.9	297,535.9
Total liabilities.........................	5,983.0	1,923,295.0	5,603.0	1,867,418.6	1,915,710.3	1,425,879.8

Notes:

(1) The Group's presentation currency is the Tenge. These figures have been converted U.S. Dollars at the KZT/U.S.$ exchange rate as at 30 June 2017 of KZT 321.46 per U.S.$1.00. Such conversion should not be construed as a representation that the Tenge amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(2) The Group's presentation currency is the Tenge. These figures have been converted into U.S. Dollars at the KZT/U.S.$ exchange rate as at 31 December 2016 of KZT 333.29 per U.S.$1.00. Such conversion should not be construed as a representation that Tenge amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(3) Represents the aggregation of the non-current portion of borrowings, debt securities issued and finance lease liabilities.

(4) Represents the aggregation of the current portion of borrowings, the current portion of debt securities issued and current portion of finance lease liabilities.

Statement of Cash Flows Data

	For the six months ended 30 June		
	2017[(1)]	**2017**	**2016**
		(unaudited)	
	(U.S.$ millions)	*(KZT millions)*	
Net cash flows from operating activities	121.5	39,058.4	38,261.2
Net cash flows used in investing activities	(382.1)	(122,841.3)	(55,751.5)
Net cash flows from financing activities	548.6	176,337.1	19,411.6
Net increase in cash and cash equivalents	287.9	92,554.2	1,921.3
Cash and cash equivalents at the beginning of the year	208.7	67,085.4	74,903.5
Effect of foreign exchange rate changes on the balance of cash and cash equivalents	(6.3)	(2,013.8)	(2,843.9)
Cash and cash equivalents at the end of the year	490.3	157,625.8	73,980.9

Note:

(1) The Group's presentation currency is the Tenge. These figures have been converted into U.S. Dollars at the KZT/U.S.$ exchange rate as at 30 June 2017 of KZT 321.46 per U.S.$1.00. Such conversion should not be construed as a representation that the Tenge amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

	For the year ended 31 December			
	2016[(1)]	**2016**	**2015**	**2014**
	(unaudited) *(U.S.$ millions)*	*(KZT millions)*		
Net cash flows from operating activities	448.4	149,445.3	103,023.3	208,038.4
Net cash flows used in investing activities	(677.9)	(225,939.4)	(177,587.0)	(360,006.2)
Net cash flows from financing activities	215.8	71,939.1	53,859.5	153,510.1
Net (decrease)/increase in cash and cash	(13.7)	(4,555.0)	(20,704.2)	1,542.2
Cash and cash equivalents at the beginning of the year	224.7	74,903.5	89,964.8	85,855.9
Effect of foreign exchange rate changes on the balance of cash and cash equivalents	(9.8)	(3,263.1)	5,643.0	2,566.6
Cash and cash equivalents at the end of the year	201.3	67,085.4	74,903.5	89,964.8

Note:

(1) The Group's presentation currency is the Tenge. These figures have been converted into U.S. Dollars at the KZT/U.S.$ exchange rate as at 31 December 2016 of KZT 333.29 per U.S.$1.00. Such conversion should not be construed as a representation that Tenge amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

Non-IFRS Measures and Financial Ratios

See "*Presentation of Financial and Certain Other Information—Non-IFRS Measures of Financial Performance*" for a description of the non-IFRS measures used by the Group.

The following table sets forth certain information regarding the main non-IFRS measures and financial ratios used by the Group:

	As at and for the period ended 30 June		As at and for the year ended 31 December			
	2017[(1)]	2017	2016[(2)]	2016	2015	2014
	(unaudited)					
	(U.S.$ millions, except ratios)	*(KZT millions, except ratios and percentages)*	*(U.S.$ millions, except ratios)*	*(KZT millions, except ratios)*		
Group EBITDA[(3)(4)]	773.7	248,709.1	703.7	234,526.5	150,497.5	268,736.9
Current ratio[(5)]	—	0.83	—	0.73	0.68	1.17
Coverage ratio[(6)]	—	2.66	—	2.75	2.47	5.72
Adjusted debt[(7)]	4,203.0	1,351,114.1	3,801.4	1,266,972.3	1,425,345.0	878,324.3
Total guarantees for third parties[(8)]	82.5	26,518.8	81.9	27,292.5	48,024.1	20,398.6
Adjusted debt to equity ratio[(9)]	—	1.11	—	1.08	1.47	0.62
Adjusted debt to Group EBITDA ratio[(4)(10)]	—	5.43	—	5.40	9.47	3.27
Group EBITDA margin[(4)(11)]	—	29.0%	—	28.5%	20.0%	30.5%
Gross profit[(12)]	233.7	75,007.9	492.8	164,259.0	135,736.5	237,375.1
Net debt[(13)]	3,724.7	1,197,360.0	3,654.4	1,217,994.1	1,357,506.9	791,772.1
Net debt/ Group EBITDA[(4)(14)]	—	4.81	—	5.19	9.02	2.95

Notes:

(1) The Group's presentation currency is the Tenge. For convenience figures as at 30 June 2017 have been converted into U.S. Dollars at the KZT/U.S.$ exchange rate as at 30 June 2017 of KZT 321.46 per U.S.$1.00. Such conversion should not be construed as a representation that the KZT amounts have been or could be converted into U.S.$ at this rate or any other rate.

(2) The Group's presentation currency is the Tenge. These figures have been converted into U.S. Dollars at the KZT/U.S.$ exchange rate as at 31 December 2016 of KZT 333.29 per U.S.$1.00. Such conversion should not be construed as a representation that Tenge amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(3) The Group calculates Group EBITDA as profit from continuing operations before taxation, finance costs, finance income and depreciation and amortisation, but after taking into account any material devaluation of the Tenge (which is accounted for as an extraordinary item). Group EBITDA is not a measure of financial performance presented in accordance with IFRS. Accordingly, it should not be considered as an alternative to profit for the period as a measure of operating performance or to cash flows from operating activities as a measure of liquidity.

(4) The value of Group EBITDA for the period ended 30 June 2017 has been calculated on an annual basis for the preceding 12 months, including the results of the six months ended 30 June 2017 and the six months ended 31 December 2016 for use in the computation of the adjusted debt to Group EBITDA ratio in order to ensure comparability between the interim and annual measures. For the annual periods, the value of Group EBITDA has been calculated for the relevant 12 month period.

(5) The Group defines its current ratio as current assets divided by current liabilities.

(6) The Group defines its coverage ratio as Group EBITDA divided by finance cost.

(7) The Group calculates adjusted debt as the aggregate of total borrowings, total debt securities issued, total finance lease liabilities and total amount of guarantees in favour of third parties which are not consolidated in the Group's financial statements.

(8) The Group calculates total guarantees in favour of third parties as the amount of the guarantees in favour of third parties taken from contingent liabilities disclosed in the financial statements.

(9) The Group calculates its adjusted debt to equity ratio by dividing adjusted debt by total equity.

(10) The Group calculates its adjusted debt to Group EBITDA ratio by dividing adjusted debt by Group EBITDA

(11) The Group calculates its Group EBITDA margin as the ratio of Group EBITDA divided by revenue.

(12) The Group calculates its gross profit margin as total revenue minus cost of sales.

(13) Net debt represents adjusted debt less cash and cash equivalents.

(14) The Group calculates its Net debt to Group EBITDA ratio as the ratio of Net debt divided by Group EBITDA

Non-IFRS Measures

Group EBITDA

Group EBITDA is the measure used by Management to assess the trading performance of the Group's business and is, therefore, the measure of segment profit that the Group presents under IFRS. During the periods under review, the items excluded from Group EBITDA in arriving at Group EBITDA were income tax expense, finance costs, finance income and depreciation and amortisation. Group EBITDA has limitations in its use as an analytical tool. Certain of these limitations include:

- it does not reflect the Group's cash expenditures or future requirements for capital expenditure or contractual commitments;
- it does not reflect changes in, or cash requirements for, the Group's working capital needs;
- it does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on the Group's debt;
- although depreciation and amortisation are non-cash charges, the assets being depreciated and amortised will often have to be replaced in the future, and Group EBITDA does not reflect any cash requirements for such replacements; and
- it is not adjusted for all non-cash income or expense items that are reflected in the Group's statements of cash flows.

The following table sets forth certain information regarding a reconciliation of Group EBITDA to profit for the period for the periods indicated:

	For the twelve months ended 30 June		For the six months ended 30 June		For the year ended 31 December			
	2017[1][2]	**2017[2]**	**2017[3]**	**2016[3]**	**2016[4]**	**2016**	**2015**	**2014**
	(U.S.$ millions)	*(unaudited) (KZT millions)*			*(U.S.$ millions)*	*(KZT millions)*		
Profit/loss for the period/year from continuing operations	139.1	44,725.2	6,333.5	7,792.6	138.6	46,184.3	(452,306.6)	38,307.1
Income tax expense	(9.4)	(3,008.1)	(9,490.5)	(1,719.2)	14.3	4,763.2	9,001.2	(21,104.6)
Finance costs	(290.6)	(93,418.5)	(47,897.8)	(39,897.2)	(256.3)	(85,417.9)	(66,884.3)	(46,981.0)
Finance income	19.4	6,248.0	3,255.9	3,333.1	19.0	6,325.2	6,581.8	10,529.8
Depreciation and amortisation[5]	(354.0)	(113,805.3)	(55,910.0)	(56,117.4)	(342.1)	(114,012.7)	(105,505.1)	(100,895.1)
Extraordinary items[6]	—	—	—	—	—	—	(450,997.7)	(71,978.9)
Group EBITDA	**773.7**	**248,709.1**	**116,375.9**	**102,193.3**	**703.7**	**234,526.5**	**150,497.5**	**268,736.9**

Notes:

(1) The Group's presentation currency is the Tenge. For convenience figures as at 30 June 2017 have been converted into U.S. Dollars at the KZT/U.S.$ exchange rate as at 30 June 2017 of KZT 321.46 per U.S.$1.00. Such conversion should not be construed as a representation that the KZT amounts have been or could be converted into U.S.$ at this rate or any other rate.

(2) Calculated on an annual basis for the preceding 12 months, including the results of the six months ended 30 June 2017 and the six months ended 31 December 2016.

(3) Calculated on a semi–annual basis for the six month period.

(4) The Group's presentation currency is the Tenge. These figures have been converted into U.S. Dollars at the KZT/U.S.$ exchange rate as at 31 December 2016 of KZT 333.29 per U.S.$1.00. Such conversion should not be construed as a representation that Tenge amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(5) Includes all depreciation and amortisation recorded under the line items cost of sales, general and administrative expenses, selling expenses and other expenses in the Financial Statements.

(6) Extraordinary items consists of foreign exchange losses due to material devaluations of the Tenge in 2014 (from KZT 154.06 per U.S.$1.00 on 1 January 2014 to KZT 182.35 per U.S.$1.00 on 31 December 2014) and 2015 (from KZT 182.35 per U.S.$1.00 on 1 January 2015 to KZT 339.47 per U.S.$1.00 on 31 December 2015).

Coverage ratio

The Group's coverage ratio is calculated as Group EBITDA divided by finance cost. Finance cost includes interest expense on borrowings, changes in fair value of derivative financial asset designated as at fair value through profit or loss, finance leasing expense, and other finance costs.

Management believes that this metric should be made available to investors as, if the Group were unable to meet the asset coverage test, the Group's ability to borrow money would be limited, which could significantly decrease the Group's ability to obtain financing and invest in future financial and business opportunities and could decrease returns to the Group's sole shareholder. The coverage ratio and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. Accordingly, caution is required in comparing the coverage ratio as reported by the Group to such ratio of other companies.

The following table sets forth certain information regarding the calculation of the coverage ratio:

	As at and for the twelve months ended 30 June		**As at and for the year ended 31 December**			
	2017[(1)(2)]	**2017[(2)]**	**2016[(3)]**	**2016**	**2015**	**2014**
	(unaudited)					
	(U.S.$ millions, except ratios)	*(KZT millions, except ratios and percentages)*	*(U.S.$ millions, except ratios)*	*(KZT millions, except ratios)*		
Group EBITDA	773.7	248,709.1	703.7	234,526.5	150,497.6	268,736.9
Finance costs	290.6	93,418.5	256.3	85,417.9	66,884.3	46,981.0
Coverage ratio	—	2.66	—	2.75	2.47	5.72

Notes:

(1) The Group's presentation currency is the Tenge. For convenience figures as at 30 June 2017 have been converted into U.S. Dollars at the KZT/U.S.$ exchange rate as at 30 June 2017 of KZT 321.46 per U.S.$1.00. Such conversion should not be construed as a representation that the KZT amounts have been or could be converted into U.S.$ at this rate or any other rate.

(2) Calculated on an annual basis for the preceding 12 months, including the results of the six months ended 30 June 2017 and the six months ended 31 December 2016.

(3) The Group's presentation currency is the Tenge. These figures have been converted into U.S. Dollars at the KZT/U.S.$ exchange rate as at 31 December 2016 of KZT 333.29 per U.S.$1.00. Such conversion should not be construed as a representation that Tenge amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

Adjusted debt to Group EBITDA ratio

The Group's adjusted debt to Group EBITDA ratio is a performance measure used to assess the Group's performance compared to its need to service its debt requirements. Management believes that this metric should be made available to investors as it provides a good basis on which to judge whether the Group is earning sufficient profit to service its debt requirements. The Group's adjusted debt to Group EBITDA ratio and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. Accordingly, caution is required in comparing the adjusted debt to Group EBITDA ratio as reported by the Group to such ratio of other companies.

The following table sets forth certain information regarding the calculation of the Group's adjusted debt to Group EBITDA ratio:

	As at and for the twelve months ended 30 June		**As at and for the year ended 31 December**			
	2017[(1)]	**2017**	**2016**[(2)]	**2016**	**2015**	**2014**
	(unaudited)					
	(U.S.$ millions, except ratios)	*(KZT millions, except ratios and percentages)*	*(U.S.$ millions, except ratios)*	*(KZT millions, except ratios)*		
Total Loans	1,543.2	496,080.6	1,405.2	468,338.7	521,766.9	397,798.6
Total debt securities issued	2,577.3	828,514.7	2,314.3	771,341.1	852,871.2	457,017.6
Total finance lease liabilities	—	—	—	—	2,682.8	3,109.5
Total guarantees in favour of third parties	82.5	26,518.8	81.9	27,292.5	48,024.1	20,398.6
Adjusted debt	4,203.0	1,351,114.1	3,801.4	1,266,972.3	1,425,345.0	878,324.3
Group EBITDA[(3)]	773.7	248,709.1	703.7	234,526.5	150,497.5	268,736.9
Adjusted debt to Group EBITDA ratio[(3)]	—	5.43	—	5.40	9.47	3.27

Notes:

(1) The Group's presentation currency is the Tenge. For convenience figures as at 30 June 2017 have been converted into U.S. Dollars at the KZT/U.S.$ exchange rate as at 30 June 2017 of KZT 321.46 per U.S.$1.00. Such conversion should not be construed as a representation that the KZT amounts have been or could be converted into U.S.$ at this rate or any other rate.

(2) The Group's presentation currency is the Tenge. These figures have been converted into U.S. Dollars at the KZT/U.S.$ exchange rate as at 31 December 2016 of KZT 333.29 per U.S.$1.00. Such conversion should not be construed as a representation that Tenge amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(3) The value of Group EBITDA for the period ended 30 June 2017 has been calculated on an annual basis for the preceding 12 months, including the results of the six months ended 30 June 2017 and the six months ended 31 December 2016 for use in the computation of the adjusted debt to Group EBITDA ratio in order to ensure comparability between the interim and annual measures. For the annual periods, the value of Group EBITDA has been calculated for the relevant 12 month period. For a reconciliation of Group EBITDA see "*—Group EBITDA*".

Group EBITDA Margin

The Group's EBITDA margin is a performance measure used to assess the Group's performance with respect to the level of margin achieved through revenue earned. Management believes that this metric should be made available to investors as it provides a good indicator regarding the level of margin generated by the Group's revenue. The Group EBITDA margin and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. Accordingly, caution is required in comparing the Group EBITDA margin as reported by the Group to such margin of other companies.

The following table sets forth certain information regarding the calculation of the Group EBITDA margin:

	As at and for the twelve months ended 30 June		**As at and for the year ended 31 December**			
	2017[(1)(2)]	**2017[(2)]**	**2016[(3)]**	**2016**	**2015**	**2014**
	(unaudited)					
	(U.S.$ millions, except ratios)	*(KZT millions, except ratios and percentages)*	*(U.S.$ millions, except ratios)*	*(KZT millions, except ratios)*		
Group EBITDA[(4)]......................	773.7	248,709.1	703.7	234,526.5	150,497.5	268,736.9
Total revenue	2,665.8	856,941.6	2,469.7	823,111.6	752,505.3	881,268.6
Group EBITDA margin...........	—	29.0%	—	28.5%	20.0%	30.5%

Notes:

(1) The Group's presentation currency is the Tenge. For convenience figures as at 30 June 2017 have been converted into U.S. Dollars at the KZT/U.S.$ exchange rate as at 30 June 2017 of KZT 321.46 per U.S.$1.00. Such conversion should not be construed as a representation that the KZT amounts have been or could be converted into U.S.$ at this rate or any other rate.

(2) Calculated on an annual basis for the preceding 12 months, including the results of the six months ended 30 June 2017 and the six months ended 31 December 2016.

(3) The Group's presentation currency is the Tenge. These figures have been converted into U.S. Dollars at the KZT/U.S.$ exchange rate as at 31 December 2016 of KZT 333.29 per U.S.$1.00. Such conversion should not be construed as a representation that Tenge amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(4) For a reconciliation of Group EBITDA see "—*Group EBITDA*".

Net debt

Net debt is a non-GAAP measure that is defined as adjusted debt less cash and cash equivalents. Management believe that net debt is a useful indicator of the Group's indebtedness, financial flexibility and capital structure because it indicates the level of borrowings after taking account of cash and cash equivalents within the Group's business that could be utilised to pay down outstanding borrowings. Management believes that net debt can assist investors and other parties to evaluate the Group. Net debt and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. Accordingly, caution is required in comparing net debt as reported by the Group to net debt of other companies.

The following table sets forth certain information regarding the calculation of net debt.

	As at 30 June		As at 31 December			
	2017[(1)]	**2017**	**2016[(2)]**	**2016**	**2015**	**2014**
	(unaudited)					
	(U.S.$ millions)	*(KZT millions,)*	*(U.S.$ millions)*		*(KZT millions)*	
Adjusted debt[(3)]	4,203.0	1,351,114.1	3,801.4	1,266,972.3	1,425,345.0	878,324.3
Cash and cash equivalents	478.3	153,754.1	147.0	48,978.2	67,838.1	86,552.2
Net debt	3,724.7	1,197,360.0	3,654.4	1,217,994.1	1,357,506.9	791,772.1

Notes:

(1) The Group's presentation currency is the Tenge. For convenience figures as at 30 June 2017 have been converted into U.S. Dollars at the KZT/U.S.$ exchange rate as at 30 June 2017 of KZT 321.46 per U.S.$1.00. Such conversion should not be construed as a representation that the KZT amounts have been or could be converted into U.S.$ at this rate or any other rate.

(2) The Group's presentation currency is the Tenge. These figures have been converted into U.S. Dollars at the KZT/U.S.$ exchange rate as at 31 December 2016 of KZT 333.29 per U.S.$1.00. Such conversion should not be construed as a representation that Tenge amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(3) For a reconciliation of adjusted debt see "*—Debt to Group EBITDA ratio*".

Net debt to Group EBITDA

The Group's Net debt to Group EBITDA ratio is an additional performance measure used to assess the Group's performance compared to its need to service its debt requirements. Management believes that this metric should be made available to investors because it provides a good basis on which to judge whether the Group is earning sufficient profit to service its debt requirements. The Group's Net debt to Group EBITDA ratio and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. Accordingly, caution is required in comparing the Net debt to Group EBITDA ratio as reported by the Group to such ratio of other companies.

The following table sets forth certain information regarding the calculation of the Group's Net debt to Group EBITDA ratio:

	As at and for the twelve months ended 30 June		As at and for the year ended 31 December			
	2017[(1)]	**2017**	**2016**[(2)]	**2016**	**2015**	**2014**
	(unaudited)					
	(U.S.$ millions, except ratios)	*(KZT millions, except ratios and percentages)*	*(U.S.$ millions, except ratios)*	*(KZT millions, except ratios)*		
Net debt[(3)]	3,724.7	1,197,360.0	3,654.4	1,217,994.1	1,357,506.9	791,772.1
Group EBITDA[(4)]	773.7	248,709.1	703.7	234,526.5	150,497.5	268,736.9
Net debt / Group EBITDA ratio	—	4.81	—	5.19	9.02	2.95

Notes:

(1) The Group's presentation currency is the Tenge. For convenience figures as at 30 June 2017 have been converted into U.S. Dollars at the KZT/U.S.$ exchange rate as at 30 June 2017 of KZT 321.46 per U.S.$1.00. Such conversion should not be construed as a representation that the KZT amounts have been or could be converted into U.S.$ at this rate or any other rate.

(2) The Group's presentation currency is the Tenge. These figures have been converted into U.S. Dollars at the KZT/U.S.$ exchange rate as at 31 December 2016 of KZT 333.29 per U.S.$1.00. Such conversion should not be construed as a representation that Tenge amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(3) For a reconciliation of Net debt see "—*Net debt*".

(4) The value of Group EBITDA for the period ended 30 June 2017 has been calculated on an annual basis for the preceding 12 months, including the results of the six months ended 30 June 2017 and the six months ended 31 December 2016 for use in the computation of the adjusted debt to Group EBITDA ratio in order to ensure comparability between the interim and annual measures. For the annual periods, the value of Group EBITDA has been calculated for the relevant 12 month period. For a reconciliation of Group EBITDA see "—*Group EBITDA*".

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion should be read in conjunction with the Financial Statements appearing elsewhere in this Offering Memorandum. This discussion includes forward-looking statements based on assumptions about the Group's future business. The Group's actual results could differ materially from those contained in such forward-looking statements.

Introduction

The Group is the national transportation and logistics operator for Kazakhstan and is responsible for rail and sea transportation, as well as the provision of transport and logistics centres, including a seaport, airports and railroad infrastructure. The Group's primary function is operator of Kazakhstan's national railway and related infrastructure. The Company was established by a decree of the Government, which, through its wholly-owned subsidiary, Samruk-Kazyna, owns all of the outstanding shares of the Company. As Kazakhstan's national railway company, the Company has a natural monopoly over the provision of services on Kazakhstan's mainline railway network and, through its subsidiary, KTZFT, is the dominant provider of railway freight transportation and, through its subsidiary, JSC Passenger Transportation, is the dominant provider of passenger transportation. The Group is one of the largest employers and taxpayers in Kazakhstan and is also a significant contributor to the development of the infrastructure necessary to transport raw materials and finished goods, both into and out of Kazakhstan. Due to Kazakhstan's limited access to navigable water routes, underdeveloped road infrastructure and its dependence on the export of raw materials (predominantly commodities) and import of finished goods, the railway system is a crucial component of Kazakhstan's economic growth.

The Group is responsible for the maintenance, operation and modernisation of Kazakhstan's mainline railway network and provides railway transportation, infrastructure and support services, which include maintaining all railway infrastructure, machinery and equipment in Kazakhstan; ensuring the safety of railway operations; developing material and technical systems for the railway network; and establishing international railway transit corridors as agreed with the Ministry of Transportation.

In addition, in connection with Government initiatives for the development of transportation logistics, which is a relatively new priority in Kazakhstan's transportation sector (with the overall target of increasing the number of containers transiting through Kazakhstan to 2.0 million by 2020 in order to increase overall freight transportation), the President instructed the Government and Samruk-Kazyna to create a multi-level vertically-integrated transport and logistics holding company, combining, *inter alia*, logistics and transport companies, with the objective of developing Kazakhstan's transit capacity and integrating infrastructure. Accordingly, in 2013, the Company's subsidiary, KTZ Express, became the national transportation and logistics operator responsible for institutional development and operational coordination and tasked with the expansion of transportation and logistics services to create a viable infrastructure and consolidating operating assets to achieve the Government's freight transportation and handling objectives. Since 2013, the Group has transitioned from a railway company to a national logistics group that is responsible for rail and sea transportation and KTZ Express has been responsible for the management and operation of transport and logistics companies and centres, including a seaport and airport infrastructure, although the majority of such companies and infrastructure is owned by the State. KTZ Express' activities are expected to support the Group's core business of freight railway transportation and, in particular, transit freight transportation.

For the six months ended 30 June 2017, the Group had overall freight turnover of 98.0 billion tonne-kilometres, reflecting an 11.2% increase from 88.1 billion tonne-kilometres for the corresponding period in 2016. For the year ended 31 December 2016, the Group had overall freight turnover of 188.2 billion tonne-kilometres, reflecting a 0.8% decrease from 189.8 billion tonne-kilometres for 2015. The Group's freight turnover accounted for 59.5% (including freight transported in third-party wagons hauled by the Group, calculated in accordance with data published by the Statistics Committee) and 47% (excluding freight transported in third party wagons, according to the Company's own data) of all freight turnover in Kazakhstan by all modes of transport (excluding pipelines) for the year ended 31 December 2016, as compared to 59.8% and 46.4%, respectively, for the year ended 31 December 2015. The Group's freight transportation revenue increased by 9.1% to KZT 352,326.4 million for the six months ended 30 June 2017, as compared to KZT 322,899.3 million for the corresponding period in 2016, accounting for 84.4% and 84.2%, respectively, of total consolidated revenue. For the year ended 31 December 2016, the Group's freight transportation revenue increased by 9.4% to KZT 688,204.3 million, as compared to KZT 629,049.7 million for 2015, accounting for 83.6% of total consolidated revenue in each of 2016 and 2015.

For the six months ended 30 June 2017, revenue from export freight transportation accounted for 18.5% of total freight transportation revenue, as compared to 26.4% from domestic freight transportation, 26.2% from transit freight transportation, 11.2% from import freight transportation and 17.6% from other freight transportation (as compared to 18.3%, 29.5%, 31.0%, 10.2% and 11.1%, respectively, for the corresponding period in 2016). For the year ended 31 December 2016, revenue from export freight transportation accounted for 18.2% of total freight transportation revenue, as compared to 26.5% from domestic freight transportation, 30.9% from transit freight transportation, 10.5% from import freight transportation and 13.8% from other freight transportation (as compared to 19.8%, 28.7%, 24.9%, 11.5% and 15.1%, respectively, for 2015 and 22.6%, 30.3%, 21.1%, 11.6% and 19.6%, respectively, in 2014). See "*—Transportation Services—Freight Transportation*".

For the six months ended 30 June 2017, the Group had passenger turnover of 9.4 billion passenger-kilometres, reflecting a 6.8% increase from 8.8 billion passenger-kilometres for the corresponding period in 2016. For the year ended 31 December 2016, the Group had a passenger turnover of 16.5 billion passenger-kilometres, reflecting an increase of 6.4% from 17.1 billion passenger-kilometres for 2015. The Group's passenger transportation revenue increased by 4.2% to KZT 37,650.8 million for the six months ended 30 June 2017 from KZT 36,135.7 million for the corresponding period in 2016, accounting for 9.0% and 9.4%, respectively, of total consolidated revenue. For the year ended 31 December 2016, the Group's passenger transportation revenue increased by 11.6% to KZT 80,133.6 million from KZT 71,787.4 million for 2015, accounting for 9.7% and 9.5%, respectively, of total consolidated revenue. See "*—Transportation Services—Passenger Transportation*".

As at 31 December 2016, the assets of the Group included:

- 15,529.8 kilometres of operational rail track, of which 4,217.0 kilometres were electrified tracks;
- 824 stations and operating points, including: (i) six distributing stations, where trains are linked or unlinked and locomotives are changed; (ii) 72 freight stations, where freight can be processed; (iii) 66 division stations, where transit freight can be processed; and (iv) 680 wayside stations, where trains can be temporarily idled to make way for passing trains;
- 1,697 locomotives;
- 56,732 freight cars;
- 2,547 passenger cars;
- 20,277 track switches;
- eight airports (under trust management); and
- one seaport (under trust management).

See "*Transportation Services—The Rail System*" and "*Kazakhstan's Economy and the Railway Industry in Kazakhstan—Railway Industry—The Rail System*".

Factors and Trends Affecting Financial Condition and Results of Operations

The main factors that have affected the Group's results of operations since 1 January 2014, and that can be expected to affect the Group's results of operations in the future, are: (i) the Kazakhstan economy; (ii) changes in exchange rates; (iii) demand for the transportation of commodities; (iv) tariffs and Government grants; (v) cost of fuel; (vi) restructurings and privatisations; (vii) international trade volumes from countries that border Kazakhstan; (viii) developments and reforms in CIS railway network systems generally and in the Kazakhstan railway industry in particular, including deregulation; (ix) cost-saving measures; and (x) the adoption of new and revised IFRS standards. These factors should be taken into account in reviewing the Group's results of operations and financial position for the periods and as at the dates discussed.

The Kazakhstan Economy

The Kazakhstan economy may be influenced by market downturns and economic slowdowns elsewhere in the world. The impact of the global economic crisis that began in 2008 resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and tighter credit conditions within Kazakhstan and generally for Kazakhstan companies, as well as weakened global demand for and a decline in prices of crude oil and other commodities. In the period 2014 to 2016, the Kazakhstan economy was impacted by continuing low crude oil prices, as well as devaluations and depreciations of the Tenge against the U.S. Dollar. The rate of GDP growth in Kazakhstan, according to statistics published by the Statistics Committee, was 1.0% for 2016, 1.0% for 2015 and 4.1% for 2014. On 11 February 2014, the NBK devalued the Tenge by 18.3% against the U.S. Dollar in light of the depreciation of the Russian Rouble over the course of 2013 and 2014, as well as the overall situation in the global financial and commodity markets. In August 2015, the NBK announced the adoption of a free-floating exchange rate, which resulted in a 26.2% depreciation against the U.S. Dollar. As at 30 June 2017, the official KZT/U.S.$ exchange rate reported by the NBK was KZT 321.46 per U.S.$1.00, as compared to KZT 333.29 per U.S.$1.00 as at 31 December 2016, KZT 339.47 per U.S.$1.00 as at 31 December 2015 and KZT 182.35 per U.S.$1.00 as at 31 December 2014. See "*—Exchange Rate Devaluations and Depreciations*". The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, all of which have had, and are expected to continue to have, a material effect on the Company's financial position and results of operations.

The future stability of the Kazakhstan economy is largely dependent upon the continued implementation of economic reform programmes and the effectiveness of economic, financial and monetary measures undertaken by the Government, as well as developments in other economies in the region, particularly the Russian economy and related effects on the value of the Russian Rouble.

Rail freight turnover is correlated with both Kazakhstan's growth in GDP and industrial production due to the volumes of commodities transported by the Group. See "*—Demand for Transportation of Commodities*".

In 2016, the total volume of freight transported by the Group was 244.2 million tonnes and total freight turnover was 188.2 billion tonne-kilometres, as compared to 251.5 million tonnes and 189.8 billion tonne-kilometres, respectively, in 2015. In the six months ended 30 June 2017, the total volume of freight transported by the Group was 128.5 million tonnes and total freight turnover was 98.0 billion tonne-kilometres, as compared to 113.9 million tonnes and 88.1 billion tonne-kilometres, respectively, in the corresponding period in 2016. The Group's freight turnover accounted for 59.5% (including freight transported in third-party wagons hauled by the Group, calculated in accordance with data published by the Statistics Committee) and 47% (excluding freight transported in third party wagons, according to the Company's own data) of all freight turnover in Kazakhstan by all modes of transport (excluding pipelines) for the year ended 31 December 2016, as compared to 59.8% and 46.4%, respectively, for the year ended 31 December 2015.

While the Group is unable to estimate reliably the effects on its consolidated financial position and its results of operations of any deterioration in the financial markets or of any continuing or increased volatility in the currency, commodities and equity markets for any periods subsequent to 30 June 2017, the Group expects that its revenue will continue to be correlated with GDP growth and industrial production in Kazakhstan and, accordingly, its business activities may again be impacted by the economic conditions resulting from global financial conditions, including fluctuations in exchange rates, regional stability and any renewed or further changes in prices of and demand for crude oil and other commodities transported by the Group.

In addition, through its ultimate control of the Group, the Government is in a position to influence the Group's activities, including the imposition of certain social and other obligations on the Group, which may have an adverse effect on the Group's financial position and results of operations. For example, following the devaluation of the Tenge against the U.S Dollar in February 2014, the President ordered all state-owned companies, including the Company, to perform an indexation exercise in respect of employee salaries to avoid a negative effect to workers as a result of the devaluation. This exercise increased the Group's payroll and other employee expenses in the year ended 31 December 2014, and further Government-mandated repeats of this indexation exercise, including, for example, in the six months ended 30 June 2017, have continued to increase, and may further increase, payroll and other employee expenses in subsequent periods.

Changes in Exchange Rates

The Group is exposed to currency risk related to changes in exchange rates of the U.S. Dollar, the Euro, the Swiss Franc, the Russian Rouble and the Japanese Yen, as well as, to a lesser extent, other currencies. The Tenge/U.S. Dollar exchange rate has the greatest impact on the Group's results of operations as a majority of the Group's borrowings and debt securities are denominated in U.S. Dollars. As at 30 June 2017 and 31 December 2016, 2015 and 2014, 53.8%, 64.8%, 66.7% and 58.9%, respectively, of the Group's borrowings and debt securities were denominated in U.S. Dollars. Accordingly, any devaluation of the Tenge against the U.S. Dollar results in increased foreign exchange losses and a higher cost of funds or debt service in Tenge terms for the Group. By way of example, for the year ended 31 December 2016, the Group recorded a foreign exchange gain (excluding discontinued operations) of KZT 20,863.3 million, as compared to a foreign exchange loss of KZT 450,997.7 million for 2015. In contrast, the foreign exchange gain in 2016 related to the reverse movement of the Tenge against the U.S. Dollar in 2016, which resulted in a positive effect on loans and borrowings denominated in foreign currencies (in particular, U.S. Dollars). The foreign exchange loss in 2015 related to the devaluation of the Tenge in 2015, which resulted in a negative effect on loans and borrowings denominated in foreign currencies (in particular U.S. Dollars).

On 11 February 2014, the NBK devalued the Tenge by 18.3% against the U.S. Dollar in light of the depreciation of the Russian Rouble over the course of 2013 and 2014, as well as the overall situation in the global financial and commodity markets. On 20 August 2015, the NBK adopted a free-floating exchange rate and medium-term inflation targeting policy, as a result of which the official exchange rate depreciated from KZT 188.38 per U.S.$1.00 to KZT 339.47 per U.S.$1.00.

The following table sets forth the period average and period end KZT/U.S.$ exchange rates reported by the KASE (after rounding adjustment) for the periods indicated:

Period ended	**Period Average(1)**	**Period-end**
	(KZT per U.S.$1.00)	
Year ended 31 December 2014	179.19	182.35
Year ended 31 December 2015	221.73	340.01
Year ended 31 December 2016	343.99	333.29

Note:

(1) The average of the rate reported by the KASE for each month during the relevant period.

Fluctuations in the Tenge/U.S. Dollar exchange rate have significantly affected, and are likely to continue to affect, the Group's consolidated results of operations. See "*—Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Risk*" and "*Risk Factors—Risk Factors Relating to the Group—The Group is subject to commodity price risk and foreign currency exchange rate risk, each of which the Group has a limited ability to manage*".

In particular, the Group is also subject to exchange rate fluctuations in the KZT/RUB exchange rate as a result of borrowings denominated in Russian Roubles. In particular, in June 2017, KTZ Finance, an SPV, issued its RUB 15.0 billion 8.75% Notes due 2022, guaranteed by the Company. The issuance of this bond is in line with Management's aim to explore ways to reduce its hard currency position, with the aim of gradually moving towards a neutral foreign currency position. Management is of the view that, given certain similarities between the Kazakhstan and Russian economy and exchange rate regimes, increased exposure to Russian Rouble-denominated borrowings is in line with its strategic aims. The issuance of this bond has, however, increased the Group's exposure to any future devaluation of the Tenge against the Russian Rouble. As at 30 June 2017, the official KZT/RUB exchange rate reported by the NBK was KZT 5.45 per RUB 1.00, as compared to KZT 5.43 per RUB 1.00 as at 31 December 2016, KZT 4.65 per RUB 1.00 as at 31 December 2015 and KZT 3.17 per RUB 1.00 as at 31 December 2014. The Group does maintain a portion of its cash in U.S. Dollars in order to partially offset foreign currency gain or loss on its borrowings denominated in U.S. Dollars; however, in the past these reserves have, and in the future these reserves may continue to be, insufficient to offset fully foreign currency loss.

The Group generates Swiss Franc-denominated revenue from its freight transit tariffs based on the CIS Tariff Agreement (as defined below). As at 30 June 2017, the official KZT/CHF exchange rate reported by the NBK was KZT 336.49 per CHF 1.00, as compared to KZT 328.14 per CHF 1.00 as at 31 December 2016, KZT 342.45 per CHF 1.00 as at 31 December 2015 and KZT 184.64 per CHF 1.00 as at 31 December 2014. For the six months ended 30 June 2017, the share of revenue from transit transportation denominated in Swiss Francs was 30%, as compared to 35% in the corresponding period in 2016, and, for the year ended 31 December 2016, the share of revenue from transit transportation denominated in Swiss Francs was 34%, as compared to 28% in 2015 and 25% in 2014. For the six months ended 30 June 2017, 26% of the Group's total revenue was denominated in Swiss Francs, as compared to 31% in the corresponding period in 2016. For the year ended 31 December 2016, 31% of total revenue was denominated in Swiss Francs, as compared to 25% in 2015 and 21% in 2014. This Swiss Franc-denominated revenue stream is an important mitigating factor against the negative impact of the devaluations of the Tenge described above.

Fluctuations in the Tenge/Swiss Franc exchange rate may, however, affect the Group's consolidated results of operations and any change in the value of the Tenge against the Swiss Franc will result in an increase or decrease in the Group's revenue. On 7 August 2015, the Group commenced cash flow hedging in order to decrease the risk of changes in the Tenge-equivalent of revenue denominated in Swiss Francs. The Group issued Swiss Franc-denominated Eurobonds on 20 June 2014, which are admitted to trading on the SIX Swiss Exchange and the KASE.

Demand for the Transportation of Commodities

In light of the need for the delivery, both domestically and for export, of commodities by rail, certain commodities, in particular oil and oil products (which include crude oil and oil products, such as diesel fuel, kerosene, residual fuel oil and other light oil products) and coal, account for a significant amount of the freight tariff revenue that the Group generates. In the six months ended 30 June 2017 and 2016 and in the years ended 31 December 2016, 2015 and 2014, oil and oil products accounted for 20%, 22%, 24%, 23%, and 22%, respectively, of the Group's total freight tariff revenue, while coal accounted for 10%, 9%, 11%, 12%, and 9%, respectively, of the Group's total freight tariff revenue.

The Group faces its greatest competition in the transportation of oil and oil products from the development of pipelines in Kazakhstan and countries that border Kazakhstan, as pipeline transportation is more cost efficient than rail transportation in transporting crude oil. For example, the expansion of the CPC Pipeline in 2015 resulted in volumes of crude oil produced by TCO LLP that were previously transported by the Company being transported through the CPC Pipeline. Primarily as a result of this, transportation of crude oil, as a percentage of the Group's total revenue from freight transportation tariffs, decreased from 6% in 2014 to 3% in 2015 and 1% in 2016. Transportation of oil and oil products accounted for approximately 23% of the Group's total revenue from freight transportation tariffs in 2016.

Although, according to data published by the Statistics Committee, freight turnover by pipeline decreased by approximately 0.8% in 2016, as compared to 2015, according to the Company's data, the transportation of crude oil from oil fields to oil refineries in Kazakhstan by railways accounted for only 0.1% of all crude oil transported in Kazakhstan in 2016. Pipelines are the predominant mode of transportation for exports of crude oil. In certain locations where oil producers do not have direct access to pipelines or oil loading sea ports, transportation by railways acts as a complementary mode of transportation, facilitating delivery of crude oil from the fields to pipeline hubs and the Aktau seaport. Although the railways currently have wider geographical coverage than pipelines in Kazakhstan, demand for shipments by rail is not consistent, due to seasonal differences in the demand for crude oil, such as in winter when demand for crude oil can decrease as a result of seasonal closures of operating facilities that use crude oil and transportation by railway becomes more difficult due to harsh weather conditions, as well as from time-to-time refinery closures for, among other things, repairs. With the development and extension of Kazakhstan's pipeline network connecting oil fields, refineries and oil purchasers' storage facilities, demand for transportation by rail is expected to remain constant in the short term, although it may increase slightly in the medium-term, in particular, if oil production continues to increase and as volumes of oil to be transported exceed the capacity of the pipeline system.

While the Group faces significant competition from pipelines in the transport of crude oil, there is less competition in the transportation of refined oil products. Unlike crude oil, due to their nature, oil products can be transported only by certain dedicated pipelines, which are limited in number, and the capacity for the shipment of oil products by pipeline is not expected to increase significantly in the foreseeable future. In addition, the destinations to which oil products are shipped may vary based on market needs and railways are more readily able to accommodate shifts in demand. Transportation of oil products accounted for 96% of the Group's total volume of transported oil and oil products for the six months ended 30 June 2017, as compared to 95% in the corresponding period in 2016, and transportation of oil products accounted for 95% of the Group's total volume of transported oil and oil products for the year ended 31 December 2016, as compared to 88% and 75% in 2015 and 2014, respectively.

The following table sets forth certain information regarding the Group's freight tariff revenue derived from the transportation of specific oil and oil products as a percentage of total freight tariff revenue derived from the transportation of oil and oil products for the six months ended 30 June 2017 and 2016 and the years ended 31 December 2016, 2015 and 2014:

	For the six months ended 30 June		For the year ended 31 December		
	2017	**2016**	**2016**	**2015**	**2014**
	(*As a % of total freight tariff revenue derived from the transportation of oil and oil products*)				
Crude oil	0.4	1.0	1.0	3.0	6.0
Diesel fuel	6.0	7.0	8.0	7.0	6.0
Kerosene	1.0	1.0	1.0	1.0	1.0
Petroleum	5.0	6.0	6.0	5.0	4.0
Residual fuel oil	2.0	2.0	2.0	2.0	2.0
Other light oil products	2.0	2.0	2.0	2.0	2.0
Other oil products	3.6	3.0	2.0	3.0	3.0

Domestic transportation of coal, which accounted for 8.9% and 8.4% of the Group's total freight tariff revenue generated from the transportation of coal for the six months ended 30 June 2017 and 2016 and 8.4%, 10.5% and 9.1% of the Group's total freight tariff revenue generated from the transportation of coal for the years ended 31 December 2016, 2015 and 2014, respectively, is directed to the industrial sector and to public utility complexes for purposes of generating heating and electric energy.

Needs of the industrial sector are generally stable, being dependent on the overall industrial growth of the country, while requests of public utility complexes for coal are mostly driven by seasonal demand. The Company believes that increasing needs for heating and electric energy will entail further growth of coal transportation with a possible adjustment for the development of gas supply. The majority of export shipments of coal transported by the Group, which accounted for 15% and 19% of the Group's total freight tariff revenue generated from the transportation of coal for the six months ended 30 June 2017 and 2016 and 19%, 21% and 18% of the Group's total freight tariff revenue generated from the transportation of coal for the years ended 31 December 2016, 2015 and 2014, respectively, are targeted at Ural and Siberian consumers in Russia, leaving only a small portion of export coal going to third countries that are not members of the Organisation for Railways Cooperation (the "**OSJD**"). Kazakhstan coal producing companies are from time-to-time subject to competition from Russian competitors, which can lead to fluctuations in the amount of coal that the Group transports for export.

Tariffs and Government Grants

Since 1 January 2014, a significant majority of the Group's revenue has been derived from freight and passenger transportation, which is subject to regulated rail transportation tariffs. Except with respect to transit tariffs for freight that passes through Kazakhstan to destinations outside of Kazakhstan, the tariffs that are applicable to the Group's operations are based on detailed price lists approved by the Natural Monopoly Committee, which specify prices for freight and passenger transportation based on weight, freight class or class of travel, direction, distance and destination and which are subject to an annual adjustment based on the reasonable needs of the Company and approval by the Natural Monopoly Committee's supplemental indexation process. The Natural Monopoly Committee has announced its intention to develop and approve a new tariff calculation method by 2020 that will allow flexible tariff policies that take into account the interests of consumers and supplier of train services. The Company intends to participate in the development of this methodology

Transit freight tariffs, which accounted for 29% and 35% of the Group's tariff revenue for the six months ended 30 June 2017 and 2016, and 34%, 28% and 25% of the Group's tariff revenue for the years ended 31 December 2016, 2015 and 2014, respectively, are typically set by the Company on the basis of the Tariff Policy of Railways of CIS Countries for International Cargo Transportation, which establishes the framework for tariffs that the CIS members states have agreed to follow. See "*Business of the Group—Government Regulation and Tariffs*".

Since freight tariffs differ according to the distance and class of freight, among other things, changes in average transportation distances and changes in the mix of freight transported may lead to higher or lower revenue, operating profits and margins for the Group. Further, the Government, through the Natural Monopoly Committee, may consider wider economic and political factors in setting tariffs. Similarly, the provision of passenger rail services in Kazakhstan is considered a social responsibility of the rail operator and, accordingly, tariffs are kept artificially low to ensure affordable passenger rail services for all members of the public. As a result, the Group's revenue, profit for the period and margins are sensitive to annual changes in transportation tariffs (particularly freight tariffs).

As part of the SES established by Belarus, Kazakhstan and Russia, the unification of tariffs, by route, was envisaged by 1 January 2013, covering freight tariffs for domestic, export and import routes within each of these countries and permitting rail transportation operators, at their discretion, based on certain economic factors, to amend the tariffs. The Group completed unification of its domestic, export and import transportation tariffs and currently charges a unified tariff for freight transportation by rail, which does not take into account whether the cargo is transported within, imported into or exported from Kazakhstan.

The unified freight tariff comprises (i) the mainline railway tariff (approximately 47% of total freight tariff), (ii) the locomotive haulage tariff (approximately 50% of total freight tariff), and (iii) the freight and commercial services tariff (approximately 3% of total freight tariff). There is an optional additional tariffs for the use of the Group's freight cars and containers (approximately 18% of total freight tariff). The tariffs for the use of the Group's freight cars and containers are not subject to Government oversight and, accordingly, are determined by the Group based on market rates and operating costs. If a customer uses freight cars or containers other than those owned by the Group, the Group charges only the mainline railway tariff, the locomotive haulage tariff and the tariff for freight and commercial services. The unified freight tariff for domestic, export and import transportation varies depending on the type of freight being transported, the length of the delivery, the type of delivery and level of loading of the rolling stock used. As at 30 June 2017, the unified freight tariff (excluding VAT) ranged from approximately KZT 1,300 per tonne per 1,000 km (for coal) to KZT 12,120 per tonne per 1,000 km (for crude oil). As at 30 June 2017, the tariff for the use of KTZFT's freight cars and containers, which is one of the four component tariffs of the total freight tariff and the only one with respect to which the Group currently faces competition from private carriers, on average accounted for 18% of the total unified freight tariff.

Freight tariffs increased by an average of 7% in 2014, did not change in 2015 and increased overall by an average of 4% in 2016 and by an average of 5% to date in 2017. Increases in the overall freight tariffs result from increases in one or more of the Group's mainline railway tariffs, locomotive haulage tariffs, freight and commercial services tariffs or the tariffs for use of the Group's cars and containers. The Natural Monopoly Committee has approved further annual average increases to the overall freight tariff of 4% between 2018 and 2020. The Company expects future annual increases of the locomotive haulage tariff and the freight and commercial services tariff to be determined based on then applicable rates of inflation. See "*Risk Factors—Risk Factors Relating to the Group—The position of the Company as a monopoly and the dominant entity, as well as the position of KTZFT as a member of the market of public importance, may result in adverse interference in the Group's operations.*".

The Group's profit is also affected by the level of grants it receives from the Government. The Group receives grants from the Government as compensation for certain passenger transportation tariffs being set at low or unprofitable levels. These are shown in the Group's consolidated statement of comprehensive income under the line item "*Government grants*". The level of grants received by the Group changes periodically. For the six months ended 30 June 2017, revenue from Government grants was KZT 8,549.9 million, as compared to KZT 10,250.7 million for the corresponding period in 2016, reflecting a decrease of KZT 1,700.8 million, or 16.6%. This decrease was primarily due to the transfer of a number of state-subsidised routes to private carriers following the completion of a tender process. For the year ended 31 December 2016, revenue from Government grants was KZT 22,528.8 million, as compared to KZT 21,721.7 million for 2015 and KZT 24,637.8 million for 2014. The increase of KZT 807.1 million, or 3.7% for the year ended 31 December 2016, as compared to the year ended 31 December 2015 was primarily due to the allocation of additional funds from the State budget, following the abolition of the temporary decreasing factor that previously applied to tariffs for certain passenger services. The decrease of KZT 2,916.1 million, or 11.8%, in 2015, as compared to 2014, was primarily due to a decrease of passenger turnover on significant routes subsidised by the Government. The State has budgeted Government grants for passenger transportation in 2018 in an amount of KZT 24,419.7 million. See "*Business of the Group—Business Operations of the Group— Transportation Services—Passenger Transportation*" and "*Risk Factors—Risk Factors Relating to the Group—The Government, which indirectly controls the Company, may cause the appointment or removal of members of the Company's management team or require the Company to privatise certain of its assets*."

Cost of Fuel

For the six months ended 30 June 2017 and 2016, and in 2016, 2015 and 2014, fuel and lubricants accounted for 12.1%, 10.0%, 11.0%, 10.7% and 15.1%, respectively, of the Group's total cost of sales. In particular, the Group purchases diesel fuel, the price of which can be subject to significant fluctuations, for its locomotives and other types of fuel and lubricants, primarily through open tenders held in accordance with the procurement procedures established by Samruk-Kazyna. To manage the pricing risks, the Group usually holds procurement tenders at the beginning of a calendar year on fixed price terms with the flexibility to decrease the initially fixed price it must pay if the market prices for the subject commodity or service decrease. See "*—Quantitative and Qualitative Disclosures about Market Risk—Inflation and Commodities Prices*", "*Risk Factors—Risk Factors Relating to the Group—The Group is subject to commodity price risk and foreign currency exchange rate risk, each of which the Group has a limited ability to manage*" and "*Business of the Group—Customers and Suppliers—Suppliers*".

Restructurings and Privatisations

The Company has made several acquisitions and disposals since 1 January 2014, which have had, and are expected to continue to have, an effect on the Company's results of operations, although no single acquisition accounted for more than 10% of the Company's assets or revenue.

In particular, the Group made, or entered into arrangements for, the following disposals:

- In May 2015, the Group sold its ownership interest in the subsidiaries of "Repair Corporation "Kamkor" LLP to a third party, pursuant to a sale and purchase agreement dated 31 December 2014. As at 4 May 2015, the assets of the disposed subsidiaries of "Repair Corporation "Kamkor" LLP were KZT 80,839.3 million. Net assets of the disposed group were KZT 28,322.2 million.

- In May 2015, Remlocomotive JSC entered into a preliminary agreement with Patentes Talgo S.L.U for the sale of 51% of its shares of Tulpar Talgo LLP. The Group received an advance payment of KZT 4,661.4 million in respect of the disposal. The agreement included certain conditions to the sale, including the approval of Samruk-Kazyna by a specific date, as well as the reimbursement any financial impact of changes in the Euro/Tenge exchange rate. As at 30 June 2017, all necessary approvals for the disposal had been obtained and, accordingly, effective as at that date, Tulpar Talgo LLP was classified as a discontinued operation in the Group's financial statements.

- In December 2016, the first stage of a tender process was completed in respect of the disposal by the Company of a 26% interest (less one share) in "Transtelecom JSC" and, accordingly, as at 30 June 2017, was classified as a discontinued operation in the Group's financial statements. An application was submitted to the Ministry for Investments and Development of Kazakhstan in May 2017 and the disposal of 49% of shares is expected to be completed within a year of the date on which the application was submitted. The consideration for the sale is KZT 9.0 billion.

- In April 2017, the Group disposed of a 50% interest in its joint venture with CJSC Transmasholding Lokomotiv Kurastyru Zauyty JSC to GE Transportation for an amount of KZT 15,716.3 million.

- In May 2017, KTZ Express entered into an agreement with COSCO Shipping (China) for the sale of a 49% interest in KTZE-Khorgos Gateway LLP. In June 2017, KTZ Express received an initial payment of KZT 23.1 billion. As at 30 June 2017, the transaction had not yet completed and KTZ Express retained its 100% ownership interest. In July 2017, KTZ Express registered the transfer of its 49% interest to COSCO-Shipping (China). The transaction is expected to be completed by the end of 2017.

In 2016, the Group approved a list of 47 of the Company's subsidiaries, associates and joint ventures subject to disposal to private investors in accordance with the Government's 2016 Complex Privatisation Plan, which also identifies certain other assets of the Group as potential targets for privatisation.

The 2016 Complex Privatisation Plan and a resolution of the Board of Directors of the Company dated 11 February 2016 set forth a list of companies to be sold as a matter of priority, which includes the proposed sale of up to 75% minus one share of Kaztemirtrans and JSC Passenger Transportation. Thirty-seven Group companies are also identified as to be sold, reorganised or liquidated. The method and timing of any such disposals have not yet been agreed and will be subject to review and consultation with independent consultants. As at 30 June 2017, the Group had completed the sale of shares and interests in the following subsidiaries to third parties: Transport Services Center JSC, Regional Forward Logistics LLC, Rauan Burabai LLP, Mak-Ekibastuz LLP and Bas-Balkash LLP. The Company currently anticipates that ten Group companies will be privatised in 2017, as well as four of the Group's assets under trust management.

In the context of the transformation of the Group into a national transportation and logistics company, since 2015, a number of transportation and logistics infrastructure and assets were placed under the Group's management, including the Aktau seaport, the Khorgos International Centre of Boundary Cooperation, the Khorgos-Eastern Gates free economic zone and the airport network. In this connection, the Group entered into various trust management agreements in respect of certain Government-owned entities, including KazAutoZhol National Company JSC, JSC Khorgos International Centre of Cross-border Cooperation, Koskshetau Aircompany, Petropavlovsk International Airport, Astana International Airport, Kostanay International Airport, Shymkent Airport, Aktobe International Airport, Atyrau International Airport, Pavlodar Airport and Aktau International Sea Commercial Port. Pursuant to these arrangements, the Group's role, which is exercised through KTZ Express, role is to manage and operate the relevant assets, while the ownership of such assets remains with the State. While Management does not expect revenue from KTZ Express's infrastructure-related activities to have a material impact on the Group's core business or revenue composition in the medium-term, such activities are expected to support the Group's core business of freight railway transportation and, in particular, transit freight transportation. See "*Business of Groups—Multimodal Transportation and Logistics Services*".

The Group has presented the results of operations of its subsidiaries Transtelecom JSC and Tulpar Talgo LLP in the Interim Financial Statements and the results of operations of its subsidiaries Transtelecom JSC, Tulpar Talgo LLP and "Repair Corporation "Kamkor" LLP in the 2016 Financial Statements as discontinued operations. The following tables set forth certain information regarding the results from these discontinued operations for the periods indicated:

	For the six months ended 30 June					
	2017			2016[1]		
	Transtele com JSC	Tulpar-Talgo LLP	Total	Trans-telecom JSC	Tulpar-Talgo LLP	Total
	(unaudited) *(KZT millions)*					
Revenue	13,236.3	—	13,236.3	5,427.7	—	5,427.7
Cost of sales	(7,753.1)	—	(7,753.1)	(2,672.1)	—	(2,672.1)
General and administrative expenses	(1,652.5)	(143.3)	(1,795.8)	(1,319.8)	(99.8)	(1,419.6)
Other income and expenses	118.6	51.5	170.1	26.9	89.6	116.5
Finance income	144.0	8.6	152.6	301.7	25.3	327.0
Finance costs	(2,998.8)	(65.0)	(3,063.8)	(3,050.3)	(78.6)	(3,128.9)
Foreign Exchange loss	(265.6)	(203.4)	(469.0)	(4.4)	(1,016.3)	(1,020.7)
Profit/(loss) before income tax	828.9	(351.6)	477.3	(1,290.3)	(1,079.8)	(2,370.1)
Income tax expense	(574.4)	—	(574.4)	(651.9)	—	(651.9)
(Loss)/profit for the period	254.5	(351.6)	(97.1)	(1,942.2)	(1,079.8)	(3,022.0)
Basic earnings/(loss) per share (in Tenge)	1	(1)	—	(4)	(2)	(6)

Note:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 4 to the Interim Financial Statements. The 2016 figures are taken from the Interim Financial Statements.

	For the year ended 31 December						
	2016			2015(1)			
	Trans telecom JSC	Tulpar-Talgo LLP	Total	Trans-telecom JSC	Subsidiaries of "Repair Corporation "Kamkor" LLP	Tulpar-Talgo LLP	Total
				(KZT millions)			
Revenue	13,758.4	—	13,758.4	8,004.5	1,410.1	—	9,414.6
Cost of sales	(7,171.9)	—	(7,171.9)	(6,199.7)	(454.8)	—	(6,654.5)
General and administrative expenses	(2,994.6)	(969.9)	(3,964.5)	(2,529.7)	(1,514.9)	(1,681.6)	(5,726.2)
Other income and expenses	18.0	35.6	53.6	70.9	34.9	(91.5)	14.3
Finance income	817.2	32.1	849.3	419.1	41.4	34.9	495.4
Finance costs	(6,035.7)	(150.1)	(6,185.8)	(5,286.3)	(97.9)	(238.1)	(5,622.3)
Foreign Exchange gain/(loss)	(91.7)	(1,014.6)	(1,106.3)	1,057.4	42.4	327.2	1,427.0
Profit/(loss) before income tax	(1,700.3)	(2,066.9)	(3,767.2)	(4,463.8)	(538.8)	(1,649.1)	(6,651.7)
Income tax expense	(1,140.5)	—	(1,140.5)	(1,045.2)	(750.7)	(324.1)	(2,120.0)
Loss from discontinued operations	(2,840.8)	(2,066.9)	(4,907.7)	(5,509.0)	(1,289.5)	(1,973.2)	(8,771.7)
Amount of consideration for the disposed subsidiaries	—	—	—	—	16,029.1	—	16,029.1
Net assets disposed	—	—	—	—	(28,322.2)	—	(28,322.2)
Disposed non-controlling interests	—	—	—	—	13,389.7	—	13,389.7
Gain on disposal of subsidiaries	—	—	—	—	1,096.6	—	1,096.6
Loss from discontinued operations	(2,840.8)	(2,066.9)	(4,907.7)	(5,509.0)	(192.9)	(1,973.2)	(7,675.1)
Basic earnings/(loss) per share (in Tenge)	(6)	(4)	(10)	(11)	(2)	(3)	(16)

Note:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

A potential initial public offering by Samruk-Kazyna of a minority stake in the Company (not to exceed 49%) is also contemplated by the Government's 2016 Complex Privatisation Plan, although the terms and timing of any such offering have not been finalised. On 17 October 2016, the State Committee on Modernisation of Economy of Kazakhstan, chaired by the Prime Minister of Kazakhstan, concluded that any privatisation of the Company should not take place before 2020. The Company proposes to dispose of Kaztemirtrans as part of any initial public offering of the Company.

International Trade Volumes from Countries that Border Kazakhstan

According to the Statistics Committee, the foreign trade turnover of Kazakhstan in 2016 was U.S.$62,113.6 million, which represents a decrease of 18.8%, compared to 2015. From 2015 to 2016, Kazakhstan's exports decreased by U.S.$9,218.9 million, or 20.1%, while imports decreased by U.S.$5,191.0 million, or 17.0%. China is a significant contributor to Kazakhstan's foreign trade turnover, accounting for 12.9% and 13.3% of Kazakhstan's exports and 23.6% and 26.1% of Kazakhstan's imports in 2016 and 2015, respectively, according to the Statistics Committee. The Company believes that Kazakhstan's geographic position relative to China will afford Kazakhstan significant opportunities to capitalise on China's economic growth by facilitating both China's import of raw materials and export of finished goods to countries in Europe, which is expected, in turn, to have a positive impact on the Group's results of operation and financial condition. See "*Business of the Group—Key Strengths*".

Developments and reforms in CIS national railway systems and the Kazakhstan railway industry

As at the date of this Offering Memorandum, Kazakhstan, Russia and Ukraine, being members of or participants in the CIS, are at different stages of reforming their respective national railway systems, while other CIS countries are not as active in developing their railway systems. Beginning in 2009, the Russian government covers 100% of all losses resulting from passenger transportation, while, in Ukraine and Kazakhstan, such losses are only partially subsidised by the State and in Kazakhstan passenger transportation tariffs are also indirectly subsidised from freight transportation revenues. All three countries have stated their intention to upgrade and modernise their locomotives, rolling stock and fixed assets by attracting either public or private investments and divesting certain non-core assets. Both Russia and Ukraine have developed conceptual models, stipulating separation of the mainline railway infrastructure from the transportation activity, while retaining state regulation and control over the mainline railway network and creating a competitive market for freight and passenger transportation; Kazakhstan is in the process, albeit at an earlier stage, of implementing similar measures.

One of the main reforms implemented in Russia is the change of the ownership structure of the freight wagon fleet towards privatisation. This tendency has resulted in a shift in international transportation and deregulation in the wagon fleet management as private carriers strive to engage their wagons primarily in technologically simple but cost-efficient shipping operations, including creating increases of light running, yard time and shortages of freight fleet. The Company believes that these reforms may have an impact across the CIS in areas where 1,520 millimetre railway tracks are used, as this gauge of track would require the introduction of changes in the wagon fleet management system and tariff policies to accommodate the emphasis on light running of wagons. Price regulation for the transportation of goods and locomotive traction is expected to remain until 2020, while wagon and container transportation has been deregulated, providing increased flexibility.

The Government has recently taken steps to develop competition in the railway industry. Access to the mainline railway network is open and the Company provides non-discriminatory access to the network for private carriers. As at the date of this Offering Memorandum, there are 11 private carriers operating passenger transportation activities alongside the national carrier, JSC Passenger Transportation. In 2017, the Government implemented a new model to subsidise passenger transport, which provides for long-term contracts of 20 years and establishes certain minimum requirements for carriers, including investment, rolling stock renewal and quality standards. This replaced the procedure in place prior to 2017, pursuant to which only the losses of the relevant carrier were covered. In December 2016, JSC Passenger Transportation entered into two long-term agreements relating to the subsidisation of passenger transportation with the Transportation Committee of the Ministry for Investments and Development of Kazakhstan, which regulate certain matters, including passenger loading and offloading and potential increases in tariffs. These contracts came into effect on 1 January 2017 and are valid until 31 December 2036.

Cost-saving measures

Since 2014, the Group has implemented and continues to implement several cost-saving measures including, among others, the implementation of an efficiency improvement plan, a financial plan aimed at increasing Group EBITDA, an anti-crisis programme and a financial sustainability plan.

The adoption of new and revised IFRS standards.

Management also expects the adoption of new and revised IFRS standards to have an impact on the Group's results of operations in future periods. The principal new and revised IFRS standards are IFRS 9 and IFRS 15.

IFRS 9 Financial Instruments

IFRS 9 was issued in November 2009 and 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. A revised version of IFRS 9 was issued in July 2014 to include impairment requirements for financial assets and 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, which become effective as of 1 January 2018, relate to:

- 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 by both 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 recognized by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognized 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.

The Group is also working with Samruk-Kazyna, who has established a task force to analyse the impact of IFRS 9 on the companies within the Samruk-Kazyna group, including the Company. Management anticipates that, in the future, the application of IFRS 9 may have an impact on amounts reported in respect of the Group's financial assets and financial liabilities, although, following a review of the Group's current hedging arrangements, Management does not expect that the application of IFRS 9 will have a significant impact on the consolidated financial statements of the Group. Management does expect that there may be an impact on loans carried at amortised cost value and is continuing to assess the potential impact of IFRS 9 on impairment loss figures. The Group will adopt IFRS 9 starting with reporting periods beginning after 1 January 2018, and may need to apply it retrospectively for previous periods (including restating the financial information for reporting periods in 2017 to be included as comparative financial information in the 2018 financial statements), although no decision in this respect has yet been made.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue and IAS 11 Construction Contracts and the related interpretations when it becomes effective as of 1 January 2018.

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, IFRS 15 introduces a five 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.

Pursuant to 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. 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.

The Group has analysed significant contracts related to freight transportation, which represent the main portion of the Group's revenue. The Group has concluded that recognising this revenue over time as freight transportation services are performed continues to be appropriate during the initial application of IFRS 15.

The Group continues to perform detailed reviews of specific contractual terms, including assessing potential additional performance obligations, price and variable considerations due to discounts. Accordingly, the preliminary calculation set out above may change.

Management intends to adopt IFRS 15 using a modified retrospective approach, however, no final decision in this respect has yet been made. Based on a preliminary assessment, Management does not expect a material change to revenue recognition as a result of the adoption of IFRS 15.

Consolidated Results of Operations for the Six Months Ended 30 June 2017, as compared to the Six Months Ended 30 June 2016

Revenue

The principal sources of the Group's revenue are fees from freight and passenger transportation, Government grants and other revenue. For the six months ended 30 June 2017, total revenue was KZT 417,309.7 million, as compared to KZT 383,479.7 million for the corresponding period in 2016, reflecting an increase of KZT 33,830.0 million, or 8.8%. This increase was primarily due to a KZT 29,427.1 million, or 9.1%, increase in revenue from freight transportation.

The following table sets forth certain information regarding the Group's revenue for the periods indicated:

	For the six months ended 30 June		**% change between the six months ended 30 June**
	2017	**2016**[(1)]	**2017 and 2016**
	(unaudited) *(KZT millions)*		*(%)*
Freight transportation	352,326.4	322,899.3	9.1
Passenger transportation	37,650.8	36,135.7	4.2
Government grants	8,549.9	10,250.7	(16.6)
Other revenue	18,782.6	14,194.0	32.3
Total	**417,309.7**	**383,479.7**	8.8

Note:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 4 to the Interim Financial Statements. The 2016 figures are taken from the Interim Financial Statements.

Freight Transportation

The following table sets forth certain information regarding the Group's revenue from freight transportation tariffs, by type of transportation activity, for the periods indicated:

	For the six months ended 30 June		**% change between the six months ended 30 June**
	2017	**2016**[(1)]	**2017 and 2016**
	(unaudited) *(KZT millions)*		*(%)*
Export	65,047.1	59,041.2	10.2
Domestic	93,108.3	95,159.3	(2.2)
Transit[(2)]	92,183.3	99,996.3	(7.8)
Import	40,117.8	32,785.3	22.4
Other[(3)]	61,869.9	35,917.2	72.3
Total	**352,326.4**	**322,899.3**	9.1

Notes:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 4 to the Interim Financial Statements. The 2016 figures are taken from the Interim Financial Statements.

(2) Transit freight tariffs are set in Swiss Francs and re-calculated in U.S. Dollars for settlement purposes.

(3) Includes revenue for use of freight cars by third parties, revenue for locomotive haulage and additional charges, including support services such as loading, cleaning, storage, shunting and other services, which do not form part of the freight tariff.

For the six months ended 30 June 2017, revenue from freight transportation was KZT 352,326.4 million, as compared to KZT 322,899.3 million for the corresponding period in 2016, reflecting an increase of KZT 29,427.1 million, or 9.1%. This increase was primarily due to an 11.3% increase in the volume of freight traffic during the six months ended 30 June 2017, as compared to the corresponding period in 2016, which was, in turn, due to a 72.3% increase in revenue from other freight transportation, a 22.4% increase in revenue from import freight transportation and a 10.2% increase in revenue from export freight transportation during the six months ended 30 June 2017, as compared to the corresponding period in 2016.

Other freight transportation revenue was KZT 61,869.9 million for the six months ended 30 June 2017, as compared to KZT 35,917.2 million for the six months ended 30 June 2016. The increase in other freight transportation revenue during the six months ended 30 June 2017 was primarily due to an increase in the volume of other freight transported in the six months ended 30 June 2017, as compared to six months ended 30 June 2016.

Import freight transportation revenue was KZT 40,117.8 million for the six months ended 30 June 2017, as compared to KZT 32,785.3 million for the six months ended 30 June 2016. The increase in import freight transportation revenue during the six months ended 30 June 2017 reflected an increase in the volume of import freight transported in the six months ended 30 June 2017, as compared to six months ended 30 June 2016.

Export freight transportation revenue was KZT 65,047.1 million for the six months ended 30 June 2017, as compared to KZT 59,041.2 million for the six months ended 30 June 2016. The increase in export freight transportation revenue during the six months ended 30 June 2017 reflected an increase in the volume of export freight transported in the six months ended 30 June 2017, as compared to six months ended 30 June 2016.

The following table sets forth certain information regarding the Group's revenue from freight transportation tariffs, by type of freight, for the periods indicated:

	For the six months ended 30 June		**% change between the six months ended 30 June 2017 and 2016**
	2017	**2016**[(1)]	
	(unaudited) *(KZT millions)*		*(%)*
Coal	31,388.2	27,147.2	15.6
Ore	9,286.4	8,666.9	7.1
Oil	1,361.7	2,050.9	(33.6)
Oil products	61,868.1	60,926.2	1.5
Construction materials	12,286.9	12,226.3	0.5
Grain and grain products	8,893.9	9,557.3	(6.9)
Ferrous scrap	2,567.5	1,905.1	34.8
Chemicals and sodium carbonate	12,659.5	12,948.0	(2.2)
Chemical and mineral fertilisers	3,797.2	2,185.4	73.8
Coloured ore	10,217.9	9,297.5	9.9
Nonferrous metals	3,689.9	3,568.1	3.4
Ferrous metals	25,269.6	24,113.8	4.8
Other[(2)]	169,039.6	148,306.6	14.0
Total	**352,326.4**	**322,899.3**	9.1

Notes:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 4 to the Interim Financial Statements. The 2016 figures are taken from the Interim Financial Statements.

(2) Includes revenue for use of freight cars by third parties, revenue for locomotive haulage services rendered to third parties in freight traffic and additional charges, which include charges for ancillary services rendered by Company, such as loading, cleaning, storage, shunting and other services, that are not part of the freight tariff.

For the six months ended 30 June 2017, revenue from freight transportation was KZT 352,326.4 million, as compared to KZT 322,899.3 million for the corresponding period in 2016, reflecting an increase of KZT 29,427.1 million, or 9.1%. In terms of type of freight transported, this increase was primarily due to increases in revenue from coal and the transportation of other items.

For the six months ended 30 June 2017, revenue from coal transported was KZT 31,388.2 million, as compared to KZT 27,147.2 million for the six months ended 30 June 2016, reflecting an increase of KZT 4,241.0 million, or 15.6%. The increase in revenue from coal transported during the six months ended 30 June 2017 was primarily due to an increase in the volume of coal transported in the six months ended 30 June 2017, as compared to six months ended 30 June 2016.

See "*Factors and Trends Affecting Financial Condition and Results of Operations—Tariffs and Government Grants*" and "*Business of the Group—Government Regulation and Tariffs*".

Passenger Transportation

The following table sets forth certain information regarding JSC Passenger Transportation's revenue from passenger transportation, by type of transportation activity, for the periods indicated:

	For the six months ended 30 June		**% change between the six months ended 30 June**
	2017	**2016[1]**	**2017 and 2016**
	(unaudited) *(KZT millions)*		*(%)*
Inter-regional	24,880.9	22,925.7	8.5
International	9,171.4	9,296.0	(1.3)
Intercity and suburban	1,000.6	1,162.2	(13.9)
Other[2]	2,597.9	2,751.8	(5.6)
Total	**37,650.8**	**36,135.7**	4.2

Notes:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 4 to the Interim Financial Statements. The 2016 figures are taken from the Interim Financial Statements.

(2) Includes revenue for baggage transportation, passenger service and other services.

For the six months ended 30 June 2017, revenue from passenger transportation, based on the Group's consolidated figures, was KZT 37,650.8 million, as compared to KZT 36,135.7 million for the corresponding period in 2016, reflecting an increase of KZT 1,515.1 million, or 4.2%. This increase was primarily due to an increase in revenue from inter-regional passenger transportation, which was, in turn, primarily due to higher tariffs, which offset lower passenger numbers in the six months ended 30 June 2017, as compared to the corresponding period in 2016.

Government Grants

For the six months ended 30 June 2017, revenue from Government grants was KZT 8,549.9 million, as compared to KZT 10,250.7 million for the corresponding period in 2016, reflecting a decrease of KZT 1,700.8 million, or 16.6%. This decrease was primarily due to the transfer of a number of state-subsidised routes to private carriers following the completion of a tender process and the resulting transfer of related grants to the relevant private carriers.

Other Revenue

The Group generates other revenue from the sale of goods, which consists primarily of sales of inventory and obsolete property, plant and equipment, as scrap to other railway operators and sales of electricity. Other revenue is also generated from the provision of services, predominantly repair services, to third parties and from penalties imposed on the Group's counterparties for failures to timely retrieve their cargo cars.

For the six months ended 30 June 2017, other revenue was KZT 18,782.6 million, as compared to KZT 14,194.0 million for the corresponding period in 2016, reflecting an increase of KZT 4,588.6 million, or 32.3%. This increase was primarily due to increased revenue generated from the provision of services to third parties and sales of inventory as scrap.

Cost of Sales

The following table sets forth certain information regarding the Group's cost of sales for the periods indicated:

	For the six months ended 30 June		% change between the six months ended 30 June
	2017	2016[(1)]	2017 and 2016
	(unaudited) *(KZT millions)*		*(%)*
Personnel costs, including taxes, contributions and unused vacation provision	117,827.4	112,680.7	4.6
Depreciation and amortisation	53,417.1	54,026.5	(1.1)
Fuels and lubricants	41,524.3	31,340.0	32.5
Repair and maintenance	41,400.1	36,741.3	12.7
Works and production services	22,359.4	20,526.8	8.9
Electricity	22,104.3	19,610.1	12.7
Materials and supplies	19,161.2	15,270.5	25.5
Taxes	8,540.5	6,838.6	24.9
Communication services	2,084.1	1,244.8	67.4
Utilities and building maintenance	1,496.5	1,430.6	4.6
Business trip expenses	1,395.0	1,057.3	31.9
Operating lease expenses	1,363.8	676.1	101.7
Insurance	939.5	543.2	73.0
Employee benefit expense	515.7	708.5	(27.2)
Transportation services	378.1	479.9	(21.2)
Other	7,794.8	9,135.6	(14.7)
Total	**342,301.8**	**312,310.5**	9.6

Note:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 4 to the Interim Financial Statements. The 2016 figures are taken from the Interim Financial Statements.

For the six months ended 30 June 2017, cost of sales was KZT 342,301.8 million, as compared to KZT 312,310.5 million for the corresponding period in 2016, reflecting an increase of KZT 29,991.3 million, or 9.6%. This increase was primarily due to increases in personnel costs, fuel and lubricants costs, repair and maintenance costs and costs of materials and supplies, all of which were, in turn, primarily due to an increase in the volume of freight traffic during the six months ended 30 June 2017, as compared to the corresponding period in 2016.

Personnel costs were KZT 117,827.4 million for the six months ended 30 June 2017, as compared to KZT 112,680.7 million for the corresponding period in 2016, reflecting an increase of KZT 5,146.7 million, or 4.6%. In addition to the effects of the higher volume of traffic in the latter period, the increase in personnel costs reflected an increase in payroll as a result of the indexation of wages in line with inflation.

Fuel and lubricants costs were KZT 41,524.3 million for the six months ended 30 June 2017, as compared to KZT 31,340.0 million for the corresponding period in 2016, reflecting an increase of KZT 10,184.3 million, or 32.5%.

Repair and maintenance costs were KZT 41,400.1 million for the six months ended 30 June 2017, as compared to KZT 36,741.3 million for the corresponding period in 2016, reflecting an increase of KZT 4,658.8 million, or 12.7%.

Costs of materials and supplies were KZT 19,161.2 million for the six months ended 30 June 2017, as compared to KZT 15,270.5 million for the corresponding period in 2016, reflecting an increase of KZT 3,890.7 million, or 25.5%, which was, in turn, primarily due to an increase in the volume of materials and supplies purchased by the Group in the six months ended 30 June 2017, as compared to the corresponding period in 2016.

Gross Profit

As a result of the foregoing, for the six months ended 30 June 2017, the Group's gross profit was KZT 75,007.9 million, as compared to KZT 71,169.2 million for the corresponding period in 2016, reflecting an increase of KZT 3,838.7 million, or 5.4%.

General and Administrative Expenses

The following table sets forth certain information regarding the Group's general and administrative expenses for the periods indicated:

	For the six months ended 30 June		% change between the six months ended 30 June 2017 and 2016
	2017	**2016**[(1)]	
	(unaudited) *(KZT millions)*		*(%)*
Personnel costs, including taxes, contributions and unused vacation provision	20,537.3	17,510.0	17.3
Taxes	5,925.4	6,790.4	(12.7)
Depreciation and amortisation	2,492.9	2,090.9	19.2
Consulting, audit and legal services	1,778.0	2,496.5	(28.8)
Allowances for doubtful debts	1,209.8	842.8	43.5
Business trip expenses	697.1	562.5	23.9
Operating lease expenses	651.4	511.7	27.3
Advertising expenses	481.7	350.1	37.6
Other third party services	462.6	173.0	167.4
Bank services	432.5	539.9	(19.9)
Utilities and building maintenance	411.3	373.6	10.1
Materials	297.8	240.9	23.6
Social sphere objects maintenance	244.0	227.8	7.1
Expenses on holiday and cultural events	243.6	191.3	27.3
Insurance	151.8	110.1	37.9
Employee benefit expenses	109.6	118.7	(7.7)
Professional trainings and qualifications	100.2	117.0	(14.4)
Repair and maintenance	60.9	81.6	(25.4)
Other	2,346.8	2,634.1	(10.9)
Total	**38,634.7**	**35,962.9**	7.4

Note:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 4 to the Interim Financial Statements. The 2016 figures are taken from the Interim Financial Statements.

For the six months ended 30 June 2017, general and administrative expenses were KZT 38,634.7 million, as compared to KZT 35,962.9 million for the corresponding period in 2016, reflecting an increase of KZT 2,671.8 million, or 7.4%. This increase was primarily due to increases in personnel costs and depreciation and amortisation, partially offset by decreases in taxes and consulting, audit and legal services costs.

Personnel costs were KZT 20,537.3 million for the six months ended 30 June 2017, as compared to KZT 17,510.0 million for the corresponding period in 2016, reflecting an increase of KZT 3,027.3 million, or 17.3%. This increase was primarily due to an increase in payroll as a result of the indexation of wages.

Depreciation and amortisation was KZT 2,492.9 million for the six months ended 30 June 2017, as compared to KZT 2,090.9 million for the corresponding period in 2016, reflecting an increase of KZT 402.0 million, or 19.2%.

Taxes were KZT 5,925.4 million for the six months ended 30 June 2017, as compared to KZT 6,790.4 million for the corresponding period in 2016, reflecting a decrease of KZT 865.0 million, or 12.7%. This decrease was primarily due to a decrease in the taxable base for property tax, which was, in turn, due to the transfer of certain property to the State in repayment of a loan.

Consulting, audit and legal services costs were KZT 1,778.0 million for the six months ended 30 June 2017, as compared to KZT 2,496.5 million for the corresponding period in 2016, reflecting a decrease of KZT 718.5 million, or 28.8%. This decrease was primarily due to the implementation of cost-saving measures in the six months ended 30 June 2017.

Impairment of assets

For the six months ended 30 June 2017, impairment of assets was KZT 13,627.6 million, as compared to KZT 1,716.8 million for the corresponding period in 2016, reflecting an increase of KZT 11,910.8 million, or 693.8%. This increase was primarily due to the creation of a KZT 12,761.0 million impairment reserve in respect of financial assistance provided to JSC Astana International Airport LLP following an analysis of the risk of non-recoverability of such financial assistance.

Other Income

The Group's other income consists primarily of income and expenses from the disposal of fixed assets, income retained from security deposits as a result of supplier defaults under tender procedures or tender contracts and leases of investment property. For the six months ended 30 June 2017, other income was KZT 669.6 million, as compared to KZT 2,093.7 million for the corresponding period in 2016, reflecting a decrease of KZT 1,424.1 million, or 68.0%. This decrease was primarily due to the sale of certain non-core assets during the six months ended 30 June 2016, which was not repeated during the six months ended 30 June 2017.

Finance Income

The Group's finance income consists primarily of interest income on short-term investments and bank deposits. For the six months ended 30 June 2017, finance income was KZT 3,255.9 million, as compared to KZT 3,333.1 million for the corresponding period in 2016, reflecting a decrease of KZT 77.2 million, or 2.3%. This decrease was primarily due to lower income from deposits placed with banks, which was, in turn, due to the lower volume of such deposits in the six months ended 30 June 2017.

Finance Costs

The following table sets forth certain information regarding the Group's finance costs for the periods indicated:

	For the six months ended 30 June		**% change between the six months ended 30 June 2017 and 2016**
	2017	**2016**[(1)]	
	(unaudited) *(KZT millions)*		*(%)*
Interest expense on borrowings	41,715.2	38,782.6	7.6
Finance leasing expense	—	35.9	(100.0)
Ineffective part on hedging instruments	63.7	234.6	(72.9)
Other finance cost	6,118.9	844.1	624.8
Total	**47,897.8**	**39,897.2**	20.1

Note:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 4 to the Interim Financial Statements. The 2016 figures are taken from the Interim Financial Statements.

For the six months ended 30 June 2017, finance costs were KZT 47,897.8 million, as compared to KZT 39,897.2 million for the corresponding period in 2016, reflecting an increase of KZT 8,000.6 million, or 20.1%. This increase was primarily due to increases in interest expense on borrowings and other finance costs.

Interest expense on borrowings was KZT 41,715.2 million for the six months ended 30 June 2017, as compared to KZT 38,782.6 million for the corresponding period in 2016, reflecting an increase of KZT 2,932.6 million, or 7.6%. This increase was primarily due to the Group's borrowing of a number of new short-term loans and the issuance of its Rouble-denominated bonds in the six months ended 30 June 2017. The proceeds of the Rouble-denominated bond were used to repay loans received from Samruk-Kazyna in September 2017.

Other finance costs were KZT 6,118.9 million for the six months ended 30 June 2017, as compared to KZT 844.1 million for the corresponding period in 2016, reflecting an increase of KZT 5,274.8 million, or 624.8%. This increase was primarily due to the conversion of monies received under a loan from EBRD from U.S. Dollars to Tenge in accordance with the terms of such loan.

Foreign Exchange Gain

For the six months ended 30 June 2017, the Group recorded a foreign exchange gain of KZT 28,245.1 million, as compared to KZT 1,213.6 million for the corresponding period of 2016, reflecting an increase of KZT 27,031.5 million, or 2,227.3%. This increase was primarily due to fluctuations in the exchange rate of the Tenge against the U.S. Dollar and other currencies, which resulted in a positive effect on loans and borrowings denominated in foreign currencies.

Share of Profit of Associates and Joint Ventures

For the six months ended 30 June 2017, the Group recorded a share of profit of associates and joint ventures of KZT 588.3 million, as compared to KZT 1,990.6 million for the corresponding period of 2016, reflecting a decrease of KZT 1,402.3 million, or 70.4%. This decrease was primarily due to a deterioration in the financial results of the Group's jointly-controlled and associated organisations.

Gain from Disposal of Subsidiaries Not Qualifying as Discontinued Operations

For the six months ended 30 June 2017, the Group recorded a gain from the disposal of subsidiaries not qualifying as discontinued operations of KZT 250.8 million, as compared to KZT 189.4 million for the corresponding period of 2016.

The gain in the six months ended 30 June 2017 was primarily due to the sale of interests in the following non-core subsidiaries in line with the Group's strategy: JSC Center for Transport Services, LLC "Regional Forward Logistics", LLP "Rauan-Burabai", LLP "Mak-Ekibastuz" and LLP "Bas-Balkhash". As a result of these sales, the Group lost control of the subsidiaries and recognised the profit from such sales.

The gain in the six months ended 30 June 2016 was primarily due to the sale of interests in Birzhan Atyrau LLP in line with the Group's strategy. As a result of the sale, the Group lost control of this subsidiary and recognised the profit from such sale.

Gain from Disposal of Shares in Joint Ventures

For the six months ended 30 June 2017, the Group recorded a gain from the disposal of shares in joint ventures of KZT 7,966.5 million, as compared to KZT 7,099.1 million for the corresponding period of 2016, reflecting an increase of KZT 867.4 million, or 12.2%.

The gain in the six months ended 30 June 2017 was primarily due to the sale of a 50% interest in joint venture, Astyk-Trans, in February 2017 and the sale of a 50 interest in joint venture, Lokomotiv Kurastyru Zauyty JSC, in April 2017.

The gain in the six months ended 30 June 2016 was primarily due to the sale of a 25% interest in a joint venture, Elektrovoz Kurastyru Zauyty LLP, in February 2016.

Profit before Income Tax

As a result of all of the foregoing, for the six months ended 30 June 2017, profit before income tax was KZT 15,824.0 million, as compared to KZT 9,511.8 million for the corresponding period of 2016, reflecting an increase of KZT 6,312.2 million, or 66.4%.

Income Tax Expense

For the six months ended 30 June 2017, income tax expenses were KZT 9,490.5 million, as compared to KZT 1,719.2 million for the corresponding period in 2016, reflecting an increase of KZT 7,771.3 million, or 452.0%. This increase was primarily due to the increase in profit before income tax.

Corporate income tax for the six months ended 30 June 2017 was estimated at the average effective rate of 59.98%, as compared to an average effective rate of 18.07% for the six months ended 30 June 2016.

Profit from Continuing Operations

As a result of all of the foregoing, for the six months ended 30 June 2017, profit from continuing operations was KZT 6,333.5 million, as compared to KZT 7,792.6 million for the corresponding period in 2016, reflecting a decrease of KZT 1,459.1 million, or 18.7%.

Loss from Discontinued Operations

For the six months ended 30 June 2017, loss from discontinued operations was KZT 97.1 million, as compared to KZT 3,022.0 million, reflecting a decrease of KZT 2,924.9 million, or 96.8%. This decrease was primarily due to the recognition of JSC "Transtelecom" and Tulpar-Talgo LLP as discontinued operations. See "*—Factors and Trends Affecting Financial Condition and Results of Operations—Restructurings and Privatisations*".

Profit for the Period

As a result of all of the foregoing, for the six months ended 30 June 2017, profit for the period was KZT 6,236.4 million, as compared to KZT 4,770.6 million for the corresponding period in 2016, reflecting an increase of KZT 1,465.8 million, or 30.7%.

Consolidated Results of Operations for the Year Ended 31 December 2016, as compared to the Year Ended 31 December 2015

Revenue

For the year ended 31 December 2016, total revenue was KZT 823,111.6 million, as compared to KZT 752,505.3 million in 2015, reflecting an increase of KZT 70,606.3 million, or 9.4%. This increase was primarily due to a KZT 59,154.6 million, or 9.4%, increase in revenue from freight transportation, as well as a KZT 8,346.2 million, or 11.6%, increase in revenue from passenger transportation.

The following table sets forth certain information regarding the Group's revenue for the years indicated:

	For the year ended 31 December		**% change between the years ended 31 December 2016 and 2015**
	2016	**2015**(1)	
	(KZT millions)		*(%)*
Freight transportation	688,204.3	629,049.7	9.4
Passenger transportation	80,133.6	71,787.4	11.6
Government grants	22,528.8	21,721.7	3.7
Other revenue	32,244.9	29,946.5	7.7
Total	**823,111.6**	**752,505.3**	9.4

Note:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

Freight Transportation

The following table sets forth certain information regarding the Group's revenue from freight transportation tariffs, by type of transportation activity, for the years indicated:

	For the year ended 31 December		% change between the years ended 31 December 2016 and 2015
	2016	2015[1]	
	(KZT millions)		*(%)*
Export	125,882.8	124,423.1	1.2
Domestic	182,069.1	180,691.9	0.8
Transit[2]	212,760.6	156,782.9	35.7
Import	72,361.8	72,313.3	0.1
Other[3]	95,130.0	94,838.5	0.3
Total	**688,204.3**	**629,049.7**	**9.4**

Notes:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

(2) Transit freight tariffs are set in Swiss Francs and re-calculated in U.S. Dollars for settlement purposes.

(3) Includes revenue for use of freight cars by third parties and revenue for locomotive haulage and additional charges, including support services such as loading, cleaning, storage, shunting and other services, which do not form part of the freight tariff.

For the year ended 31 December 2016, revenue from freight transportation was KZT 688,204.3 million, as compared to KZT 629,049.7 million in 2015, reflecting an increase of KZT 59,154.6 million, or 9.4%. This increase was primarily due to the devaluation of the Tenge against the U.S. Dollar in 2015, as well as an increase in transit revenue.

Transit revenue was KZT 212,760.6 million for the year ended 31 December 2016, as compared to KZT 156,782.9 million for the year ended 31 December 2015, reflecting an increase of KZT 55,977.7 million, or 35.7%. This increase was primarily due to the appreciation of the Swiss Franc, which, in turn, had a positive impact on the Group's transit revenues, as a portion of the tariffs are denominated in Swiss Francs.

The following table sets forth certain information regarding the Group's revenue from freight transportation tariffs, by type of freight, for the years indicated:

	For the year ended 31 December		% change between the years ended 31 December 2016 and 2015
	2016	2015[1]	
	(KZT millions)		*(%)*
Coal	57,937.1	66,182.3	(12.5)
Ore	16,867.6	14,032.5	20.2
Oil	3,646.4	14,786.0	(75.3)
Oil products	132,716.5	109,821.1	20.8
Construction materials	28,426.0	27,961.9	1.7
Grain and grain products	18,392.4	15,503.4	18.6
Ferrous scrap	4,103.5	2,986.1	37.4
Chemicals and sodium carbonate	26,228.6	19,996.0	31.2
Chemical and mineral fertilisers	4,390.9	4,046.5	8.5
Coloured ore	19,031.8	18,478.4	3.0
Nonferrous metals	7,199.1	7,063.6	1.9
Ferrous metals	50,055.8	42,376.9	18.1
Other[2]	319,208.6	285,815.0	11.7
Total	**688,204.3**	**629,049.7**	9.4

Notes:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

(2) Includes revenue for use of freight cars by third parties, revenue for locomotive haulage services rendered to third parties in freight traffic and additional charges, which include charges for ancillary services rendered by Company, such as loading, cleaning, storage, shunting and other services, that are not part of the freight tariff.

The increase in revenue from freight transportation for the year ended 31 December 2016, in terms of type of freight transported, was primarily due to increases in revenue from the transportation of oil products, chemicals and sodium carbonate and other items, which was, in turn, due to increased volumes of such materials transported in 2016, as compared to 2015. These increases were partially offset by decreases in revenue from the transportation of coal and oil, which were, in turn, in each case, primarily due to decreases in the volumes of such materials transported in 2016, as compared to 2015.

Passenger Transportation

The following table sets forth certain information regarding JSC Passenger Transportation's revenue from passenger transportation, by type of transportation activity, for the years indicated:

	For the year ended 31 December		% change between the years ended 31 December 2016 and 2015
	2016	2015[1]	
	(KZT millions)		*(%)*
Inter-regional	51,848.1	45,284.5	14.5
International	19,960.9	18,263.7	9.3
Intercity and suburban	2,867.0	2,839.6	1.0
Other[2]	5,457.6	5,399.6	1.1
Total	**80,133.6**	**71,787.4**	11.6

Notes:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

(2) Includes revenue for baggage transportation, passenger service and other services.

For the year ended 31 December 2016, revenue from passenger transportation, based on consolidated figures, was KZT 80,133.6 million, as compared to KZT 71,787.4 million for 2015, reflecting an increase of KZT 8,346.2 million, or 11.6%. This increase was primarily due to an increase in passenger transportation in 2016.

Government Grants

For the year ended 31 December 2016, revenue from Government grants was KZT 22,528.8 million, as compared to KZT 21,721.7 million for 2015, reflecting an increase of KZT 807.1 million, or 3.7%. This increase was primarily due to the allocation of additional funds from the State budget, following the abolition of the temporary decreasing factor that previously applied to tariffs for certain passenger services.

Other Revenue

For the year ended 31 December 2016, other revenue was KZT 32,244.8 million, as compared to KZT 29,946.4 million for 2015, reflecting an increase of KZT 2,298.4 million, or 7.7%. This increase was primarily due to a KZT 3,140.9 million, or 12.0%, increase in revenue from the sale of goods and provision of other services, in turn, primarily due an increase in services provided to third parties (such as loading and unloading services, vessel servicing, and communication services) and sales of inventory as scrap. This increase was partially offset by a KZT 842.5 million, or 22.5%, decrease in penalties received.

Cost of Sales

The following table sets forth certain information regarding the Group's cost of sales for the years indicated:

	For the year ended 31 December		% change between the years ended 31 December 2016 and 2015
	2016	**2015[(1)]**	
	(KZT millions)		*(%)*
Personnel costs, including taxes, contributions and unused vacation provision	230,445.6	219,810.7	4.8
Depreciation and amortisation	109,123.2	99,687.6	9.5
Repair and maintenance	75,480.0	60,337.5	25.1
Fuels and lubricants	72,176.3	66,053.1	9.3
Services	46,699.1	51,480.4	(9.3)
Materials and supplies	46,062.0	40,069.1	15.0
Electricity	39,796.6	40,441.1	(1.6)
Taxes	14,182.5	13,035.5	8.8
Employee benefit expenses	3,980.1	3,932.6	1.2
Communication services	3,355.3	1,623.1	106.7
Utilities and building maintenance	2,789.3	2,575.6	8.3
Business trip expenses	2,098.5	2,320.3	(9.6)
Insurance	1,309.1	2,142.9	(38.9)
Operating lease expenses	1,219.6	1,638.3	(25.6)
Transportation services	1,029.2	1,082.7	(4.9)
Other	9,106.2	10,538.3	(13.6)
Total	**658,852.6**	**616,768.8**	6.8

Note:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

For the year ended 31 December 2016, cost of sales was KZT 658,852.6 million, as compared to KZT 616,768.8 million for 2015, reflecting an increase of KZT 42,083.8 million, or 6.8%. This increase was primarily due to increases in personnel costs, depreciation and amortisation and repair and maintenance costs.

Personnel costs were KZT 230,445.6 million for the year ended 31 December 2016, as compared to KZT 219,810.7 million for 2015, reflecting an increase of KZT 10,634.9 million, or 4.8%. This increase was primarily due to an increase in the Group's payroll as a result of the indexation of wages.

Depreciation and amortisation costs were KZT 109,123.2 million for the year ended 31 December 2016, as compared to KZT 99,687.6 million for 2015, reflecting an increase of KZT 9,435.6 million, or 9.5%. This increase was primarily due to the commissioning of construction projects for new railway lines in 2016, which did not occur in 2015.

Repair and maintenance costs were KZT 75,480.0 million for the year ended 31 December 2016, as compared to KZT 60,337.5 million for 2015, reflecting an increase of KZT 15,142.5 million, or 25.1%. This increase was primarily due to increases in the cost of services provided by the Group to reflect competitive market conditions.

Gross Profit

As a result of the foregoing, for the year ended 31 December 2016, the Group's gross profit was KZT 164,259.0 million, as compared to KZT 135,736.5 million in 2015, reflecting an increase of KZT 28,522.5 million, or 21.0%.

General and Administrative Expenses

The following table sets forth certain information regarding the Group's general and administrative expenses for the years indicated:

	For the year ended 31 December		% change between the years ended 31 December 2016 and 2015
	2016	**2015**[(1)]	
	(KZT millions)		*(%)*
Personnel costs, including taxes, contributions and unused vacation provision	35,849.4	31,525.5	13.7
Property tax and other taxes	12,849.3	10,998.9	16.8
Depreciation and amortisation	4,889.5	5,817.5	(16.0)
Consulting, audit and legal services	4,836.7	4,388.3	10.3
Business trip expenses	1,379.8	1,035.9	33.2
Operating lease expenses	1,185.8	129.5	815.5
Bank services	1,040.4	879.1	18.3
Other services of third parties	951.5	446.2	113.3
Materials	873.8	584.0	49.6
Expenses on holiday and cultural events	810.6	751.1	7.9
Advertising expenses	768.6	679.3	13.1
Utilities and building maintenance	760.1	811.5	(6.3)
Employee benefit expenses	606.1	588.2	3.1
Social sphere objects maintenance	468.9	335.0	39.9
Insurance	238.9	210.3	13.6
Professional trainings and qualifications	212.6	253.4	(16.1)
Repair and maintenance	194.9	247.0	(21.1)
Allowances for doubtful debts	128.2	9,773.6	(98.7)
Charities and sponsorship	1.8	521.2	(99.7)
Other	8,397.1	5,947.0	41.2
Total	**76,444.0**	**75,922.5**	0.7

Note:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

For the year ended 31 December 2016, general and administrative expenses were KZT 76,444.0 million, as compared to KZT 75,922.5 million for 2015, reflecting an increase of KZT 521.5 million, or 0.7%. This increase was primarily due to increases in personnel costs, property tax and other taxes, operating lease expenses and other general and administrative expenses, partially offset by decreases in allowances for doubtful debts and depreciation and amortisation expenses.

Personnel costs were KZT 35,849.4 million for the year ended 31 December 2016, as compared to KZT 31,525.5 million for 2015, reflecting an increase of KZT 4,323.9 million, or 13.7%. This increase was primarily due to an increase in the Group's payroll as a result of the indexation of wages.

Property tax and other taxes were KZT 12,849.3 million for the year ended 31 December 2016, as compared to KZT 10,998.9 million for 2015, reflecting an increase of KZT 1,850.4 million, or 16.8%. This increase was primarily due to an increase in the taxable base for property tax as a result of the commissioning in 2016 of new railway lines between Zhezkazgan and Beineu, Arkalyk and Shubarkol, and Borzhakty and Ersai.

Other general and administrative expenses were KZT 8,397.1 million for the year ended 31 December 2016, as compared to KZT 5,947.0 million for 2015, reflecting an increase of KZT 2,450.1 million, or 41.2%. This increase was primarily due to an increase in the cost of consulting services provided to the Group in 2016.

Operating lease expenses were KZT 1,185.8 million for the year ended 31 December 2016, as compared to KZT 129.5 million for 2015, reflecting an increase of KZT 1,056.3 million, or 815.5%. This increase was primarily due to rental expenses in respect of office premises in the "Emerald Quarter" administrative building rented by the Group since 2016.

Allowances for doubtful debts were KZT 128.2 million for the year ended 31 December 2016, as compared to KZT 9,773.6 million for 2015, reflecting a decrease of KZT 9,645.4 million, or 98.7%. This decrease was primarily due to fines, for which the Company is not directly liable, incurred in respect of alleged breaches of customs rules by certain ordinary wagons, which are being contested by the relevant shippers.

Depreciation and amortisation was KZT 4,889.5 million for the year ended 31 December 2016, as compared to KZT 5,817.5 million for 2015, reflecting a decrease of KZT 928.0 million, or 16.0%. This decrease was primarily due to an increase in sales of the Group's non-core assets in 2016, as compared to 2015.

Impairment of assets

For the year ended 31 December 2016, impairment of assets was KZT 2,168.3 million, as compared to KZT 4,960.7 million for 2015, reflecting a decrease of KZT 2,792.4 million, or 56.3%. This decrease was primarily due to a decrease in impairment of property, plant and equipment and capital construction in progress in 2016, as compared to 2015.

Other Profit

For the year ended 31 December 2016, other profit was KZT 3,585.5 million, as compared to KZT 814.8 million for 2015, reflecting an increase of KZT 2,770.7 million, or 340.1%. This increase was primarily due to an increase in sales of the Group's assets in 2016, as compared to 2015.

Finance Income

The following table sets forth certain information regarding the Group's finance income for the years indicated:

	For the year ended 31 December		% change between the years ended 31 December 2016 and 2015
	2016	**2015[1]**	
	(KZT millions)		*(%)*
Interest income on cash and cash equivalents	4,119.7	3,367.5	22.3
Interest income on amounts in credit institutes (short-term financial investments)	1,731.4	1,846.6	(6.2)
Other finance income	474.1	367.7	28.9
Total	**6,325.2**	**5,581.8**	13.3

Note:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

For the year ended 31 December 2016, finance income was KZT 6,325.2 million, as compared to KZT 5,581.8 million for 2015, reflecting an increase of KZT 743.4 million, or 13.3%. This increase was primarily due to a KZT 752.2 million, or 22.3%, increase in interest income on cash and cash equivalents, which was, in turn, principally a result of income from deposits placed with banks, which was, in turn, due to higher interest rates in 2016 than 2015.

Finance Costs

The following table sets forth certain information regarding the Group's finance costs for the years indicated:

	For the year ended 31 December		% change between the years ended 31 December 2016 and 2015
	2016	**2015**[(1)]	
	(KZT millions)		*(%)*
Interest expense on borrowings	77,995.4	54,673.1	42.7
Change in fair value of derivative financial asset designated as at fair value through profit or loss	—	4,351.0	(100.0)
Finance leasing expense	69.9	76.7	(8.9)
Other finance cost	7,352.6	1,783.5	312.3
Total	**85,417.9**	**60,884.3**	40.3

Note:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

For the year ended 31 December 2016, finance costs were KZT 85,417.9 million, as compared to KZT 60,884.3 million for 2015, reflecting an increase of KZT 24,533.6 million, or 40.3%. This increase was primarily due to increases in interest expense on borrowings and other finance costs.

Interest expense on borrowings was KZT 77,995.4 million for the year ended 31 December 2016, as compared to KZT 54,673.1 million for 2015, reflecting an increase of KZT 23,322.3 million, or 42.7%. This increase was primarily due to the entry into of new loans and borrowings in 2016, the proceeds of which were used to repay the Company's U.S.$350.0 million 7.0% Notes due 2016 and to finance the Group's investment projects.

Other finance costs were KZT 7,352.6 million for the year ended 31 December 2016, as compared to KZT 1,783.5 million for 2015, reflecting an increase of KZT 5,569.1 million, or 312.3%. This increase was primarily due to the payment of an early repayment fee in respect of the early repayment of a loan with HSBC France.

Foreign Exchange Gain/(Loss)

For the year ended 31 December 2016, the Group recorded a foreign exchange gain (excluding discontinued operations) of KZT 20,863.3 million, as compared to a foreign exchange loss of KZT 450,997.7 million for 2015. The foreign exchange gain in 2016 related to the movement of the Tenge against the U.S. Dollar and other currencies in 2016, which resulted in a positive effect on loans and borrowings denominated in foreign currencies. The foreign exchange loss in 2015 related to the devaluation of the Tenge in 2015, which resulted in a negative effect on loans and borrowings denominated in U.S. Dollars.

Share of Profit/(Loss) of Associates and Joint Ventures

For the year ended 31 December 2016, the Group recorded a share of profit of associates and joint ventures of KZT 670.2 million, as compared to a share of loss of associates and joint ventures of KZT 12,187.7 million for 2015. The share of profit in 2016 related to an improvement in the financial results of the Group's jointly controlled and associated organisations, which was, in turn, due to the strengthening of the Tenge in 2016. The share of loss in 2015 was primarily due to an increase in construction work, including commencement of construction work at certain trade and logistics centres and at the Aktau seaport, as well as the devaluation of the Tenge in 2015, which resulted in a negative effect on loans and borrowings denominated in U.S. Dollars, which were used to finance such construction work.

Gain from Disposal of Shares in Joint Ventures

For the year ended 31 December 2016, the Group recorded a gain from the disposal of shares in joint ventures of KZT 7,253.7 million, which related to the sale of a 25% interest in joint venture, Elektrovoz Kurastyru Zauyty LLP, and the sale of a 50% interest in joint venture, LLP JV KazElektroPrivod in 2016. No gain from the disposal of shares in joint ventures was recorded in 2015.

Gain from Disposal of Subsidiaries Not Qualifying as Discontinued Operations

For the year ended 31 December 2016, the Group recorded a gain from the disposal of subsidiaries not qualifying as discontinued operations of KZT 2,494.4 million, as compared to KZT 1,512.0 million for 2015, reflecting an increase of KZT 982.4 million, or 65.0%. The gain in 2016 was primarily due to the sale, in line with the Group's strategy, of the non-core subsidiaries, Almaty Wagon Repair Plant JSC, LLP Magistral-Kyzmeti and LLP Birzhan-Atyrau. The gain in 2015 was primarily due to the sale, in line with the Group's strategy, of non-core subsidiaries, Transport Service Center JSC, Gasyr Mangystau LLP and Ak Beren LLP. As a result of these sales, in each year, the Group lost control of these subsidiaries.

Profit before Tax

As a result of all of the foregoing, for the year ended 31 December 2016, profit before tax was KZT 41,421.1 million, as compared to a loss of KZT 461,307.8 million for 2015.

Income Tax Benefit

For the year ended 31 December 2016, income tax benefits were KZT 4,763.2 million, as compared to KZT 9,001.2 million for 2015, reflecting a decrease of KZT 4,238.0 million, or 47.1%. This decrease was primarily due to a KZT 8,080.3 million, or 57.0%, decrease in deferred income tax benefit, which was, in turn, due to an increase in tax losses for the Group and a resulting increase in assets subject to deferred income tax.

Profit from Continuing Operations

As a result of all of the foregoing, for the year ended 31 December 2016, profit from continuing operations was KZT 46,184.3 million, as compared to a loss of KZT 452,306.6 million in 2015.

Loss from Discontinued Operations

For the year ended 31 December 2016, loss from discontinued operations was KZT 4,907.7 million, as compared to KZT 7,675.1 million in 2015, reflecting a decrease of KZT 2,767.4 million, or 36.1%. This decrease was primarily due to the Group's recognition of JSC "Transtelecom" and Tulpar-Talgo LLP as discontinued operations, as well as the recognition of a loss from the sale in May of that year of certain subsidiaries of "Repair Corporation "Kamkor".

Profit for the Year

As a result of all of the foregoing, for the year ended 31 December 2016, profit for the year was KZT 41,276.6 million, as compared to a loss of KZT 459,981.7 million in 2015.

Consolidated Results of Operations for the Year Ended 31 December 2015, as compared to the Year Ended 31 December 2014

Revenue

For the year ended 31 December 2015, total revenue was KZT 752,505.3 million, as compared to KZT 881,268.6 million in 2014, reflecting a decrease of KZT 128,763.3 million, or 14.6%. This decrease was primarily due to a KZT 114,193.4 million, or 15.4%, decrease in revenue from freight transportation.

The following table sets forth certain information regarding the Group's revenue for the years indicated:

	For the year ended 31 December		% change between the years ended 31 December 2015 and 2014
	2015(1)	**2014**(2)	
	(KZT millions)		*(%)*
Freight transportation	629,049.7	743,243.1	(15.4)
Passenger transportation	71,787.4	77,386.4	(7.2)
Government grants	21,721.7	24,637.8	(11.8)
Other revenue	29,946.5	36,001.3	(16.8)
Total	**752,505.3**	**881,268.6**	(14.6)

Notes:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

(2) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2015 Financial Statements. The 2014 figures are taken from the 2015 Financial Statements.

Freight Transportation

The following table sets forth certain information regarding the Group's revenue from freight transportation tariffs, by type of transportation activity, for the years indicated:

	For the year ended 31 December		% change between the years ended 31 December 2015 and 2014
	2015(1)	**2014**(2)	
	(KZT millions)		*(%)*
Export	124,423.1	167,667.3	(25.8)
Domestic	180,691.9	186,928.6	(3.3)
Transit(3)	156,782.9	156,681.8	0.1
Import	72,313.3	86,546.3	(16.4)
Other(4)	94,838.5	145,419.1	(34.8)
Total	**629,049.7**	**743,243.1**	(15.4)

Notes:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

(2) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2015 Financial Statements. The 2014 figures are taken from the 2015 Financial Statements.

(3) Transit freight tariffs are set in Swiss Francs and re-calculated in U.S. Dollars for settlement purposes.

(4) Includes revenue for use of freight cars by third parties and revenue for locomotive haulage.

For the year ended 31 December 2015, revenue from freight transportation was KZT 629,049.7 million, as compared to KZT 743,243.1 million in 2014, reflecting a decrease of KZT 114,193.4 million, or 15.4%. This decrease was primarily due to a 12.4% decrease in the volume of freight turnover in 2015, as compared to 2014.

Other revenue was KZT 94,838.5 million for the year ended 31 December 2015, as compared to KZT 145,419.1 million for the year ended 31 December 2014. The decrease in other revenue during 2015 was as a result of companies within the Group other than KTZFT contributing lower freight revenues.

Export transportation revenue was KZT 124,423.1 million for the year ended 31 December 2015, as compared to KZT 167,667.3 million for the year ended 31 December 2014. The decrease in export revenue during 2016 was due to a decrease in export traffic in 2015, as compared to 2014.

Import transportation revenue was KZT 72,313.3 million for the year ended 31 December 2015, as compared to KZT 86,546.3 million for the year ended 31 December 2014. The decrease in import revenue during 2016 was due to a decrease in import traffic in 2015, as compared to 2014.

The following table sets forth certain information regarding the Group's revenue from freight transportation tariffs, by type of freight, for the years indicated:

	For the year ended 31 December		**% change between the years ended 31 December 2015 and 2014**
	2015(1)	**2014**(2)	
	(KZT millions)		*(%)*
Coal	66,182.3	67,994.5	(2.7)
Ore	14,032.5	24,561.0	(42.9)
Oil	14,786.0	38,788.4	(61.9)
Oil products	109,821.1	113,496.9	(3.2)
Construction materials	27,961.9	32,066.0	(12.8)
Grain and grain products	15,503.4	16,378.4	(5.3)
Ferrous scrap	2,986.1	3,553.9	(16.0)
Chemicals and sodium carbonate	19,996.0	21,717.1	(7.9)
Chemical and mineral fertilisers	4,046.5	3,609.9	12.1
Coloured ore	18,478.4	15,020.8	23.0
Nonferrous metals	7,063.6	6,097.6	15.8
Ferrous metals	42,376.9	46,063.7	(8.0)
Other(3)	285,815.0	353,894.9	(19.2)
Total	**629,049.7**	**743,243.1**	(15.4)

Notes:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

(2) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2015 Financial Statements. The 2014 figures are taken from the 2015 Financial Statements.

(3) Includes revenue for use of freight cars by third parties, revenue for locomotive haulage services rendered to third parties in freight traffic and additional charges, which include charges for ancillary services rendered by Company, such as loading, cleaning, storage, shunting and other services, that are not part of the freight tariff.

The decrease in freight transportation revenue, by type of freight, for the year ended 31 December 2015, was primarily due to decreases in revenue from the transportation of other items, oil and ore, which were, in turn, due to decreased volumes of such materials transported in 2015, as compared to 2014. These decreases in revenue were partially offset by an increase in revenue from the transportation of coloured ore, which was, in turn, primarily due to the increase in the volume of coloured ore transported in 2015, as compared to 2014.

Passenger Transportation

The following table sets forth certain information regarding JSC Passenger Transportation's revenue from passenger transportation, by type of transportation activity, for the years indicated:

	For the year ended 31 December		% change between the years ended 31 December 2015 and 2014
	2015(1)	**2014**(2)	
	(KZT millions)		*(%)*
Inter-regional	45,284.5	45,736.3	(1.0)
International	18,263.7	23,068.6	(20.8)
Intercity and suburban	2,839.6	2,158.0	31.6
Other(3)	5,399.6	6,423.5	(15.9)
Total	**71,787.4**	**77,386.4**	(7.2)

Note:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

(2) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2015 Financial Statements. The 2014 figures are taken from the 2015 Financial Statements.

(3) Includes revenue for baggage transportation, passenger service and other services.

For the year ended 31 December 2015, revenue from passenger transportation, based on consolidated figures, was KZT 71,787.4 million, as compared to KZT 77,386.4 million for 2014, reflecting a decrease of KZT 5,599.0 million, or 7.2%. This decrease was primarily due to a decrease in passenger transportation in 2015, particularly international traffic, as well as a decrease in other passenger transportation services.

Government Grants

For the year ended 31 December 2015, revenue from Government grants was KZT 21,721.7 million, as compared to KZT 24,637.8 million for 2014, reflecting a decrease of KZT 2,916.1 million, or 11.8%. This decrease was primarily due to a decrease in passenger turnover on significant routes that are subsidised by the Government.

Other Revenue

For the year ended 31 December 2015, other revenue was KZT 29,946.5 million, as compared to KZT 36,001.3 million for 2014, reflecting a decrease of KZT 6,054.8 million, or 16.8%. This decrease was primarily due to a decrease in revenue generated from the provision of services to third parties and sales of inventory as scrap in 2015, as compared to 2014.

Cost of Sales

The following table sets forth certain information regarding the Group's cost of sales for the years indicated:

	For the year ended 31 December		% change between the years ended 31 December 2015 and 2014
	2015(1)	**2014**(2)	
	(KZT millions)		*(%)*
Personnel costs, including taxes, contributions and unused vacation provision	219,810.7	235,081.5	(6.5)
Depreciation and amortisation	99,687.6	96,798.4	3.0
Repair and maintenance	60,337.5	35,048.9	72.2
Fuels and lubricants	66,053.1	97,460.9	(32.2)
Services	51,480.4	53,509.1	(3.8)
Materials and supplies	40,069.1	49,474.3	(19.0)
Electricity	40,441.1	41,104.6	(1.6)
Taxes	13,035.5	9,874.8	32.0
Employee benefit expenses	3,932.6	2,749.7	43.0
Communication services	1,623.1	1,672.7	(3.0)
Utilities and building maintenance	2,575.6	2,066.4	24.6
Business trip expenses	2,320.3	3,060.4	(24.2)
Insurance	2,142.9	2,008.7	6.7
Operating lease expenses	1,638.3	2,047.5	(20.0)
Transportation services	1,082.7	888.4	21.9
Other	10,538.2	11,047.2	(4.6)
Total	**616,768.8**	**643,893.5**	(4.2)

Notes:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

(2) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2015 Financial Statements. The 2014 figures are taken from the 2015 Financial Statements.

For the year ended 31 December 2015, cost of sales was KZT 616,768.8 million, as compared to KZT 643,893.5 million for 2014, reflecting a decrease of KZT 27,124.7 million, or 4.2%. This decrease was primarily due to decreases in personnel costs, fuels and lubricants costs and costs of materials and supplies, all of which were, in turn, due to a 12.3% decrease in passenger traffic and the implementation of cost-saving measures. This decrease was partially offset by an increases in depreciation and amortisation, repair and maintenance costs and taxes.

Personnel costs were KZT 219,810.7 million for the year ended 31 December 2015, as compared to KZT 235,081.5 million for 2014, reflecting a decrease of KZT 15,270.8 million, or 6.5%. In addition to the impact from the decrease in passenger traffic and the implementation of cost-saving measures, the decrease in personnel costs reflected the sale of the subsidiaries of "Repair Corporation "Kamkor" LLP.

Fuel and lubricant costs were KZT 66,053.1 million for the year ended 31 December 2015, as compared to KZT 97,460.9 million for 2014, reflecting a decrease of KZT 31,407.8 million, or 32.2%.

Costs of materials and supplies were KZT 40,069.1 million for the year ended 31 December 2015, as compared to KZT 49,474.3 million for 2014, reflecting a decrease of KZT 9,405.2 million, or 19.0%.

Depreciation and amortisation was KZT 99,687.6 million for the year ended 31 December 2015, as compared to KZT 96,798.4 million for 2014, reflecting an increase of KZT 2,889.2 million, or 3.0%.

Repair and maintenance costs were KZT 60,337.5 million for the year ended 31 December 2015, as compared to KZT 35,048.9 million for 2014, reflecting an increase of KZT 25,288.6 million, or 72.2%. This increase was due to an increase in repairs to rolling stock, as well as an increase in the cost of repair and maintenance work as a result of increased marked prices in 2015, as compared to 2014.

Taxes were KZT 13,035.5 million for the year ended 31 December 2015, as compared to KZT 9,874.8 million for 2014, reflecting an increase of KZT 3,160.7 million, or 32.0%. This increase was due to an increase in the base tax for calculating property tax on newly commissioned railway lines and on major repairs of railway lines in 2015.

Gross Profit

As a result of the foregoing, for the year ended 31 December 2015, the Group's gross profit was KZT 135,736.5 million, as compared to KZT 237,375.1 million in 2014, reflecting a decrease of KZT 101,638.6 million, or 42.8%.

General and Administrative Expenses

The following table sets forth certain information regarding the Group's general and administrative expenses for the years indicated:

	For the year ended 31 December		% change between the years ended 31 December 2015 and 2014
	2015[(1)]	2014[(2)]	
	(KZT millions)		*(%)*
Personnel costs, including taxes, contributions and unused vacation provision	31,525.5	33,017.0	(4.5)
Property tax and other taxes	10,998.9	12,321.6	(10.7)
Depreciation and amortisation	5,817.5	4,096.7	42.0
Consulting, audit and legal services	4,388.3	2,744.2	59.9
Business trip expenses	1,035.9	1,224.6	(15.4)
Operating lease expenses	129.5	250.9	(48.4)
Bank services	879.1	819.2	7.3
Other services of third parties	446.2	715.6	(37.6)
Materials	584.0	723.0	(19.2)
Expenses on holiday and cultural events	751.1	1,581.5	(52.5)
Advertising expenses	679.3	1,101.5	(38.3)
Utilities and building maintenance	811.5	1,067.1	(24.0)
Employee benefit expenses	588.2	363.0	62.0
Social sphere objects maintenance	335.0	351.7	(4.7)
Insurance	210.3	200.3	5.0
Professional trainings and qualifications	253.4	455.6	(44.4)
Repair and maintenance	247.0	247.8	(0.3)
Allowances for doubtful debts	9,773.6	3,055.0	219.9
Charities and sponsorship	521.2	3,758.6	(86.1)
Other	5,947.0	3,231.9	84.0
Total	**75,922.5**	**71,326.8**	6.4

Notes:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

(2) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2015 Financial Statements. The 2014 figures are taken from the 2015 Financial Statements.

For the year ended 31 December 2015, general and administrative expenses were KZT 75,922.5 million, as compared to KZT 71,326.8 million for 2014, reflecting an increase of KZT 4,595.7 million, or 6.4%. This increase was primarily due to increases in depreciation and amortisation, consulting, audit and legal services expenses, allowances for doubtful debts and other general and administrative expenses, partially offset by decreases in personnel costs, property tax and other taxes and charities and sponsorship expenses.

Depreciation and amortisation was KZT 5,817.5 million for the year ended 31 December 2015, as compared to KZT 4,096.7 million for 2014, reflecting an increase of KZT 1,720.8 million, or 42.0%. This increase was primarily due to a depreciation in the value of the Company's headquarter offices.

Consulting, legal and audit services costs was KZT 4,388.3 million for the year ended 31 December 2015, as compared to KZT 2,744.2 million for 2014, reflecting an increase of KZT 1,644.1 million, or 59.9%. This increase was primarily due to cost optimisation measures adopted by the Company in 2015.

Allowances for doubtful debts were KZT 9,773.6 million for the year ended 31 December 2015, as compared to KZT 3,055.0 million for 2014, reflecting an increase of KZT 6,718.6 million, or 219.9%. This increase was primarily due to ongoing work to recover doubtful debts, including from Bogatyr Komir LLP (in respect of debts for additional charges for ordinary railcars), ISTKOMTRANS LLP and LLP "NUR TABYS MUNAI-NTM" (in respect of debts relating to fees for wagon operator services).

Other general and administrative expenses were KZT 5,947.0 million for the year ended 31 December 2015, as compared to KZT 3,231.9 million for 2014, reflecting an increase of KZT 2,715.1 million, or 84.0%. This increase was primarily due to an increase in consultancy costs in 2015, as compared to 2014.

Personnel costs were KZT 31,525.5 million for the year ended 31 December 2015, as compared to KZT 33,017.0 million for 2014, reflecting a decrease of KZT 1,491.5 million, or 4.5%. This decrease was primarily due to the implementation of cost-saving measures.

Property tax and other taxes were KZT 10,998.9 million for the year ended 31 December 2015, as compared to KZT 12,321.6 million for 2014, reflecting a decrease of KZT 1,322.7 million, or 10.7%. This increase was primarily due to a reduction of the tax base used for the calculation of property tax and environmental taxes in 2015.

Charities and sponsorship expenses were KZT 521.2 million for the year ended 31 December 2015, as compared to KZT 3,758.6 million for 2014, reflecting a decrease of KZT 3,237.4 million, or 86.1%. This decrease was primarily due to a decline in sponsorship in 2015, as compared to 2014.

Impairment of assets

For the year ended 31 December 2015, impairment of assets was KZT 4,960.7 million, as compared to KZT 2,735.9 million for 2014, reflecting an increase of KZT 2,224.8 million, or 81.3%. This increase was primarily due to an increase in impairment of fixed assets and construction, long-term advances, provisions for long-term non-refundable VAT and provisions for loans for the year ended 31 December 2015, as compared to 2014.

Other Profit

For the year ended 31 December 2015, other profit was KZT 814.8 million, as compared to KZT 3,662.9 million for 2014, reflecting a decrease of KZT 2,848.1 million, or 77.8%. This decrease was primarily due to the non-recurring nature of increased revenue from the acquisition of 90% of the share capital of OOO Regional Forward Logistics in 2014.

Finance Income

The following table sets forth certain information regarding the Group's finance income for the years indicated:

	For the year ended 31 December		**% change between the years ended 31 December 2015 and 2014**
	2015(1)	**2014**(2)	
	(KZT millions)		*(%)*
Interest income on cash and cash equivalents	3,367.5	2,553.8	31.9
Interest income on amounts in credit institutions (short-term financial investments)	1,846.6	2,504.1	(26.3)
Change in fair-value of derivative financial asset designated as at fair value through profit or loss	—	4,678.0	(100.0)
Other finance income	367.7	793.9	(53.7)
Total	**5,581.8**	**10,529.8**	(47.0)

Notes:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

(2) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2015 Financial Statements. The 2014 figures are taken from the 2015 Financial Statements.

For the year ended 31 December 2015, finance income was KZT 5,581.8 million, as compared to KZT 10,529.8 million for 2014, reflecting a decrease of KZT 4,948.0 million, or 47.0%. This decrease was primarily due to the recognition in 2014 of KZT 4,678.0 million of income from change in fair value of derivative financial asset designated as at fair value through profit or loss, which resulted from a cross-currency transaction entered into in August 2014, which was not replicated in 2015.

Finance Costs

The following table sets forth certain information regarding the Group's finance costs for the years indicated:

	For the year ended 31 December		**% change between the years ended 31 December 2015 and 2014**
	2015[(1)]	**2014**[(2)]	
	(KZT millions)		*(%)*
Interest expense on borrowings	54,673.1	46,032.0	18.8
Change in fair value of derivative financial asset designated as at fair value through profit or loss	4,351.0	—	100.0
Finance leasing expense	76.7	949.0	91.9
Other finance cost	1,783.5	—	100.0
Total	**60,884.3**	**46,981.0**	29.6

Notes:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

(2) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2015 Financial Statements. The 2014 figures are taken from the 2015 Financial Statements.

For the year ended 31 December 2015, finance costs were KZT 60,884.3 million, as compared to KZT 46,981.0 million for 2014, reflecting an increase of KZT 13,903.3 million, or 29.6%. This increase was primarily due to increases in interest expense on borrowings and finance leasing interest, as well as the positive change in fair value of derivative financial asset designated as at fair value through profit or loss.

Interest expense on borrowings was KZT 54,673.1 million for the year ended 31 December 2015, as compared to KZT 46,032.0 million for 2014, reflecting an increase of KZT 8,641.1 million, or 18.8%. This increase was primarily due to the entry into of new loans in 2015 to finance new investment projects and current assets

Finance leasing expense was KZT 76.7 million for the year ended 31 December 2015, as compared to KZT 949.0 million for 2014, reflecting a decrease of KZT 872.3 million, or 91.9%. This decrease was primarily due to a reduction in expenses in respect of Transtelecom JSC, including expenses for financial leases, due to the results of operations of such subsidiaries being recorded as discontinued operations. See *Presentation of Financial, Reserves and Certain Other Information—Financial Statements—Changes in Classification Affecting Comparative Information.*

Foreign Exchange Gain/(Loss)

For the year ended 31 December 2015, the Group recorded a foreign exchange loss of KZT 450,997.7 million, as compared to KZT 71,978.9 million for 2014, reflecting an increased loss of KZT 379,018.8 million, or 526.6%. This increase was primarily due to the devaluation of the Tenge against the U.S. Dollar in 2015, and the corresponding effect of such devaluation on cash held by the Company as U.S. Dollar-denominated deposits.

Share of Profit/(Loss) of Associates and Joint Ventures

For the year ended 31 December 2015, the Group recorded a share of loss of associates and joint ventures of KZT 12,187.7 million, as compared to a share of profit of associates and joint ventures of KZT 45.3 million for 2014. The share of loss in 2015 related to a decline in the financial result of the Group's jointly-controlled and associated organisations and the devaluation of the Tenge. The share of profit in 2014 related to an improvement in the financial results of the Group's jointly-controlled and associated organisations, in particular Astyk-Trans LLP and System Management B.V.

Gain from Disposal of Subsidiaries

For the year ended 31 December 2015, the Group recorded a gain from the disposal of subsidiaries of KZT 1,512.0 million, as compared to KZT 821.2 million for 2014, reflecting an increase of KZT 690.8 million, or 84.1%. This increase was primarily due to disposals of Group assets by the Group pursuant to the Government's privatisation plans. The gain in 2015 was primarily due to the disposal of eight Group assets for a total amount of KZT 24.4 billion. The gain in 2014 was primarily due to the disposal of 13 Group assets for a total amount of KZT 17.9 billion.

(Loss)/Profit before Tax

As a result of all of the foregoing, for the year ended 31 December 2015, loss before tax was KZT 461,307.8 million, as compared to a profit before tax of KZT 59,411.7 million for 2014.

Income Tax Benefit/(Expense)

For the year ended 31 December 2015, income tax benefits were KZT 9,001.2 million, as compared to an income tax expense of KZT 21,104.6 million for 2014. The KZT 30,105.8 million change from income tax expense to income tax benefit was primarily due to an increase in corporate income tax losses, which was, in turn, due to the depreciation of the KZT/U.S.$ exchange rate.

(Loss)/Profit from Continuing Operations

As a result of all of the foregoing, for the year ended 31 December 2015, loss from continuing operations was KZT 452,306.6 million, as compared to a profit of KZT 38,307.1 million in 2014.

Loss from Discontinued Operations

For the year ended 31 December 2015, loss from discontinued operations was KZT 7,675.1 million, as compared to KZT 4,750.3 million in 2014, reflecting an increase of KZT 2,924.8 million, or 61.6%. This increase was primarily due to the disposal of the Group's interests in certain subsidiaries of "Repair Corporation "Kamkor" LLP to a third party.

(Loss)/Profit for the Year

As a result of all of the foregoing, for the year ended 31 December 2015, the Group's loss for the year was KZT 459,981.7 million, as compared to profit of KZT 33,556.8 million in 2014.

Operating Segments

Overview

For financial reporting purposes, the activities of the Group are divided into two reportable segments, namely freight transportation and passenger transportation. All other operating services, which primarily include communication services, utilities services, loading and unloading services and vessels servicing, which, in the aggregate, do not exceed quantitative thresholds for disaggregation, are not separately reported. The Group does not have a specified pricing policy for inter-segmental sales, although, in general, inter-segmental transactions are charged at prevailing market prices. See Note 5 to the Interim Financial Statements and Note 6 to the 2016 Financial Statements.

The following tables set forth certain information regarding the revenue, profit before tax and profit for the period of the operating segments of the Group for the periods indicated:

Segment	For the six months ended 30 June					
	2017	2016[(1)]	2017	2016[(1)]	2017	2016[(1)]
	Total revenue		Profit/(Loss) before income tax		Profit/(Loss) for the period from continuing operations	
	(unaudited) *(in KZT millions)*					
Freight transportation	363,713.0	329,963.0	17,012.6	2,929.3	7,689.3	1,036.4
Passenger transportation	48,032.2	48,003.8	(813.8)	569.0	(962.9)	163.0
Total reportable segments	**411,745.2**	**377,966.8**	**16,198.8**	**3,498.3**	**6,726.4**	**1,199.4**
Other	5,564.5	5,513.0	(374.8)	6,013.5	(392.9)	6,593.2
Total	**417,309.7**	**383,479.8**	**15,824.0**	**9,511.7**	**6,333.5**	**7,792.6**

Note:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 4 to the Interim Financial Statements. The 2016 figures are taken from the Interim Financial Statements.

Segment	For the year ended 31 December								
	2016	2015[(1)]	2014	2016	2015[(1)]	2014	2016	2015[(1)]	2014
	Total revenue			Profit/(Loss) before income tax			Profit/(Loss) for the year from continuing operations		
	(in KZT millions)								
Freight transportation	706,328.5	644,548.0	758,549.4	37,276.9	(462,760.9)	49,022.5	43,008.3	(453,668.9)	30,107.2
Passenger transportation	105,641.9	96,975.9	104,833.4	3,400.2	(1,148.5)	7,568.1	2,516.5	(2,051.9)	6,054.1
Total reportable segments	**811,970.4**	**741,523.9**	**863,382.8**	**40,677.1**	**(463,909.4)**	**56,590.6**	**45,524.8**	**(455,720.8)**	**36,161.3**
Other	11,141.1	10,981.4	17,885.8	744.0	2,601.6	2,281.1	659.5	3,414.2	2,145.8
Total	**823,111.5**	**752,505.3**	**881,268.6**	**41,421.1**	**(461,307.8)**	**59,411.7**	**46,184.3**	**(452,306.6)**	**38,307.1**

Note:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

Freight Transportation

The Group's freight transportation segment is the largest segment by revenue. Total revenue attributable to this segment increased by 10.2% to KZT 363,713.0 million for the six months ended 30 June 2017, as compared to KZT 329,963.0 million for the corresponding period in 2016. This increase was primarily due to exchange rate fluctuations**.** Profit before income tax attributable to this segment increased by 480.8% to KZT 17,012.6 million for the six months ended 30 June 2017, as compared to KZT 2,929.3 million for the corresponding period in 2016. This increase was primarily due to exchange rate fluctuations. Profit for the period from continuing operations attributable to this segment for the six months ended 30 June 2017 was KZT 7,689.3 million, primarily due to exchange rate fluctuations. Profit for the period from continuing operations for the six months ended 30 June 2016 was KZT 1,036.4 million, primarily due to exchange rate fluctuations.

Total revenue attributable to this segment increased by 9.6% to KZT 706,328.5 million for the year ended 31 December 2016, as compared to KZT 644,548.0 million for the year ended 31 December 2015. This increase was primarily due to exchange rate fluctuations*.* Profit before income tax attributable to this segment was KZT 37,276.9 million for the year ended 31 December 2016, primarily due to increased revenue from core activities. Loss before income tax attributable to this segment was KZT 462,760.9 million for the year ended 31 December 2015, primarily due to exchange rate fluctuations. Profit for the year from continuing operations attributable to this segment for the year ended 31 December 2016 was KZT 43,008.3 million, primarily due to exchange rate fluctuations. Loss for the period from continuing operations attributable to this segment for the year ended 31 December 2015 was KZT 453,668.9 million, primarily due to exchange rate fluctuations.

Total revenue attributable to this segment decreased by 15.0% to KZT 644,548.0 million for the year ended 31 December 2015, as compared to KZT 758,549.4 million for the year ended 31 December 2014. This decrease was primarily due to a 12.4% decrease in cargo turnover**.** Loss before income tax attributable to this segment was KZT 462,760.9 million for the year ended 31 December 2015, primarily due to exchange rate fluctuations. Profit before income tax attributable to this segment was KZT 49,022.5 million for the year ended 31 December 2014, primarily due to exchange rate fluctuations. Loss for the period from continuing operations for the year ended 31 December 2015 was KZT 453,668.9 million, primarily due to exchange rate fluctuations. Profit for the year from continuing operations attributable to this segment for the year ended 31 December 2014 was KZT 30,107.2 million, primarily due to exchange rate fluctuations.

Passenger Transportation

The Group's passenger transportation segment is the second largest segment by revenue. Total revenue attributable to this segment increased by 0.1% to KZT 48,032.2 million for the six months ended 30 June 2017, as compared to KZT 48,003.8 million for the corresponding period in 2016. This increase was primarily due to higher tariffs, which more than offset lower passenger numbers in the six months ended 30 June 2017, as compared to the corresponding period in 2016. Loss before income tax attributable to this segment was KZT 813.8 million for the six months ended 30 June 2017, as compared profit for the corresponding period in 2016 was KZT 569.0 million and decreased by 243.0%. This decrease was primarily due to increased operating costs. Loss for the period from continuing operations attributable to this segment for the six months ended 30 June 2017 was KZT 962.9 million, as compared to KZT 163.0 million profit for the corresponding period in 2016. This decrease was primarily due to increased operating costs.

Total revenue attributable to this segment increased by 8.9% to KZT 105,641.9 million for the year ended 31 December 2016, as compared to KZT 96,975.9 million for 2015. This increase was primarily due to a 5% increase in passenger turnover**.** Profit before income tax attributable to this segment was KZT 3,400.2 million for the year ended 31 December 2016, primarily due to the increase in revenue described above. Loss before income tax attributable to this segment was KZT 1,148.5 million for the year ended 31 December 2015, primarily due to the recognition of impairment of certain assets. Profit for the year from continuing operations attributable to this segment for the year ended 31 December 2016 was KZT 2,516.5 million, primarily due to the increase in revenue described above. Loss for the period from continuing operations for the year ended 31 December 2015 was KZT 2,051.9 million, primarily due to lower revenue in 2014.

Total revenue attributable to this segment decreased by 7.5% to KZT 96,975.9 million for the year ended 31 December 2015, as compared to KZT 104,833.4 million for the year ended 31 December 2014. This decrease was primarily due to a 5.2% decrease in passenger turnover**.** Loss before income tax attributable to this segment was KZT 1,148.5 million for the year ended 31 December 2015, primarily due to lower revenue as well as the recognition of impairment in respect of certain assets. Profit before income tax attributable to this segment was

KZT 7,568.1 million for the year ended 31 December 2014, primarily due to reduced revenue. Loss for the period from continuing operations for the year ended 31 December 2015 was KZT 2,051.9 million, primarily due to lower revenue. Profit for the year from continuing operations attributable to this segment for the year ended 31 December 2014 was KZT 6,054.1 million, primarily due to higher revenue in 2014.

Other

Total revenue attributable to other activities increased by 0.9% to KZT 5,564.5 million for the six months ended 30 June 2017, as compared to KZT 5,512.9 million for the corresponding period in 2016. This increase was primarily due to revenue from the provision of services to third parties and sales of inventories.The Group recognised loss before income tax attributable to other activities of KZT 374.8 million for the six months ended 30 June 2017, as compared to profit of KZT 6,013.5 million for the corresponding period in 2016. The loss in the six months ended 30 June 2017 was primarily due to increased operating costs. Loss for the period from continuing operations attributable to other activities for the six months ended 30 June 2017 was KZT 392.9 million, as compared to KZT 6,593.2 million profit for the corresponding period in 2016. This decrease was primarily due to increased operating costs.

Total revenue attributable to other activities increased by 1.5% to KZT 11,141.1 million for the year ended 31 December 2016, as compared to KZT 10,981.4 million for the year ended 31 December 2015. This increase was primarily due to increased revenue from the provision of services to third parties and sales of inventories. Profit before income tax attributable to other activities decreased by 71.4% to KZT 744.0 million for the year ended 31 December 2016, as compared to KZT 2,601.6 million for 2015. This decrease was primarily due to increased operating expenses. Profit for the year from continuing operations attributable to other activities decreased by 80.7% to KZT 659.5 million for the year ended 31 December 2016, as compared to KZT 3,414.2 million, for the year ended 31 December 2015. This decrease was primarily due to increased operating expenses.

Total revenue attributable to other activities decreased by 38.6% to KZT 10,981.4 million for the year ended 31 December 2015, as compared to KZT 17,885.8 million for the year ended 31 December 2014. This decrease was primarily due to lower revenue from the provision of services to third parties and sales of inventories. Profit before income tax attributable to other activities increased by 7.8% to KZT 2,601.6 million for the year ended 31 December 2015, as compared to KZT 2,821.1 million for the year ended 31 December 2014. This increase was primarily due to a reduction in corporate income tax. Profit for the year from continuing operations attributable to other activities increased by 59.1% to KZT 3,414.2 million for the year ended 31 December 2015, as compared to KZT 2,145.8 million for the year ended 31 December 2014. This increase was primarily due to a reduction in corporate income tax.

Liquidity and Capital Resources

The Group's operations, including maintenance and repair of Kazakhstan's railways and related infrastructure, as well as maintenance and repair of the locomotives and rolling stock and other types of property, plant and equipment, are capital intensive activities. The Group requires funds primarily for working capital purposes to meet its short-term financial obligations as they fall due, as well as for upgrading Kazakhstan's railways and related infrastructure and expanding and maintaining its rolling stock and locomotive fleet.

The Group's cash flow from operations, Government grants, borrowings under credit agreements, loans and capital contributions from Samruk-Kazyna and the issuance of bonds have served as the historical sources of capital and liquidity for the Group's business and are expected to serve as the Group's sources of capital and liquidity for the near term.

The Group has experienced instances in the past when the Group had insufficient liquidity to fully fund its planned capital expenditures and has the ability to manage its liquidity through exercising control over capital expenditures. By way of an example, following the devaluation of the Tenge in 2015, the Group substantially reduced its capital expenditures, which could no longer be fully funded from operating cash flows or other sources, and implemented cost reduction measures. As a result, the Group's capital expenditures decreased to KZT 312.3 billion and KZT 304.6 billion in in 2015 and 2016, respectively, as compared to capital expenditures of KZT 404.9 billion in 2014.

The Group also receives significant support from the Government in the form of capital contributions and concessional rate loans.

See "*Risk Factors—Risk Factors Relating to the Group—Maintenance and modernisation of the Group's railway infrastructure requires significant ongoing investment, and there can be no assurance that the Group will receive the funding necessary to make such investments*", "*Risk Factors—Risk Factors Relating to the Group—The Group has historically experienced liquidity problems*" and "*Risk Factors Relating to the Group—The Group's auditors have identified the Group's ability to continue as a going concern as a key audit matter.*"

As at 30 June 2017, the Group's current assets were KZT 429,360.1 million (as compared to KZT 376,452.5 million as at 31 December 2016 and KZT 294,234.3 million as at 31 December 2015), while its current liabilities were KZT 516,093.0 million (as compared to KZT 514,373.9 million as at 31 December 2016 and KZT 432,090.9 million as at 31 December 2015). Accordingly, the Group's current liabilities exceeded its current assets by KZT 86,732.9 million as at 30 June 2017, KZT 137,921.4 million as at 31 December 2016 and KZT 137,856.6 million as at 31 December 2015. Although the Company's current liquidity ratio has improved since December 2015, it remains below 1. See "*Risk Factors Relating to the Group—The Group's auditors have identified the Group's ability to continue as a going concern as a key audit matter.*"

Cash Flows

The following tables set forth certain information regarding the principal items of the statement of cash flows for the periods indicated:

	For the six months ended 30 June		**% change between the six months ended 30 June 2017 and 2016**
	2017	**2016[(1)]**	
	(KZT millions)		*(%)*
Net cash flows from operating activities	39,058.4	38,261.2	2.1
Net cash flows used in investing activities	(122,841.3)	(55,751.5)	120.3
Net cash flows from financing activities	176,337.1	19,411.6	808.4

Note:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 4 to the Interim Financial Statements. The 2016 figures are taken from the Interim Financial Statements.

	For the year ended 31 December			**% change between the years ended 31 December**	
	2016	**2015[(1)]**	**2014[(2)]**	**2015 and 2016**	**2014 and 2015**
	(KZT millions)			*(%)*	
Net cash flows from operating activities	149,445.3	103,023.3	208,038.3	45.1	(50.5)
Net cash flows used in investing activities	(225,939.4)	(177,587.0)	(360,006.2)	27.2	(50.7)
Net cash flows from financing activities	71,939.1	53,859.5	153,510.1	33.6	(64.9)

Notes:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

(2) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2015 Financial Statements. The 2014 figures are taken from the 2015 Financial Statements.

Net Cash Flows from Operating Activities

For the six months ended 30 June 2017, net cash flows from operating activities were KZT 39,058.4 million, as compared to KZT 38,261.2 million for the corresponding period in 2016, reflecting an increase of KZT 797.2 million, or 2.1%. This increase was primarily attributable to a KZT 1,465.8 million increase in profit, as well as an increase in other current liabilities, in each case, in the six months ended 30 June 2017, as compared to the corresponding period in 2016. This increase in profit was, in turn, primarily due to an increase in cash received in exchange for services, and advances received from customers.

For the year ended 31 December 2016, net cash flows from operating activities were KZT 149,445.3 million, as compared to KZT 103,023.3 million for the year ended 31 December 2015, reflecting an increase of KZT 46,422.0 million, or 45.1%. This increase was primarily attributable to the recognition of KZT 41,276.6 million of profit for 2016, as compared to a loss of KZT 459,981.7 million in 2015, which, in turn, largely reflected the recognition of a KZT 19,756.9 million foreign exchange gain in 2016, as compared to a KZT 449,570.6 million foreign exchange loss in 2015, with the variation in foreign exchange being primarily due to exchange rate fluctuations and the devaluation of the Tenge.

For the year ended 31 December 2015, net cash flows from operating activities were KZT 103,023.3 million, as compared to KZT 208,038.3 million for 2014, reflecting a decrease of KZT 105,015.0 million, or 50.5%. This decrease was primarily attributable to an increase in cash outflows in the form of fee payments, income tax and payments to suppliers for goods and services, as well as a reduction in cash inflows in respect of services and advances received from customers.

Net Cash Flows Used in Investing Activities

Net cash flows from/(used in) investing activities principally reflect acquisitions and disposals of subsidiaries, joint ventures and associates, purchases and sales of property, plant and equipment and intangible property, distributions received from joint ventures and associates and placements of time deposits.

For the six months ended 30 June 2017, net cash flows used in investing activities were KZT 122,841.3 million, as compared to KZT 55,751.5 million for the corresponding period in 2016, reflecting an increase of KZT 67,089.8 million, or 120.3%. This increase was primarily attributable to a KZT 44,674.7 million increase in cash used in the purchase of property, plant and equipment for the six months ended 30 June 2017, as compared to the corresponding period in 2016. This increase was, in turn, primarily due to the acceleration of works on major infrastructure projects, such as the construction of the ferry complex at Kuryk port and the construction of a station complex in the city of Astana. A KZT 37,538.1 million decrease in cash received from proceeds from return of other financial assets also contributed to the increase in net cash flows used in investing activities.

For the year ended 31 December 2016, net cash flows used in investing activities were KZT 225,939.4 million, as compared to KZT 177,587.0 million for 2015, reflecting an increase of KZT 48,352.4 million, or 27.2%. This increase was primarily due to a KZT 60,366.6 million, or 28.9%, increase in cash used in the purchase of property, plant and equipment in 2016, as compared to 2015. The increase in cash used in the purchase of property, plant and equipment was primarily due to the acceleration of works on major infrastructure projects, such as the construction of a ferry complex in Kuryk port, the construction of a station complex in the city of Astana and the construction of a secondary railway line between Almaty and Shu. This increase was partially offset by the KZT 15,661.4 million, or 18.0%, increase in cash from the proceeds from return of other financial assets in 2016, as compared to 2015.

For the year ended 31 December 2015, net cash flows used in investing activities were KZT 177,587.0 million, as compared to KZT 360,006.2 million for 2014, reflecting a decrease of KZT 182,419.2 million, or 50.7%. This decrease was primarily due to a KZT 144,481.2 million, or 40.9%, decrease in cash used for the purchase of property, plant and equipment in 2015, as compared to 2014. This decrease was, in turn, primarily due to the completion of the majority of work on certain infrastructure projects, including the construction of the Zhezkazgan-Beineu and Arkalyk-Shubarkol railway lines, the major overhaul of the upper structure of the track, as well as a decrease in the number of passenger cars and locomotives purchased during this period.

Net Cash Flows From Financing Activities

For the six months ended 30 June 2017, net cash flows from financing activities were KZT 176,337.1 million, as compared to KZT 19,411.6 million for the corresponding period in 2016, reflecting an increase of KZT 156,925.5 million, or 808.4%. This increase was primarily attributable to a KZT 133,623.1 million decrease in cash used in the repayment of borrowings in the six months ended 30 June 2017, as compared to the corresponding period of 2016, when notably, the Company repaid its U.S.$350.0 million 7.0% Notes due 2016 in the six months ended 30 June 2016, which was, in turn, partially offset by the issuance of Eurobonds denominated in Russian Roubles in an aggregate principal amount of RUB 15.0 billion in the six months ended 30 June 2017.

For the year ended 31 December 2016, net cash flows from financing activities were KZT 71,939.1 million, as compared to KZT 53,859.5 million for 2015, reflecting an increase of KZT 18,079.6 million, or 33.6%. This increase was primarily due to the KZT 59,584.1 million, or 87.2%, increase in contributions to share capital (see

"*Share Capital and Principal Shareholder*"), the KZT 96,950.6 million, or 118.4%, increase in proceeds from borrowings (see "*—Borrowings*") and the recognition of KZT 9,000 million of proceeds from the sale of the Company's non-controlling interest in JSC "Transtelecom" in 2016. This increase was partially offset by a KZT 158,178.2 million, or 203.6%, increase in cash used in the repayment of borrowings in 2016, as compared to 2015, which primarily related to the repayment of the Company's U.S.$350.0 million 7.0% Notes due 2016**.**

For the year ended 31 December 2015, net cash flows from financing activities were KZT 53,859.5 million, as compared to KZT 153,510.1 million in 2014, reflecting a decrease of KZT 99,650.6 million, or 64.9%. This decrease was primarily due to the KZT 67,716.3 million, or 45.3%, decrease in cash from proceeds of borrowings in 2015, as compared to 2014. The higher level of cash from proceeds of borrowings in 2014 was primarily due to the issuance of CHF 285.0 million of Eurobonds, which were listed on the Swiss Exchange and the KASE as well as the entry into of new loans, including a KZT 30.0 billion loan between KTZ Express and EBRD for the purchase of equipment for infrastructure development and dry cargo vessels.

Capital Expenditure

The following table sets forth certain information regarding the Group's total capital expenditures, by segment, including acquisitions through business combinations, for the periods indicated.

	For the six months ended 30 June		**For the year ended 31 December**		
	2017	**2016**	**2016**	**2015**	**2014**
			(*KZT millions*)		
Freight transportation	2,482.0	9,344.6	39,845.8	30,644.1	39,230.9
Passenger transportation	1,360.3	2,305.7	34,683.3	23,334.2	29,451.6
Mainline Railway Network	91,358.8	51,203.6	197,790.5	176,069.3	277,767.0
Other	10,876.7	14,486.7	32,313.7	82,260.4	58,522.6
Total capital expenditures	**106,077.8**	**77,340.6**	**304,633.3**	**312,308.0**	**404,972.1**

The Group's principal capital expenditures relate to the construction of new railway lines, capital repairs of railways, construction of plants and acquisition and capital repairs of locomotives, freight wagons and passenger cars. The Group's investment programme prioritises infrastructure development to enable the further alignment of the Group's railway network with international standards and requirements. The increase in capital expenditures in the six months ended 30 June 2017 was primarily due to the completion of the active phase of the Astana railway junction project and the capital expenditures payable on completion of such project.

For the six months ended 30 June 2017, the Group's most significant capital expenditures included: construction of railway lines (KZT 1.9 billion); modernisation and renewal of railway rolling stock and the locomotive fleet (KZT 5.6 billion); modernisation of track superstructure (KZT 19.9 billion); construction of a secondary rail line between Almaty and Shu (KZT 3.6 billion); construction of a ferry complex at Kuryk port (KZT 5.6 billion); development works at the "Khorgos-Eastern Gateway SEZ free-economic zone on the border with China aimed at increasing freight flows (in particular, the construction of a dry port for fast train handling, multimodality and freight safety in accordance with international standards) (KZT 2.9 billion); development of the Astana railway junction, including the construction of a new railroad complex (KZT 53.6 billion); and renewal and modernisation of existing infrastructure (KZT 12.9 billion).

For the six months ended 30 June 2016, the Group's most significant capital expenditure included: construction of railway lines (KZT 19.4 billion); modernisation and renewal of railway rolling stock and the locomotive fleet (KZT 9.8 billion); modernisation of track superstructure (KZT 1.4 billion); construction of a secondary rail line between Almaty and Shu (KZT 2.5 billion); construction of a ferry complex at Kuryk port (KZT 1.6 billion); development works at the Khorgos-Eastern Gateway SEZ free-economic zone (KZT 9.4 billion); development of the Astana railway junction, including the construction of a new railroad complex (KZT 19.9 billion); construction of a multi-purpose ice arena in Astana (KZT 4.5 billion); and renewal and modernisation of existing infrastructure (KZT 8.8 billion).

For the year ended 31 December 2016, the Group's most significant capital expenditure included: construction of railway lines (KZT 39.8 billion); modernisation and renewal of railway rolling stock and the locomotive fleet (KZT 69.6 billion); modernisation of track superstructure (KZT 29.1 billion); construction of a secondary rail line between Almaty and Shu (KZT 19 billion); construction of a ferry complex at Kuryk port (KZT 15.2 billion);

development works at Khorgos-Eastern Gateway SEZ free-economic zone (KZT 12.8 billion); development of the Astana railway junction, including the construction of a new railroad complex (KZT 70.9 billion); construction of a multi-purpose ice arena in Astana (KZT 6.5 billion); and renewal and modernisation of existing infrastructure (KZT 41.2 billion).

For the year ended 31 December 2015, the Group's most significant capital expenditure included: construction of railway lines (KZT 76.1 billion); modernisation and renewal of railway rolling stock and the locomotive fleet (KZT 63.4 billion); modernisation of track superstructure (KZT 14.1 billion); construction of a secondary rail line between Almaty and Shu (KZT 5.1 billion); construction of a ferry complex at Kuryk port (KZT 2.8 billion); development works at the Khorgos-Eastern Gateway SEZ free-economic zone (KZT 50.3 billion); development of the Astana railway junction, including the construction of a new railroad complex (KZT 41.8 billion); construction of a multi-purpose ice arena in Astana (KZT 17.4 billion); and renewal and modernisation of existing infrastructure (KZT 37.2 billion).

For the year ended 31 December 2014, the Group's most significant capital expenditure included: construction of railway lines (KZT 144.6 billion); modernisation and renewal of railway rolling stock and the locomotive fleet (KZT 78.4 billion); modernisation of track superstructure (KZT 45.4 billion); development of the Astana railway junction, including the construction of a new railroad complex (KZT 12.3 billion); construction of a multi-purpose ice arena in Astana (KZT 13.4 billion); and renewal and modernisation of existing infrastructure (KZT 112.5 billion).

The following table sets forth certain information regarding the Group's budgeted expenditures for the years indicated:

	For the year ended 31 December				
	2017(E) [(1)]	**2018(E)** [(1)]	**2019(E)** [(1)]	**2020(E)** [(1)]	**2021(E)** [(1)]
			(*KZT millions*)		
Freight transportation	30,863.9	3,913.7	82,003.9	45,128.6	166,322.9
Passenger transportation	34,209.6	25,990.4	26,231.8	23,036.7	4,821.4
Mainline railway network	200,666.7	42,879.2	65,094.3	91,863.6	94,701.1
Other	34,205.7	6,127.2	2,588.0	2,644.5	1,941.0
Total capital expenditures	**299,945.9**	**78,910.5**	**175,918.0**	**162,673.4**	**267,786.4**

Note:
(1) Estimated.

For the year ended 31 December 2017, the Group's budgeted capital expenditures are KZT 299.9 billion, of which KZT 86.5 billion had been expended as at 30 June 2017. The Group's most significant capital expenditures budgeted for in 2017 include:

- construction of a secondary railway line between Almaty and Shu, which is expected to increase the speed of high speed trains on the line and to allow up to ten container trains per day to pass on the line (approximately KZT 10.1 billion, of which KZT 3.6 billion had been expended as at 30 June 2017). This project was funded by the Group and by State funds (by way of a capital injection) in a total amount of KZT 27.7 billion, including KZT 8.3 billion in 2015 and KZT 19.4 billion in 2016. The construction period for this secondary railway line was extended from the initially planned 1.5 years to three years and four months and construction costs have increased more than tenfold, as compared to the original construction agreement;

- construction of a ferry complex at Kuryk port for the operation of multi-purpose passenger and freight ferries (approximately KZT 48.1 billion, of which KZT 5.6 billion had been expended as at 30 June 2017); Kuryk port is an important link in the Trans-Caspian International Corridor, principally for the transshipment of grain, oil products, fertilisers, chemicals and other products to the Caspian region. This project was funded by the Group and by State funds (by way of a capital injection) in a total amount of KZT 97.7 billion, including KZT 4.8 billion in 2015, KZT 24.34 billion in 2016 and KZT 50 billion in 2017. The construction period for this project was extended from the initially planned nine months to three years and four months and construction costs have increased more than threefold, as compared to the original construction agreement;

- development of the Astana railway junction, including construction of new railroad complex to connect all regions of Kazakhstan (approximately KZT 62.6 billion, of which KZT 53.6 billion had been expended as at 30 June 2017). This project was funded by the Group and by State funds (by way of a capital injection) in a total amount of KZT 42.5 billion received in 2016;

- renewal of the Group's railway rolling stock and locomotives fleet (approximately KZT 65.6 billion, of which KZT 12.9 billion had been expended as at 30 June 2017). This project was funded by the Group without State assistance; and

- modernisation and renewal of existing infrastructure (approximately KZT 113.5 billion, of which KZT 12.9 billion had been expended as at 30 June 2017). This project was funded by the Group without State assistance.

The Group plans to spend a total of KZT 985.2 billion over the next five years on the following projects:

- construction of a ferry complex at Kuryk port for the operation of multi-purpose passenger and freight ferries; and

- renewal of the Group's railway rolling stock and locomotives fleet.

The Group's role in the implementation of key Government projects has been reaffirmed by recent initiatives. See "*Kazakhstan's Economy and the Railway Industry in Kazakhstan—Kazakhstan's Economy—Economic Programmes and Initiatives*".

Borrowings

The Group's main sources of borrowings are bank loans from Kazakhstan and foreign banks and debt securities. The following table sets forth certain information regarding the Group's short-term and long-term borrowings as at 30 June 2017:

	Currency	Maturity	Interest Rate	Current Portion (*unaudited*)	Non-Current Portion (*unaudited*)
			(%)	(*KZT millions*)	
Short-term borrowings					
JSC Citibank Kazakhstan:					
Loan 1	Tenge	2017	13.00	2,700.0	—
JSC Halyk Bank:					
Loan 1	Tenge	2017	13.00	10,057.8	—
Loan 2	Tenge	2017	13.00	5,028.9	—
Loan 3	Tenge	2017	13.00	7,037.9	—
Loan 4	Tenge	2017	13.00	4,021.7	—
Loan 5	Tenge	2017	13.00	5,027.1	—
Loan 6	Tenge	2018	13.00	5,021.7	—
Total short-term borrowings				**38,895.1**	—
Long-term borrowings					
Fixed Rate					
Japan Bank for International Cooperation	Japanese Yen	2020	3.00	1,119.2	2,788.6
Instituto de Credito Oficial	U.S. Dollars	2021	2.50	704.6	2,119.3
JSC Development Bank of Kazakhstan:					
Loan 1	Tenge	2035	1.75	34.8	2,727.1
Samruk-Kazyna:					
Loan 1[(1)]	Tenge	2024	2	260.0	24,330.2
Loan 2[(1)]	Tenge	2042	2	543.4	30,362.6
Loan 3[(1)]	Tenge	2062	0.10	52.9	5,417.7
Loan 4	Tenge	2017	7.2	15,048.0	—
Loan 5	Tenge	2017	7.2	60,192.0	—
Loan 6[(1)]	Tenge	2038	0.75	1,239.7	13,019.6
Loan 7[(1)]	Tenge	2062	0.10	22.9	1,756.8
Loan 8[(1)]	Tenge	2062	0.10	0.1	207.6
Loan 9[(1)]	Tenge	2046	0.075	0.2	1,614.1
JSC Halyk Bank of Kazakhstan:					
Loan 1	Tenge	2020	7.0-8.0	2,218.5	3,147.9
Loan 2	Tenge	2020	10.0	1,116.1	5,192.6
Loan 3	U.S. Dollars	2021	5.65	4,192.7	12,085.1
Loan 4	Tenge	2023	13.0	4,857.4	25,504.4
Debt Securities					
U.S.$700 million Eurobonds due 2020[(2)]	U.S. Dollars	2020	6.375	3,388.5	225,445.7
U.S.$1.1 billion Eurobonds due 2042	U.S. Dollars	2042	6.95	(615.9)	371,603.3
CHF 100 million Eurobonds due 2019	CHF	2019	2.59	24.2	33,600.6
CHF 185 million Eurobonds due 2022	CHF	2022	3.638	62.8	62,141.9
RUB 15.0 billion Eurobonds due 2022[(3)]	Russian Rouble	2022	8.75	332.9	81,589.9

	Currency	Maturity	Interest Rate	Current Portion (*unaudited*)	Non-Current Portion (*unaudited*)
			(%)	(*KZT millions*)	
Variable Rate					
KZT 50.0 billion Bonds due 2026	Tenge	2026	Average inflation rate+2.52b.p	940.7	50,000.0
JSC Development Bank of Kazakhstan:					
Loan 1[(4)]	U.S. Dollars	2023	1.15 * 6-month LIBOR + 1.28%	342.1	3,282.4
Loan 2[(4)]	U.S. Dollars	2022	1.15 * 6-month LIBOR + 5.14%	875.2	8,011.5
ATF Bank					
Loan 1	Tenge	2017	spread 6.5 % +kazprime	882.8	—
Loan 2[(4)]	U.S. Dollars	2017	spread 8.37 % +LIBOR6m	2,647.3	—
EBRD:					
Loan 1[(5)]	Tenge	2024	all in cost+ 3.0%	2,927.9	21,259.9
Loan 2[(6)]	U.S. Dollars	2024	LIBOR3m + 3.0%	322.3	4,189.5
Loan 3[(4)]	U.S. Dollars	2023	LIBOR6m + 3.0%	336.3	1,668.9
Loan 4[(4)]	U.S. Dollars	2024	LIBOR6m + 4.35%	1,017.8	2,862.7
Loan 5[(7)]	Tenge	2026	all in cost + 4.35%	11,824.5	44,752.6
HSBC France	Euro	2024	CIRR Euro+ 0.9	10,720.0	49,026.2
U.S. Exim Bank...	U.S. Dollars	2023	CIRR in U.S. Dollars	14,832.0	53,527.6
Total long-term borrowings				**181,359.0**	**1,143,236.3**

Notes:

(1) Loan granted by Samruk-Kazyna to the Group at concessional rates.

(2) It is intended that the proceeds of the Notes will be used to repay all or a portion of these Eurobonds. See "*Use of Proceeds*".

(3) This issuance was the first placement of bonds by a foreign corporate issuer in Russia. The Notes were issued by the Company's finance subsidiary, KTZ Finance Ltd., and were guaranteed by the Company.

(4) LIBOR - 6-month LIBOR for deposits in U.S. Dollars.

(5) All in costs of funding to EBRD for 3 monthly interest period.

(6) LIBOR - 3-month LIBOR for deposits in U.S. Dollars.

(7) All in costs of funding to EBRD for 6 monthly interest period.

Since 30 June 2017, the Group has entered into the following additional borrowing arrangements:

- On 3 August 2017, the Group repaid early a KZT 5,000.0 million short-term loan granted by JSC Halyk Bank.

- On 7 August 2017, Kaztemirtrans and KTZFT entered into a supplemental agreement to the loan agreement signed with Samruk-Kazyna dated 13 April 2011. The supplemental agreement excluded commission due for the early repayment of principal. On 7 and 8 August 2017, early repayments totaling KZT 75,000 million were made under the loan.

- On 5 July 2017, JSC Passenger Transportation and JSC "DBK-Leasing" entered into a financial leasing agreement for a total amount of KZT 18,891.6 million at a rate of 1.75% per annum for a period of 20 years.

- On 25 August 2017, KTZ Express and JSC "DBK-Leasing" entered into a financial leasing agreement for a total amount of KZT 33,264 million at a rate of 15% per annum (with a subsidised rate of 10%) for a period of 15 years.

- On 28 August 2017, Kaztemirtrans and JSC "DBK-Leasing" entered into a financial leasing agreement in an amount of KZT 15,077 million at a rate of 15% per annum (with a subsidy rate of 10%) for a period of 15 years.

The following table sets forth certain information regarding the estimated scheduled maturities of the Company's long-term debt as at 30 June 2017, assuming that all credit lines available to the Company had been fully-drawn down as at such date:

Year Due	**Amount Due**(1)
	(KZT millions)
2017	181,358.9
2018	40,159.3
2019	73,679.5
2020	268,782.4
2021	33,465.7
2022	173,925.7
2023	25,696.1
2024	11,985.9
2025 and after	515,541.6(2)

Notes:
(1) Amounts due within 12 months of the relevant reporting date.
(2) In particular, the Group's U.S.$1.1 billion 6.95% Eurobonds due 2042 are scheduled to mature in 2042.

Certain Provisions and Terms of Borrowings and Covenant Waivers

The loan and guarantee agreements related to the Group's borrowings, as well as existing debt securities issued by entities within the Group and the related guarantees, require that the Company, the Guarantors and other Group subsidiaries comply with certain affirmative and negative covenants in the operation of their respective businesses. While the specific provisions of each of the loan and guarantee agreements vary, these generally require that the Group members subject to the agreements take or refrain from taking certain actions specified in the loan or guarantee agreements. These provisions require the Group members subject to the agreements to obtain the prior written consent of the relevant lender prior to implementing any material change to the scope or nature of their respective businesses. In addition, lender consent generally is required prior to any merger, consolidation or reorganisation of the affected members of the Group, prior to encumbering assets and prior to certain sales, transfers and dispositions of properties in excess of a specified value or which are essential to the conduct of the relevant Group entity's business, although certain agreements contain exceptions for reorganisations or transfers of assets pursuant to the Development Strategy. Any disposition of the core railway network, freight carriages or locomotives would generally require the consent of certain lenders. Other transactions that are limited by one or more of the agreements or guarantees include incurring capital expenditures greater than amounts specified in the relevant loan agreement or guarantee and incurring additional indebtedness or guaranteeing the indebtedness of third parties without the prior approval of the lender. The majority of the Group's loan and guarantee arrangements also include cross default clauses.

In addition to imposing affirmative and negative obligations regarding the conduct of the business of members of the Group, existing loan and guarantee agreements require that the Group company subject to the agreements maintain or periodically satisfy as at particular dates certain financial tests. The most restrictive of these financial ratio tests requires the maintenance of a ratio of Group EBITDA to finance costs of 2.0 or more, a ratio of adjusted debt to equity of 0.75 or less and a ratio of adjusted debt to Group EBITDA of 3.75 or less, with compliance computed using the definitions contained in the relevant loan and guarantee agreements. As a result, the Group's operations may be restricted.

The Notes will also contain covenants that place certain limitations on the Group, including, *inter alia*, limitations on changes in business, the disposal of property and limitations on mergers and consolidations with other legal entities, as well as a cross default provision.

Separately, the Debt and Financial Stability Management Policy issued by Samruk-Kazyna sets the following key financial stability ratios: (i) debt to Group EBITDA of less than or equal to 3.50; (ii) Group EBITDA to interest expense of greater than or equal to 3.50; and (iii) debt to equity of less than or equal to 0.75.

The Group's ability to comply with its financial covenants was significantly impacted by the devaluation of the Tenge in 2015, which, in particular, resulted in a significant increase in the Group's adjusted debt to Group EBITDA ratio. See "*Selected Financial Information and Operating Data*". In each of 2015, 2016 and the six months ended 30 June 2017, the Company agreed consecutive one-time amendments or waivers with certain of its creditors in respect of projected non-compliances with the financial covenants set out in its loan and guarantee agreements. Certain of the amendments or waivers cover the period only until 31 December 2017 and will have to be extended or renewed thereafter in respect of any projected future non-compliances. The Group is proactively working to achieve compliance with the ratios set out in its loan and guarantee arrangements, as well as those specified in the Samruk-Kazyna Debt Financial Stability Management Policy, and has approached certain lenders to negotiate changes to its covenant package, or to extend or obtain new amendments or waivers, in respect of any projected future non-compliances. There can be no assurance, however, that the Group will be able to comply with the covenants and restrictions set out in its loan and guarantee agreements and, if not, that it will be able to extend or obtain new amendments or waivers for projected non-compliances that may be required from time-to-time or on a repeated basis in the future. If the Group fails to extend or obtain any required amendment or waiver, the relevant Group borrower would be in breach of the applicable loan or guarantee agreement. Moreover, any such breach would likely trigger cross default provisions in the Group's financing agreements (including the Notes offered hereby) and any such default would permit the Group's lenders and other creditors to accelerate some or all of the Group's debt, which could, in turn, require the Group to restructure or refinance its outstanding indebtedness. There can also be no assurance that the Group would be able to complete any such required restructuring or refinancing. Any of the foregoing could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

Separately, the Group requested and was granted consents from certain of its lenders to the issuance of the Notes offered hereby under covenants limiting the incurrence of new indebtedness.

See "*Risk Factors—Risk Factors Relating to the Group—The Group's operations may be restricted by its loan covenants and failure to comply with such covenants could have a material adverse effect on the Group*".

Group Financial Policy

The Group is exploring ways to reduce its hard currency position and through the refinancing of certain existing indebtedness and incurrence of certain new indebtedness in soft currency, with the aim of gradually moving towards a neutral foreign currency position. To this end, in June 2017, KTZ Finance, an SPV, issued its RUB 15.0 billion 8.75% Notes due 2022, which are guaranteed by the Company. As a result of this transaction, the Group has increased its exposure to the Russian Rouble. Management is of the view that, given certain similarities between the Kazakhstan and Russian economy and exchange rate regimes, increased exposure to Russian Rouble-denominated borrowings is in line with its strategic aims.

In line with such aims, the Group: (i) monitors changes in interest rates with the aim of balancing its debt portfolio, in particular, the composition of its fixed and floating rate debt; (ii) targets the accumulation of foreign currencies ahead of debt redemptions in such currencies; and (iii) targets early refinancing of certain debt.

Going forward, the Group intends to attract longer-term financing for its investment projects from international financial markets. These markets have traditionally offered lower interest rates, compared to domestic financial markets. The Group also expects to continue co-operation with international financial institutions, such as the EBRD and export-import agencies.

Samruk-Kazyna, as the Company's sole shareholder, plays an active role in monitoring the capital structure and financial position of the Group. In January 2017, Samruk-Kazyna approved a new debt and financial solvency policy which applies to entities within the Samruk-Kazyna group. The policy adopts measures to be undertaken to monitor, limit and manage financing risks and sets forth unified principles and mechanisms to manage debt and financial solvency. The policy covers the following key areas:

- *Management of new debt issuances:* Any new debt issuance should be analysed in terms of the issuer's current debt repayment schedule, capacity to meet new obligations, sources available to repay the debt, target capital structure and interest rate and currency risks.

- *Financial solvency management:* The policy prescribes target financial solvency ratios and constant monitoring of financial solvency and stress-testing the breaching of prescribed limits. The policy also provides for the adaptation of risk areas and respective special measures based on the company's financial solvency.

- *Financial covenants monitoring*: The policy provides for the constant monitoring of compliance with financial covenants and their forecasted values and sets forth measures to be taken in the event of a covenant breach.

Government Financing Bond Programme

In 2016, the Company registered a KZT 200 billion bond series programme, which is to be used as a tool for obtaining Government financing from the NBK, Samruk-Kazyna and other state bodies (the "**Government Financing Bond Programme**"). Bonds issued under the Government Financing Bond Programme may be placed within four to six weeks and may be used for Government support. In 2016, the proceeds from a KZT 50 billion bond issued by the Company and placed with the NBK were used by the Group to enhance its loan currency and maturity profile and to refinance its outstanding borrowings. A further bond, in an amount of KZT 25 billion, was issued by the Company under the Government Financing Bond Programme in October 2017.

Liability Management Transaction

The net proceeds of the issue of the Notes are expected to be used to fund the purchase of any or all of the Existing Notes, tendered and accepted for purchase in the Tender Offer or upon the approval of the Mandatory Early Redemption, all on the terms and subject to the conditions set forth in the Tender Offer and Consent Solicitation Memorandum. The Existing Notes were initially issued by Kazakhstan Temir Zholy Finance B.V., and the Company was substituted as issuer of the Notes in 2014. See "*Use of Proceeds*".

Financial and Contingent Liabilities

See Note 23 to the Interim Financial Statements and Note 29 to the 2016 Financial Statements.

Capital Commitments

As at 30 June 2017, the Group has capital commitments for the construction of "Zhezkazgan-Beineu" and "Arkalyk-Shubarkol" railway lines, purchase of long rails, development of the railway junction of Astana station, (including construction of a station complex), as well as liabilities in respect of the project for the construction of ferry facilities at the Kuryk sea port, development of freight and passenger ferries and the acquisition of freight and passenger electric locomotives, freight and passenger diesel locomotives in aggregate amount of KZT 994,208.2 million, as compared to KZT 1,136,590.2 million as at 31 December 2016.

Other Contractual Obligations

As at 30 June 2017, the Group had contingent liabilities for the provision of future freight handling services and freight storage pursuant to (i) an agreement dated 20 November 2015 between Continental Logistics LLP, SB Sberbank of Russia JSC and KTZ Express, (ii) an agreement dated 28 December 2015 between Aktau Sea North Terminal LLP, SB Sberbank of Russia JSC, Inter Port Development PTE Ltd and KTZ Express and (iii) an agreement dated 15 August 2016 between Continental Logistics Shykment LLP, Odyssey Investments Group LLP and KTZ Express. These agreements stipulate that the Company must acquire the minimum volume of freight storage services for 10, 13 and 15 years, respectively.

Although, at 30 June 2017, KTZ Express did not acquire storage services up to the minimum volumes required pursuant to the agreement dated 20 November 2015, Management of the Group does not expect that it will incur any losses as a result. See Note 23 to the Interim Financial Statements and Note 29 to the 2016 Financial Statements.

Kazakhstan Taxation Contingencies

During the thematic tax audit of the Company regarding a VAT refund carried out for the periods from 2009 to 2012, the tax authorities revealed that the Company had claimed VAT amounts of KZT 4,444.0 million for refund, but not confirmed such amounts by counter check of suppliers, and, accordingly, assessed a penalty of KZT 3,677.2 million. As a result of legal proceedings, the Company returned KZT 4,620.4 million to the budget and successfully appealed KZT 1,601.4 million. As at 30 June 2017, the amount of the contingent liability was KZT 1,899.3 million.

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

Due to the uncertainties inherent in the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest may be in excess of the amount expensed to date and accrued as at the dates of the Interim Financial Statements and Annual Financial Statements. It is not practicable to determine the amount of any unasserted claims that may manifest, if any, or the likelihood of any unfavorable outcome.

Guarantees

In September 2012, the Group entered into a guarantee of a principal amount of KZT 2,370.0 million in favour of Eurasian Development Bank in respect of the performance by Electrovoz Kurastyru Zauyty LLP, a joint venture of the Group, of its obligations under a financing arrangement for the construction of a locomotive production plant. The guarantee is scheduled to mature in 2023.

In July 2013, the Group entered into a guarantee of a principal amount of KZT 24,148.8 million in favour of JSC Development Bank of Kazakhstan in respect of the performance by Aktobe Rail and Section Mill Plant LLP, an associate of the Group, of its obligations under a financing arrangement for the construction of rails and a section of a mill plant in Aktobe. The guarantee is scheduled to mature in 2023.

Finance Lease

In December 2016, Passenger Transportation JSC entered into a finance lease agreement (as lessee) with DBK-Leasing JSC for the rental of 43 wagons, produced by Tuplar-Talgo LLP, for a total amount of KZT 12,938.3 million, a tenor of 20 years and with an interest rate of 1.75% per annum. See Note 23 to the Interim Financial Statements.

In July 2017, Passenger Transportation JSC entered into a finance lease agreement (as lessee) with DBK-Leasing JSC for the lease of 62 passenger wagons, produced by Tuplar-Talgo LLP, for a total amount of KZT 18,891.6 million, a tenor of 20 years and with an interest rate of 1.75% per annum. See Note 26 to the Interim Financial Statements.

Quantitative and Qualitative Disclosures about Market Risk

The Group's principal financial instruments consist of borrowings, debt securities issued (Eurobonds), finance lease liabilities, cash and cash equivalents and short-term deposits as well as trade accounts receivable and trade accounts payable. Management of risk is an essential element of the Group's operations. The Company monitors and manages financial risks relating to the Group's operations through internal reports on risks, which analyse the exposure to risk by the degree and size of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), liquidity risk and cash flow interest rate risk.

Under the direction of the Board of Directors and the Risk Management Department of the Company, as well as the Department of Marketing and Procurement Analysis in respect of commodity prices, the Group has adopted procedures and policies to mitigate these risks. The objective of market risk management is to monitor and control market risk exposures within acceptable limits.

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 borrowings and debt securities issued. 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 floating interest rates.

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

As at 30 June 2017, 11.9% of the Group's total borrowings and debt securities issued were borrowings and debt securities issued with variable interest rates, as compared to 11.4% and 3.9% as at 31 December 2016 and 2015, respectively.

Foreign Currency Risk

The Group undertakes transactions denominated in foreign currencies. As a result of such transactions exposures to exchange rate fluctuations arise.

A significant portion of the Group's short-term and long-term foreign currency debt is denominated in U.S. Dollars. A change in the value of the Tenge against the U.S. Dollar, 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 U.S. Dollars in order to partially offset any foreign currency gain or loss on the borrowings.

The Group also derives Swiss Franc-denominated revenue from its freight transportation business. For the six months ended 30 June 2017, the share of revenue from transit transportation denominated in Swiss Francs was 30%, as compared to 35% in the corresponding period in 2016, and, for the year ended 31 December 2016, the share of revenue from transit transportation denominated in Swiss Francs was 34%, as compared to 28% in 2015 and 25% in 2014. For the six months ended 30 June 2017, 26% of the Group's total revenue was denominated in Swiss Francs, as compared to 31% in the corresponding period in 2016. For the year ended 31 December 2016, 31% of total revenue was denominated in Swiss Francs, as compared to 25% in 2015 and 21% in 2014.

On 7 August 2015, the Group commenced cash flow hedging in order to decrease the risk of changes in the Tenge-equivalent of revenue denominated in Swiss Francs. The Group issued Swiss Franc-denominated Eurobonds on 20 June 2014, which are admitted to trading on the SIX Swiss Exchange and the KASE and are used as the hedging instruments.

See "*—Factors and Trends Affecting Financial Condition and Results of Operations—Changes in Exchange Rates*".

Credit Risk

Credit risk arising from the inability of a party 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 obligations of the Group to that party. It is the Group's policy to enter into financial instruments with a diversity of creditworthy parties. The maximum exposure to credit risk is represented by the carrying value of each financial asset.

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

The Group has procedures in place to ensure that sales are only made to customers with an appropriate credit history and that an acceptable credit exposure limit is not exceeded. Credit risk is 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 to the 2016 Financial Statements.

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 the periodic estimation 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 the requirements of Samruk-Kazyna, the sole shareholder. The Group manages the liquidity risk by maintaining adequate reserves, bank loans and accessible credit lines by constant monitoring of the projected and actual cash flows and comparison of maturities of financial assets and liabilities.

As at 30 June 2017 and 31 December 2016, the Group negotiated with creditors to change the thresholds for the financial covenants in order to avoid non-compliance with obligations to creditors. As at 31 December 2016, waivers were received for credit agreements concluded with HSBC France and the Development Bank of Kazakhstan. Waivers were also agreed with HSBC France, the Development Bank of Kazakhstan, and EBRD as at 30 June 2017

Critical Accounting Judgments and Estimates

The preparation of the Interim Financial Statements and the Annual Financial Statements in conformity with IFRS requires management to make judgments and use estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the Interim Financial Statements and the Annual Financial Statements and the reported amounts of revenue and expenses during the relevant reporting periods. 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.

The following discussion is qualified in its entirety by reference to the discussion of the Group's significant accounting policies contained in Note 4 of the Annual Financial Statements.

Control Assessments

Control over KazAutoZhol National Company JSC

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

Control over Aktau International Sea Commercial Port National Company JSC

Aktau International Sea Commercial Port National Company JSC is recognized as a subsidiary of the Group, although the Group does not legally own shares in Aktau International Sea Commercial Port. The Group assessed whether it has control over Aktau International Sea Commercial Port, considering all relevant facts and circumstances arising from a trust management agreement concluded with Samruk-Kazyna, the legal owner, in respect of its 100% ownership interest in Aktau International Sea Commercial Port. The Group concluded that it controls Aktau International Sea Commercial Port. In reaching this judgment, Management considered the broad power granted to the Group by Samruk-Kazyna, which gives the Group the practical ability to unilaterally direct the relevant activities of Aktau International Sea Commercial Port to affect its returns to the Group.

Control over airports

The Group and the State Property Committee have entered into an agreement on the trust management of 100% of the state-owned shares of joint-stock companies Kokshetau Aircompany, Petropavlovsk International Airport, Astana International Airport, Kostanay International Airport and Shymkent Airport, which are owned by the Ministry of Transport and Communications of Kazakhstan, and shares of joint-stock companies Aktobe International Airport, Atyrau International Airport and Pavlodar Airport, which are accounted for on the balance sheet of Samruk-Kazyna. The Group has not recognised the airports as subsidiaries as the Group is acting as an agent and does not control these airports. This agreement does not entitle the Group to any returns from the operating activities of the airports.

Control over Khorgos International Centre of Boundary Cooperation JSC

The Group entered into a trust management agreement with the State Property Committee in respect of a100% equity interest in JSC Khorgos International Centre of Cross-border Cooperation ("**Khorgos**"), a state-owned company. The Group has not recognised Khorgos as a subsidiary as the Group is acting as an agent, exercising decision-making authority for and on behalf of the State Property Committee, and does not control the entity. This agreement does not entitle the Group to any returns from the operating activities of Khorgos.

Control over Tulpar-Talgo LLP

The Group, represented by its subsidiary Remlocomotive JSC, owns a 99.99% interest in Tulpar-Talgo LLP. On 15 May 2015, the Group and Patentes Talgo S.L.U., sole founder of Talgo Kazajstan S.L., entered into a preliminary agreement on sale of 51% of the shares in Tulpar-Talgo LLP, under which the Group received an advance of €23.0 million (KZT 4,661.4 million). The agreement provides certain conditional clauses, including Samruk-Kazyna's approval of the transaction by the stated date, reimbursement of financial consequences of changes in Euro/Tenge exchange rate, as well as an increase in the purchase price of passenger coaches delivered in 2015 or later in the case of growth of the exchange rate of the Euro against the Tenge, which results in increased costs for the production of these passenger coaches. In October 2016, the State Commission on Modernisation of the Economy of Kazakhstan approved the direct sale of shares in Tulpar-Talgo LLP to Talgo Kazajstan S.L. As at 30 June 2017, the Group received all approvals and signed agreements for an increase in the purchase price for passenger coaches. Management still considers the sale of shares in Tulpar-Talgo LLP as highly probable. Accordingly, it classifies the subsidiary within the disposal group classified as held for sale and discontinued operations. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Restructurings and Privatisations*".

Control over Kazakhstan Wagon Construction Company LLP

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

Control over Astana Diesel Service LLP

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

Loans at a rate below the market interest rate

The Group receives loans from Samruk-Kazyna and the Government at a rate below the market rate of interest 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 (amortized cost) of these loans using market rates on governmental long-term treasury bonds with comparable maturities and recognizes an adjustment to the loan value (less the related deferred tax) within equity. When no comparable maturities exist, the Group extrapolates the most comparable market rates to the life of the loan received by the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Assets classified as held for sale

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

Impairment of Tangible and Intangible Assets

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

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

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

Depreciation of Property, Plant and Equipment and Amortisation of Intangible Assets

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

As at 31 December 2016, the estimated useful lives used by the Group were as follows:

	Estimated Useful Life *(Years)*
Buildings and construction	10-140
Railway infrastructure	5-100
Machinery and equipment	3-35
Transport	4-40
Other	2-50
Intangible assets	1-10

Recoverability of VAT

At each reporting date, the Group assesses the recoverability of VAT arising on sales to customers on international transportation. The Group cannot charge VAT onwards to these customers, and, accordingly, can only receive these amounts through a collection from the tax authorities. In assessing the recoverability of the VAT recoverable, the Group considers information from its internal tax department regarding projected collection of VAT, 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.

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 22.63% 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 the date of the Interim Financial Statements and Annual Financial Statements. Any difference between the estimated amount and the actual amount paid, if any, could have a significant impact on future operating results.

KAZAKHSTAN'S ECONOMY AND THE RAILWAY INDUSTRY IN KAZAKHSTAN

Kazakhstan's Economy

Kazakhstan has been recognised by both the EU and the United States as having a "market economy". The World Bank has noted that, since gaining independence in 1991, Kazakhstan has maintained a strategic focus on economic development, including through the privatisation of state assets, liberalisation of capital controls, tax reforms and pension system development. Further, Kazakhstan is considered to be a vital hub for trade across the Central Asia region, including Russia, China and the former Soviet states.

The Kazakhstan economy is highly resource-dependent and is primarily driven by exports of oil, gas and minerals, which account for more than 70% of the country's total exports. The U.S. Department of State has noted that, in addition to substantial oil and gas reserves, Kazakhstan has significant deposits of natural resources, including coal, iron, iron ore, copper, zinc, uranium and gold. Other key sectors of the Kazakhstan economy include manufacturing, agriculture and transportation. However, most non-resource sectors of the economy continue to be challenged by low productivity and competitiveness, resulting in Kazakhstan's economy being sensitive to commodity price fluctuations.

According to the IMF, Kazakhstan's economy is continuing to recover from negative economic shocks experienced since late 2014, including lower oil prices and softer commodities demand in Russia, China and the EU, along with significant exchange rate devaluations and depreciation and heightened market volatility in late 2015 and early 2016. According to Government statistics, real GDP growth was 4.1% in 2014, 1.2% in 2015 and 1.0% in 2016. The IMF forecasts real GDP growth to be 2.5% in 2017 and 3.4% in 2018, reflecting higher oil production and the effect of fiscal stimulus spending, and forecast non-oil growth to reach 4% by 2021. The IMF's forecasted unemployment rate for 2017 and 2018 is 5.0%. According to the IMF, inflation was 7.4%, 13.6% and 8.5% in 2014, 2015 and 2016, respectively. Inflation is forecasted by the IMF to be 7.3% in 2017 and 6.8% in 2018. According to the IMF, while economic buffers are strong, shocks have exposed vulnerabilities in the Kazakhstan economy, including its dependence on oil and other commodities, gaps in public administration, the business environment and competitiveness, and long-standing banking sector weaknesses.

Although the Tenge is convertible for current account transactions, it is not a fully convertible currency for capital account transactions outside Kazakhstan. Since the NBK adopted a floating rate exchange policy for the Tenge in April 1999, the Tenge has fluctuated significantly. The Tenge had generally appreciated in value against the U.S. Dollar over the previous decade until its devaluation by the NBK in February 2009. Between February 2009 and February 2014, the Tenge had generally stabilised. On 11 February 2014, the NBK devalued the Tenge by 18.3% to KZT 184.50 per U.S.$1.00. The NBK stated that such devaluation was made in light of the situation in the global financial and commodity markets and the depreciation of the Russian Rouble over the course of 2013 and 2014. In August 2015, the NBK announced the adoption of a free-floating exchange rate, which resulted in a 26.2% depreciation against the U.S. Dollar. As at 30 June 2017, the official KZT/U.S.$ exchange rate reported by the NBK was KZT 321.46 per U.S.$1.00, as compared to KZT 333.29 per U.S.$1.00 as at 31 December 2016, KZT 339.47 per U.S.$1.00 as at 31 December 2015 and KZT 182.35 per U.S. $1.00 as at 31 December 2014. See "*Risk Factors—Risk Factors Relating to the Republic of Kazakhstan—Further devaluations of the Tenge could have an adverse impact on the Group and Kazakhstan's public finances and economy*".

A Customs Union between Kazakhstan, Russia and Belarus was established on 1 January 2010, which marked an important milestone in regional integration. The Customs Union envisaged a unified customs territory within which customs tariffs and economical limitations are not applicable to mutual trade between entities of member states, except for certain protective, antidumping and compensational measures. Within the framework of the Customs Union, and following the removal of border customs between the member states in July 2011, Kazakhstan, Russia and Belarus established the Single Economic Space (the "**SES**"). In 2014 Kazakhstan, Russia and Belarus entered into the treaty establishing the EEU, which came into force in January 2015. This treaty incorporated the SES into the EEU's legal framework. The EEU provides for the free movement of goods, services, capital, and labour; and pursues a co-ordinated, harmonised and single policy in specified sectors of the economy, including the transport, technology and customs regulation sectors. In 2015, the EEU was enlarged to include Armenia and Kyrgyz Republic. In 2017, the member states of the EEU approved a new customs code, which is expected to enter into force in January 2018. See "*Business of the Group—International Co-operation*".

At the end of 2015, Kazakhstan joined the World Trade Organisation (the "**WTO**").

According to statistics published by the World Bank, in 2015 Kazakhstan's public debt, as a percentage of GDP, was relatively low (19.3%), as compared to members of the "Group of Eight" countries, such as Japan (198.0%), Italy (150.4%), the United States (97.8%), France (98.0%), Canada (54.7%), the United Kingdom (107.6%) and Germany (50.5%), as well as certain current and former members of the CIS, such as Ukraine (70.3%) and Georgia (41.3%). In addition, according to statistics published by the IMF and the Ministry of Finance of Kazakhstan, Kazakhstan's central bank reserves and national fund reserves have been increasing in recent years and, in 2016, were U.S.$88.6 billion (estimated) and U.S.$183.7 billion, respectively, as compared to U.S.$82.1 billion (estimated) and U.S.$186.7 billion, respectively, in 2015.

Economic Programmes and Initiatives

The President and the Government have launched a number of programmes and initiatives to stimulate economic growth and exports in Kazakhstan, a number of which include targets and policies affecting the Group and the transportation and logistics sector. A summary of the most relevant economic initiatives in the context of the Group's activities is set out below. The Company has adopted its Development Strategy to try to meet the aims and targets set out in these programmes and initiatives. See "*Business of the Group—Ongoing Restructuring and Initiatives—Development Strategy 2015-2025*".

2050 Strategy and National Plan

In December 2012, the President presented his annual message titled "*Strategy 'Kazakhstan – 2050': a new political direction for a successful state*" (the "**2050 Strategy**"), which targets Kazakhstan becoming one of the 30 most developed states in the world by 2050. The 2050 Strategy targets, among other things, the development of transit transportation, development and construction of the transport infrastructure system in Kazakhstan and establishment of transport and logistics facilities outside of Kazakhstan in major transit hubs.

In order to achieve the aims of the 2050 Strategy, in 2014, Samruk-Kazyna announced an overhaul to its business strategy, including its approach to the management of state-owned companies and investments (the "**SK Transformation Programme**"). As a result of the SK Transformation Programme, cost optimisation and new management mechanisms were introduced at state-owned companies, including the Company. The SK Transformation Programme also envisaged the sale of certain non-core assets and a programme of initial public offerings in respect of certain of the larger state-owned companies.

In May 2015, the President announced a national plan setting out 100 steps to address systemic domestic challenges and to implement the aim of the 2050 Strategy for Kazakhstan to become one of the 30 most developed states in the world by 2050 (the "**National Plan**"). The National Plan targets reforms to improve the civil service, advance the rule of law, accelerate industrialisation and economic growth, strengthen national identity and unity and increase government accountability.

The National Plan aims for the Company to become a major international operator and to conduct reforms aimed at developing alternative transportation routes to reduce the cost of freight transportation by more than twofold.

State Programme for Infrastructure Development

In April 2015, the Government's State Program of Infrastructure Development "Nurly Zhol" for 2015–2019 was approved by the President (the "**Infrastructure Development Programme**"). The Infrastructure Development Programme focuses on infrastructure to improve transport and logistics, energy, housing and utilities, and supports small- and medium-sized enterprises and other business activities. The Infrastructure Development Programme is aligned with the Chinese "One Road - One Belt" initiative, with five out of six routes passing through Kazakhstan. See "*Business of the Group—Key Strengths—Strategic Location and Proximity to China*".

One of the key objectives of the Infrastructure Development Programme is to establish efficient transport and logistics infrastructure. For example, it is envisaged that the Company will receive KZT 16.9 billion in capital injections from Samruk-Kazyna to implement its infrastructure projects at the Kuryk port by the end of 2017 (although the exact timing of receipt of such corporate injections cannot be guaranteed).

State Programme for Industrial Innovative Development

In August 2014, the state Program for industrial-innovative development for 2015–2019 was approved by the President (the "**Industrial Innovative Development Programme**"). The Industrial Innovative Development Programme aims to stimulate the diversification, and improve the competitiveness, of secondary industry in Kazakhstan, focused on, among other things, increasing production of value-added export products and ensuring conditions for modernisation and efficient industrial development.

President's 2017 Message

In January 2017, the President emphasised the importance of developing Kazakhstan's industry, agriculture, transport and logistics, construction and other sectors in his address to the nation. In respect of the transport sector, the President highlighted the importance of co-ordination with neighbouring countries to unlock Kazakhstan's transport and transit potential and to ensure the free transit of goods and the creation and modernisation of transport corridors. In particular, the President urged reform of transport infrastructure management, increased service levels and the elimination of administrative barriers. The President also targeted a seven-fold increase in volumes of transit traffic through Kazakhstan to two million containers by 2020.

2016 Complex Privatisation Plan

In September 2015, the Government announced plans to launch a new, large-scale privatisation programme. On 30 December 2015, the Government issued Decree № 1141, which sets out the Government's 2016 Complex Privatisation Plan. The 2016 Complex Privatisation Plan includes a list of national companies and subsidiaries of national companies, including certain of the Company's subsidiaries, which have been identified as companies to be privatised. See "*Risk factors—Risk Factors Relating to the Group—The Government, which indirectly control the Company, may cause the appointment or removal of members of the Company's management team or require the Company to privatise certain of its assets*".

Railway Industry

Overview

Kazakhstan is located in Central Asia and is bordered to the north by Russia; to the east by China; to the south by Kyrgyz Republic, Uzbekistan, and Turkmenistan; and to the west by the Caspian Sea. The country covers an area of 2.7 million square kilometres and, in terms of land mass, is the ninth largest country in the world and the second largest country, after Russia, in the CIS. The transportation industry is one of the most significant sectors of Kazakhstan's economic structure.

The Kazakhstan railway system originally formed part of the Soviet Union's rail network and was divided into three railways operated under the control of the Soviet Railway Ministry. Due to the predominance of bulk raw materials carried over long distances, the three railways were among some of the most profitable in the Soviet Union. After the dissolution of the Soviet Union in 1991, the economic disruption and falling production levels throughout the former Soviet Union caused a sharp decline in rail transportation volumes in the 1990s. After Kazakhstan's independence, the Government kept certain tariffs artificially low and provided directed tariff discounts to certain industries, in particular, the mining industry. Even with financial assistance in the form of directed discounts, some entities were unable to afford the cost of rail transportation, which resulted in a decline in railway traffic volume. The decline in railway traffic volume, coupled with a decline in Government aid, had a significant impact on railway revenues, and, in order to remain operational, the railroad operators that were the Company's predecessors were forced to defer fleet renewals and maintenance programmes.

The reform of the Kazakhstan railway sector began in 1997 after the Government realised that its prior strategy was unsustainable. The Government merged the three railways existing at that time and established the Railway Republican State Enterprise to restructure the rail network by consolidating its activities and stabilising its financial condition. Despite the restructuring efforts from 1997 to 2000, the Government recognised the need for further fundamental restructuring of the railway sector and, in 2002, created the Company to serve as the State railroad enterprise.

The restructuring of the Group and the Kazakhstan railway industry is still ongoing and, in line with Government programmes and the Company's Development Strategy, it is expected that the Group will undergo further reorganisation, including the disposal of non-core subsidiaries and the redistribution of responsibilities and core assets. See "*Business of the Group—Ongoing Restructuring and Initiatives*".

The Rail System

Kazakhstan's railway system, which is wholly-owned and operated by the Group, consists of the mainline railway network, also known as corridors, which connect to rail networks in Russia, the Kyrgyz Republic, Uzbekistan, Turkmenistan and China, as well as ancillary tracks. As at 1 January 2017, the railway system had an operational length of 15,529.8 kilometres, of which 4,217.0 kilometres were electrified tracks. The operational length includes 4,885.6 kilometres of double tracks and 14.7 kilometres of triple tracks.

Kazakhstan railways, according to the World Bank, are some of the busiest railways in terms of traffic volume among the countries in the Eastern Europe and Central Asia region. The Asian Development Bank notes in its Country Partnership Strategy for Kazakhstan 2017-2021 that connectivity with Kazakhstan is supported by a well-developed railway network, which the World Economic Forum ranks 23rd among 108 countries. The Kazakhstan railway system covers the majority of Kazakhstan and connects all 14 regions (oblasts) and offers service to Kazakhstan's biggest cities, such as Almaty, Astana, Pavlodar, Kostanay, Kokshetau, Semey, Taraz, Shymkent, Kyzylorda, Aktobe, Atyrau, Karaganda and Ustkamenogorsk. The railway system is an integrated national passenger and freight railway track, meaning that passenger trains and freight trains operate on the same lines.

As at 31 December 2016, there were 1,778 locomotives operating on the mainline railway network, of which 1,697 were owned and operated by the Group.

The following map gives an overview of the reach of the Kazakhstan railway as at the date of this Offering Memorandum:

The following table sets forth certain information regarding the nine mainline railway networks as at and for the six months ended 30 June 2017:

Mainline Network	Brief Description	Freight Turnover	Length[1]
		(billion tonne—km)	*(km)*
Mangyshlak - Beineu - Makat - Kandyagash Arys - Lugovaya - Almaty - Aktogay - Dostyk..	Connects the Western Kazakhstan to the Kazakhstan-China border through the southern regions of Kazakhstan	56.7	4,137
Presnogorkovskaya - Kokshetau - Astana - Dostyk..	Connects the Kazakhstan-Russia border to the Kazakhstan-China border	36.4	2,055
Petropavlovsk - Astana - Dostyk..................	Connects Northern Kazakhstan to the Kazakhstan-China border	33.1	1,914
Tobol - Astana	Connects Northern Kazakhstan to the capital of Kazakhstan	20.5	769
Iletsk - Aktobe - Kandyagash - Arys - Saryagash...	Connects Russia to Southern Kazakhstan	24.9	1,754
Semiglavyi Mar - Kandyagash - Ayrs - Lugovaya - Almaty - Aktogay – Dostyk......	Connects the Western Kazakhstan-Russia border to the Kazakhstan-China border	47.3	3,385
Saryagash - Arys - Lugovaya - Aktogay - Dostyk..	Connects Southern Kazakhstan to the Kazakhstan-China border	28.1	1,836
Diny Nurpeisovoy - Makat - Beineu - Oasis	Connects the Western Kazakhstan-Russia border to the Kazakhstan-Uzbekistan border	7.5	790
Makat - Kandyagash – Nickeltau	Connects the Western Kazakhstan to the northwest portion of the Kazakhstan-Russia border	8.8	605

Note:

(1) Several of the mainline networks overlap and share common tracks. As at 31 December 2016, the Kazakhstan railway system had 15,529.8 kilometres of operational rail track.

Kazakhstan's railway system provides rail access throughout most of the country for transportation of freight within Kazakhstan ("**domestic**"), transportation of freight from within Kazakhstan to destinations outside of Kazakhstan ("**export**"), transportation of freight from outside of Kazakhstan to destinations within Kazakhstan ("**import**") and transportation of freight that originates outside of Kazakhstan and passes through Kazakhstan en route to its final destination outside of Kazakhstan ("**transit**"). Kazakhstan's railway system also includes an extensive passenger network, providing intercity and suburban, inter-regional and international passenger services throughout Kazakhstan. Kazakhstan's rail networks constitute a significant part of several international railway networks including the Trans-Asian railroad. See "*Business of the Group—The Rail System—International Transit Corridors*".

The Company is responsible for building, maintaining and modernising Kazakhstan's railway system. In accordance with the Law on Railway Transport dated 8 December 2001 (the "**Law on Railway Transport**"), the Company is tasked with implementing the construction, maintenance and modernisation of the mainline railway network in line with Government programmes regarding the same. Government Resolution No. 651 dated 30 June 2008 sets forth that 100% shares of the Company and the mainline railway network are a strategic asset. The Law on Railway Transport provides that the mainline railway network and 90% plus one share of the Company are not subject to privatisation. The Group provides private carriers with access to the mainline railway network in exchange for the collection of approved tariffs. See "*Business of the Group—Government Regulation and Tariffs—Freight Tariff Regulation and Pricing*".

Freight Transportation, Passenger Transportation and International Trade

The railway system plays a particularly important role with respect to freight transportation in Kazakhstan. The World Bank has noted that, as a result of certain geographical characteristics particular to Kazakhstan, such as its vast territory, landlocked position and highly dispersed population, location of natural resources and location of centres of economic activity, the Kazakhstan economy is heavily reliant on rail freight transportation. In addition, Kazakhstan has one of the busiest railways in terms of traffic volume among the countries in the Eastern Europe and Central Asia regions. Moreover, Kazakhstan's railway plays an important role in transporting coal, minerals and other commodities over vast distances, typically 1,000 kilometres or more, as Kazakhstan's economy places a heavy emphasis on the production of raw materials and intermediate goods. The Kazakhstan railway system also includes an extensive passenger network, providing suburban, intercity and interregional passenger services throughout Kazakhstan. Although passenger transportation is important in Kazakhstan, it does not have the same level of activity as that of freight transportation.

According to data published by the International Union of Railways, for the year ended 31 December 2016, net freight turnover for select state-owned railway companies was as follows: China National Rail (China) – 1,920 billion tonne-kilometres; Russian Railways (Russia) - 2,342 billion tonne-kilometres; Canadian Pacific Canadian National Railway (Canada) - 300 billion tonne-kilometres; Ukrainian Railways (Ukraine) - 195 billion tonne-kilometres; the Group (Kazakhstan) - 235 billion tonne-kilometres and Deutsche Bahn (Germany) - 94 billion tonne-kilometres.

Kazakhstan serves as a vital hub for trade from Russia, China, the EU and the Republics of Kyrgyzstan, Uzbekistan and Turkmenistan. Kazakhstan's geographic location provides the country with a strategic opportunity to service freight transit from and to the north, south, east and west. For example, the Government has noted that Kazakhstan's position in Asia allows the country to exploit potential rail transit needs as there are few other alternatives for Asian states to connect to Russia and Europe. Although the EU and Russia are key countries for trade, opportunities for Kazakhstan as a transit country are expected to come from China over the immediate and mid-term because of China's robust and growing economy, particularly in its Western region, which provides increased demand for deliveries of large-scale goods to global markets. Located between two major trade partners the EU and China, at present, Kazakhstan does not sufficiently use its transit capabilities. The President and the Government have adopted a number of initiatives and programmes aimed at increasing transit through Kazakhstan (see "*—Kazakhstan's Economy—Economic Programmes and Initiatives*"). It is expected that the trade and traffic volumes between the EU and China will continue growing to reach U.S.$781 billion and 17 million twenty-foot equivalent units ("**TEU**"), respectively, by 2020, and Kazakhstan's target is to transport up to 2 million TEU of container transit by 2020.

Because Kazakhstan's economy is heavily dependent on commodity exports and freight transportation, an efficient railway system is considered essential in order to develop domestic and international trade. Provided that inefficiencies currently existing in the Kazakhstan railway system can be overcome or sufficiently managed, Kazakhstan is in a position to exploit international trade through its railway system given the country's strategic geographic location between Russia, Europe and China and China's growing economy.

BUSINESS OF THE GROUP

Overview

The Group is the national transportation and logistics operator for Kazakhstan and is responsible for rail and sea transportation, as well as the provision of transport and logistics centres, including a seaport, airports and railroad infrastructure. The Group's primary function is operator of Kazakhstan's national railway and controls and operates Kazakhstan's national railway system and related infrastructure. The Company was established by a decree of the Government, which, through its wholly-owned subsidiary, Samruk-Kazyna, owns all of the outstanding shares of the Company. As Kazakhstan's national railway company, the Company has a natural monopoly over the provision of services on Kazakhstan's mainline railway network and, through its subsidiary, KTZFT, is the dominant provider of railway freight transportation and, through its subsidiary, JSC Passenger Transportation, is the dominant provider of passenger transportation. The Group is one of the largest employers and taxpayers in Kazakhstan and is also a significant contributor to the development of the infrastructure necessary to transport raw materials and finished goods, both into and out of Kazakhstan. Due to Kazakhstan's limited access to navigable water routes, underdeveloped road infrastructure and its dependence on the export of raw materials (predominantly commodities) and import of finished goods, the railway system is a crucial component of Kazakhstan's economic growth.

The Group is responsible for the maintenance, operation and modernisation of Kazakhstan's mainline railway network and provides railway transportation, infrastructure and support services, which include maintaining all railway infrastructure, machinery and equipment in Kazakhstan; ensuring the safety of railway operations; developing material and technical systems for the railway network; and establishing international railway transit corridors as agreed with the Ministry of Transportation.

In addition, in connection with Government initiatives for the development of transportation logistics, which is a relatively new priority in Kazakhstan's transportation sector (with the overall target of increasing the number of containers transiting through Kazakhstan to 2.0 million by 2020 in order to increase overall freight transportation), the President instructed the Government and Samruk-Kazyna to create a multi-level vertically-integrated transport and logistics holding company, combining, *inter alia*, logistics and transport companies, with the objective of developing Kazakhstan's transit capacity and integrating infrastructure. Accordingly, in 2013, the Company's subsidiary, KTZ Express, became the national transportation and logistics operator responsible for institutional development and operational coordination and tasked with the expansion of transportation and logistics services to create a viable infrastructure and consolidating operating assets to achieve the Government's freight transportation and handling objectives. Since 2013, the Group has transitioned from a railway company to a national logistics group that is responsible for rail and sea transportation and KTZ Express has been responsible for the management and operation of transport and logistics companies and centres, including a seaport and airport infrastructure, although the majority of such companies and infrastructure is owned by the State. KTZ Express' activities are expected to support the Group's core business of freight railway transportation and, in particular, transit freight transportation.

For the six months ended 30 June 2017, the Group had overall freight turnover of 98.0 billion tonne-kilometres, reflecting an 11.2% increase from 88.1 billion tonne-kilometres for the corresponding period in 2016. For the year ended 31 December 2016, the Group had overall freight turnover of 188.2 billion tonne-kilometres, reflecting a 0.8% decrease from 189.8 billion tonne-kilometres for 2015. The Group's freight turnover accounted for 59.5% (including freight transported in third-party wagons hauled by the Group, calculated in accordance with data published by the Statistics Committee) and 47% (excluding freight transported in third party wagons, according to the Company's own data) of all freight turnover in Kazakhstan by all modes of transport (excluding pipelines) for the year ended 31 December 2016, as compared to 59.8% and 46.4%, respectively, for the year ended 31 December 2015. The Group's freight transportation revenue increased by 9.1% to KZT 352,326.4 million for the six months ended 30 June 2017, as compared to KZT 322,899.3 million for the corresponding period in 2016, accounting for 84.4% and 84.2%, respectively, of total consolidated revenue. For the year ended 31 December 2016, the Group's freight transportation revenue increased by 9.4% to KZT 688,204.3 million, as compared to KZT 629,049.7 million for 2015, accounting for 83.6% of total consolidated revenue in each of 2016 and 2015. For the six months ended 30 June 2017, revenue from export freight transportation accounted for 18.5% of total freight transportation revenue, as compared to 26.4% from domestic freight transportation, 26.2% from transit freight transportation, 11.2% from import freight transportation and 17.6% from other freight transportation (as compared to 18.3%, 29.5%, 31.0%, 10.2% and 11.1%, respectively, for the corresponding period in 2016). For the year ended 31 December 2016, revenue from export freight transportation accounted for 18.2% of total freight transportation revenue, as compared to 26.5% from domestic freight transportation, 30.9% from transit freight transportation, 10.5% from import freight transportation and 13.8% from other freight transportation (as compared to 19.8%, 28.7%, 24.9%, 11.5% and 15.1%, respectively, for 2015 and 22.6%, 30.3%, 21.1%, 11.6% and 19.6%, respectively, in 2014). See "*—Transportation Services—Freight Transportation*".

For the six months ended 30 June 2017, the Group had passenger turnover of 9.4 billion passenger-kilometres, reflecting a 6.8% increase from 8.8 billion passenger-kilometres for the corresponding period in 2016. For the year ended 31 December 2016, the Group had a passenger turnover of 16.5 billion passenger-kilometres, reflecting an increase of 6.4% from 17.1 billion passenger-kilometres for 2015. The Group's passenger transportation revenue increased by 4.2% to KZT 37,650.8 million for the six months ended 30 June 2017 from KZT 36,135.7 million for the corresponding period in 2016, accounting for 9.0% and 9.4%, respectively, of total consolidated revenue. For the year ended 31 December 2016, the Group's passenger transportation revenue increased by 11.6% to KZT 80,133.6 million from KZT 71,787.4 million for 2015, accounting for 9.7% and 9.5%, respectively, of total consolidated revenue. See "*—Transportation Services—Passenger Transportation*".

As at 31 December 2016, the assets of the Group included:

- 15,529.8 kilometres of operational rail track, of which 4,217.0 kilometres were electrified tracks;
- 824 stations and operating points, including: (i) six distributing stations, where trains are linked or unlinked and locomotives are changed; (ii) 72 freight stations, where freight can be processed; (iii) 66 division stations, where transit freight can be processed; and (iv) 680 wayside stations, where trains can be temporarily idled to make way for passing trains;
- 1,697 locomotives;
- 56,732 freight cars;
- 2,547 passenger cars;
- 20,277 track switches;
- eight airports (under trust management); and
- one seaport (under trust management).

See "*Transportation Services—The Rail System*" and "*Kazakhstan's Economy and the Railway Industry in Kazakhstan—Railway Industry—The Rail System*".

Relationships with the Government

The Government exercises indirect control over the Group through its regulatory and legislative powers. As the Company's sole shareholder, Samruk-Kazyna has the exclusive right to, among other things, determine when dividends are paid by the Company and elect the Company's Board of Directors, as well as the Chairman of the Company's Management Board. As at the date of this Offering Memorandum, four of the eight members of the Company's Board of Directors are representatives of the Government or Samruk-Kazyna and the Chairman of the Board of Directors is Mr. Askar Mamin, First Deputy Prime Minister of Kazakhstan. In addition, since Samruk-Kazyna is wholly-owned by the Government, the Government has the right to determine general policy with respect to the Group's activities and corporate governance matters, including by passing resolutions with respect to sales of the Company's shares and its reorganisation. The Government may not, however, interfere in the day-to-day operations of Samruk-Kazyna or the Group, except as provided by law or as decreed by the President. See "*Risk Factors—Risk Factors Relating to the Group—The Government, which indirectly controls the Company, may cause the appointment or removal of members of the Company's management team or require the Company to privatise certain of its assets*".

The Company's status as a natural monopoly and the status of its subsidiaries, KTZFT and JSC Passenger Transportation, as dominant providers of freight transportation and passenger transportation, respectively, subject the relevant Group members to regulation by the Government, which includes limitations on the amounts these entities may charge customers for their services. See "*—Government Regulation and Tariffs*". In addition, the transport and logistics sector industry in Kazakhstan, generally, and the Group, specifically, have undergone and continue to undergo reforms and restructuring. See "*—Ongoing Restructuring and Initiatives*".

The Government also exerts influence on the Group's financial results through the provision of grants to subsidise passenger transportation and other funding, principally equity injections and shareholder loans, including on concessional terms, for capital expenditures and other investment projects of the Group. See "*Risk Factors—Risk Factors Relating to the Group—The Government, which indirectly controls the Company, may cause the appointment or removal of members of the Company's management team or require the Company to privatise certain of its assets*."

A potential initial public offering by Samruk-Kazyna of a minority stake in the Company (not to exceed 49%) is contemplated by the Government's 2016 Complex Privatisation Plan, although the terms and timing of any such offering have not been finalised. On 17 October 2016, the State Committee on Modernisation of Economy of Kazakhstan, chaired by the Prime Minister of Kazakhstan, concluded that any privatisation of the Company should not take place before 2020. The 2016 Complex Privatisation Plan also identifies certain of the Company's subsidiaries to be privatised and the Company is in the process of disposing of certain non-core subsidiaries. See "*—Ongoing Restructuring and Initiatives*".

See "*Risk Factors—Risk Factors Relating to the Group—The Group has historically received, and continues to rely on, support from the Government, which indirectly controls the Company and may cause it to engage in business practices that conflict the Company's commercial interests and the interests of the Noteholders*".

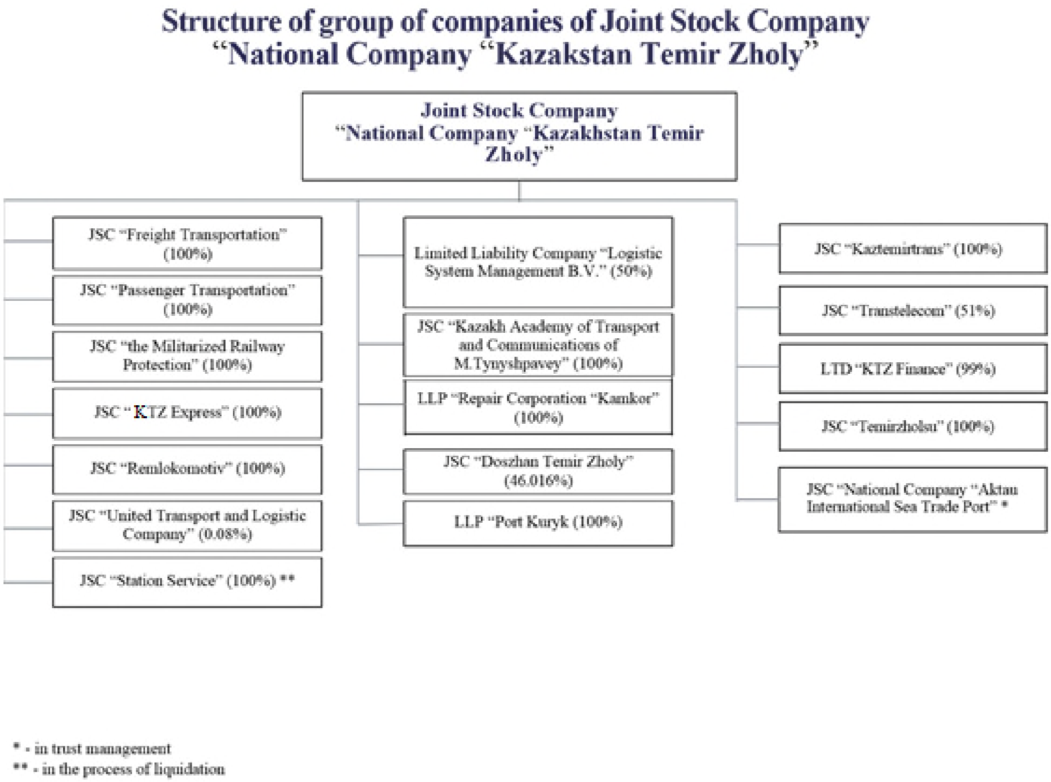
The Company

The legal name of the Company is Joint Stock Company "National Company "Kazakhstan Temir Zholy". The Company is a Kazakhstan joint stock company as defined in the Civil Code of Kazakhstan, the JSC Law (as defined below) and other legislative acts of Kazakhstan, operating under business identification number 020540003431. The Company is wholly-owned by the Government through Samruk-Kazyna. See "*Share Capital and Principal Shareholder—Samruk-Kazyna*". The Company was established pursuant to Government Resolution No. 310 dated 15 March 2002, as amended by Government Resolutions No. 313 dated 15 March 2002, No. 479 dated 27 April 2002, No. 1051 dated 25 September 2002, No. 1404 dated 28 December 2002 and No. 1389 dated 25 December 2004. The date of incorporation of the Company is 15 May 2002 and the Company is listed in the Register of Industries Having Strategic Importance and Falling under State Monitoring of Ownership pursuant to the Government Resolution No. 810 dated 30 July 2004.

The business address and registered office of the Company is 6 Konaeva Street, Esil District, Astana, 010000, the Republic of Kazakhstan and its telephone number is +7 (7172) 60 47 77.

The Group

The following chart sets forth the structure of the Group as at the date of this Offering Memorandum.



As at 2 October 2017, the Company had the following subsidiaries:

Subsidiary	Nature of Activities	Country of residence	Ownership Share (%)
Kaztemirtrans JSC	Ownership of cargo wagons	Kazakhstan	100
Passenger Transportation JSC	Passenger transportation	Kazakhstan	100
KTZ – Freight Transportation JSC	Freight transportation and locomotive haulage services	Kazakhstan	100
KTZ Express JSC	Multimodal freight services	Kazakhstan	100
Temirzholsu JSC	Utilities	Kazakhstan	100
Remlocomotive JSC	Production and repair of rolling stocks	Kazakhstan	100
Transtelecom JSC	Communication services	Kazakhstan	51
Militarized Railway Guard JSC	Security services	Kazakhstan	100
"Repair Corporation "Kamkor" LLP	Production of machinery	Kazakhstan	100
Vokzal Service JSC	Railway stations activities	Kazakhstan	100
Kazakh Academy of Transport and Communications named after M. Tynyshpaev JSC	Education, training and retraining	Kazakhstan	100
Aktau International Sea Commercial Port National Company JSC	Sea port services, loading and unloading, vessel servicing	Kazakhstan	100
Port Kuryk LLP	Transfer of cargo and vessels servicing	Kazakhstan	100
LTD «KTZ Finance»	Financial, monetary mediation; issue, investment activities; granting loans	Russian Federation	99

Key Strengths

The Company believes that it benefits from the following key strengths:

- **Status as National Railway Company of Kazakhstan and Strategic Element of the Kazakhstan Economy.**

  The Group owns and operates Kazakhstan's national railway system and related infrastructure. Consequently, the Group has a dominant role in Kazakhstan freight and passenger transportation, plays a strategic role in the overall Kazakhstan economy and is among the highest-rated Kazakhstan issuers rated by the international credit rating agencies. According to data published by the Statistics Committee, the Group's freight turnover for 2016, which includes freight transported in third party wagons hauled by the Group, accounted for 59.5% of all freight turnover in Kazakhstan by all modes of transportation (excluding pipelines) for that period. The Group also provides significant domestic passenger transportation services in Kazakhstan, with overall passenger turnover of 18.2 billion passenger-kilometres in 2016. The Group is a significant contributor to the Government's budget, as one of the largest taxpayers in Kazakhstan paying KZT 82 billion in taxes in 2016, and is significant employer in Kazakhstan, employing an average of 130,270 people in the six months ended 30 June 2017. See "*Management and Employees*".

  Kazakhstan is a major producer and exporter of natural resources, with commodities accounting for approximately 36% of Kazakhstan's GDP in 2016. As evidenced by the statistics set out above, railways are the key method of transportation both within Kazakhstan and for export. Accordingly, the Kazakhstan economy is reliant on rail freight, in particular, in the transportation of oil and oil products, coal, minerals, grain and other commodities, as well as intermediate goods, all of which are the country's main export items and are transported by the Group.

- **Strong Government Support.**

  The Group has historically received, and continues to receive, strong financial support from the Government through its sole shareholder, Samruk-Kazyna, as well as other Government-funded support. This support includes capital contributions to finance the Group's operations, railway and logistics infrastructure development and capital expenditures, government grants for its passenger transportation business and other financial support, such as concessional rate loans. Between 1 January 2014 and 30 June 2017, the Group received KZT 440.2 billion in various forms of Government contributions, including KZT 329.5 billion in capital contributions for the realisation of strategic infrastructure projects, KZT 33.3 billion in concessional rate shareholder loans from Samruk-Kazyna and KZT 77.4 billion in Government grants for the transportation business.

Government grants for the Group's passenger transportation business accounted for 2.0%, 2.9% and 2.8% of total consolidated revenue for the six months ended 30 June 2017 and the years ended 31 December 2015 and 2014, respectively. In 2016, the Company registered the Government Financing Bond Programme, pursuant to which it has access to up to KZT 200 billion in Government support. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Liquidity and Capital Resources—Borrowings—Government Financing Bond Programme*" and "*Risk Factors—Risk Factors Relating to the Group—The Group has historically received, and continues to rely on, support front the Government, which indirectly controls the Company and may cause it to engage in business practices that conflict with the Company's commercial interests and the interests of the Noteholders.*"

The Group has also received significant financial support from Samruk-Kazyna and the Government for the implementation of strategic Government infrastructure projects, including (among others): (i) the construction of the Zhezkazgan-Beyneu and Arkalyk-Shubarkol railways (aggregate designated capital injections of KZT 132.4 billion between 2014 and 2016), (ii) the development of infrastructure in Astana, including construction of a new terminal at Astana airport, which is under trust management of the Group (designated capital injections of KZT 47.5 billion between 2015 and the first half of 2017) and a new railway station (designated capital injections of KZT 42.5 billion in 2016); (iii) the construction of a ferry complex at Kuryk port (aggregate designated capital contributions of KZT 79.1 billion between 2015 and the first half of 2017, and further capital injections of KZT 16.9 billion expected in the second half of 2017); (iv) the development of a new economic zone in Khorgos (designated capital injections of KZT 36.8 billion in 2014 and 2015); (v) the construction of the Almaty 1-Shu railway (designated capital injections of KZT 27.7 billion in 2015 and 2016); and (vi) the construction of the Borzhakty-Ersay railway (designated capital injections of KZT 6.7 billion in 2015). In 2016, capital contributions from the Government accounted for 42.0% of funds used for capital expenditures, while Company funds, loans from banks and concessional loans from Samruk-Kazyna accounted for 41.2%, 15.1% and 1.8%, respectively.

- **Responsibility for Implementing Transport-Related Government Strategy.**

  As a national transport and logistics group, the Group plays a significant role in the implementation of the Government's plans to develop Kazakhstan's railway and logistics infrastructure and transport policy. The Group is charged with implementing a number of targets aimed at the improvement of transportation infrastructure and export potential set out in programmes such as the National Plan and the Infrastructure Development Plan. See "*Kazakhstan's Economy and the Railway Industry in Kazakhstan—Kazakhstan's Economy—Economic Programmes and Initiatives*".

  Through its Development Strategy and as Kazakhstan's national railway operator and service provider, the Group is responsible for promoting the development of Kazakhstan's transportation and logistics capacity and co-operates closely with the Government, including by carrying out certain measures identified by the Government in its 2016 Complex Privatisation Plan, with the aim of achieving the targets set out in the Government's 2050 Strategy. This includes the target of increasing the number of containers transiting through Kazakhstan to 2.0 million by 2020, compared to approximately 350,000 expected in 2017 (with the overall aim of increasing freight transportation).

  The Company continues to believe that it has the strong support of the Government, which has historically assisted the Company by providing financing and strategic support and otherwise played an important role in the expansion of the Company's operations.

- **Strategic Location and Proximity to China.**

  Kazakhstan (and the Group's infrastructure) is a key transport hub connecting China, the EU, Russia and CIS countries. In particular, the Company believes that Kazakhstan's geographic position relative to China affords Kazakhstan unique opportunities to capitalise on China's economic growth by facilitating both

China's import of raw materials from the EU and its export of finished goods to countries in Europe as the volume of trade between the EU and China continues to increase. The Government's objective is to provide railway services that will promote an increase in trade volumes between China and the EU overland through Kazakhstan. The Company believes the transit route from China to Europe through Kazakhstan has several advantages, including that it is faster than the current sea route through the Suez Canal or competing rail routes through other countries and is cheaper than transporting by air freight **.** As a result, the Company believes that, in the future, it could attract an increasing amount of freight traffic away from these alternative routes.

An additional development that the Company believes has increased and will continue to increase the flow of transit freight traffic between China and the EU through Kazakhstan is the significant number of initiatives being undertaken by the Chinese government to develop the Xinjiang Uyghur Autonomous Region ("**XUAR**") adjacent to the Kazakhstan-China border. In addition, the continued implementation of a Chinese integrated transport strategy and the "Go West" programme for accelerated development of the western provinces of China was designed to bridge the gap between the economically developed coastal areas of China and less developed western regions. As a result of the implementation of a transit growth strategy, the volume of transit container traffic in the China-Europe-China transiting through Kazakhstan increased from approximately KZT 11,000 TEU in 2011 to approximately KZT 105,000 TEU in 2016. In addition, if implemented, the Company expects that the "One Road – One Belt" programme announced by the Chinese government, which aims to boost trade and economic growth through the creation of infrastructure to connect China to infrastructure in other countries, will have a positive impact on transit freight traffic between China and the EU, which, in turn, could increase transit through Kazakhstan. The Infrastructure Development Programme is aligned to the "One Road - One Belt" initiative, with five out of six routes passing through Kazakhstan. See "*Kazakhstan's Economy and the Railway Industry in Kazakhstan—Kazakhstan's Economy—Economic Programmes and Initiatives*".

Through the creation of favourable conditions for transit and the elimination of existing physical and non-physical barriers to trade, the Company believes these programmes will help increase the Kazakhstan railway's role in acting as a land bridge between East and West, paving the way for increases in the transit of goods from the western part of China to Europe. The Group is also implementing certain logistics infrastructure projects to encourage further transit development. For example, in January 2014, KTZ Express and the operator of the Lianyungang Port entered into a joint venture agreement to construct and develop a new terminal at the Lianyungang Port, which is now the main point for the consolidation of cargo flows to and from Kazakhstan and the key transit port for the transhipment of goods to and from countries in South-East Asia, as well as China's inland ports.

The Company has also entered into a number of strategic cross-border partnerships, including signing an agreement with Russian Railways in August 2017 to jointly develop trans-Eurasian transit.

- **Geographic Reach and Flexibility of Services.**

  The geographic reach of the railway system allows the Group to take advantage of evolving regional economic centres, as the Group is able to divert resources and route traffic to areas with increasing transportation demand. The Company believes that this geographic reach will allow it to grow and evolve simultaneously with the development of the Kazakhstan economy and new trade routes, which will allow it to expand the railway system's throughput capacity, while increasing efficiencies by reducing the frequency of empty runs. The Company believes this strength is particularly significant due to the Kazakhstan economy's heavy dependence on commodity exports and freight transportation, as well as Kazakhstan's limited access to navigable water routes and underdeveloped road infrastructure.

- **Control over the major near-border logistic facilities, including Aktau Seaport and Khorgos-Eastern Gateway" SEZ.**

  The Company is in process of developing a transport and logistics and industrial hub (the "**Khorgos Hub**") at the Khorgos-Eastern Gateway" special economic zone ("**SEZ Khorgos**"). This hub is expected to connect SEZ Khorgos, the Khorgos to Zhetygen railway line and the "Western Europe-to-Western China" highway and to, in turn, to increase export and transit potential through Kazakhstan. The co-ordination of the activities of the Khorgos Hub and the Aktau Seaport, which is the main transport centre for international corridors such as the TRACECA and the North-South corridor (the "**North-South Corridor**") (connecting

Northern Europe with the Middle East through the Russian Federation and Kazakhstan) is expected to open up an effective route for freight transportation from Western and Central China to Europe and Turkey. The Company believes that this strength is significant as it will allow the Group to expand the trade routes across, and enhance the multimodal transit transportation potential of, Kazakhstan.

- **Broad Range of Services**

  The Group's principal activities involve providing a broad range of field-oriented services, such as operating the mainline railway network, freight and passenger traffic, logistics and infrastructure services, as well as services that are ancillary to field-oriented services. The Group's ability to offer customers a large array of transportation services enables it to realise efficiencies and economies of scale, which the Company believes give it an advantage over competitors.

Overview of the Business Operations of the Group

The Group provides the following services:

- **Transportation Services**

  The Company carries out freight transportation services, through its wholly-owned subsidiary KTZFT. Freight transportation services play a key role in the Group's business operations. Overall freight turnover for the Group was 98.0 billion tonne-kilometres and 88.1 billion tonne-kilometres for the six months ended 30 June 2017 and 2016, respectively. The Group's freight transportation revenue increased by 9.1% to KZT 352,326.4 million for the six months ended 30 June 2017, as compared to KZT 322,899.3 million for the corresponding period in 2016, accounting for 84.4% and 84.2%, respectively, of total consolidated revenue. For the year ended 31 December 2016, the Group's freight transportation revenue increased by 9.4% to KZT 688,204.3 million, as compared to KZT 629,049.7 million for 2015, accounting for 83.6% of total consolidated revenue in each of 2016 and 2015. See "*—Transportation Services—Freight Transportation*".

  The Company participates in passenger transportation through its wholly-owned subsidiary JSC Passenger Transportation, which, as at the date of this Offering Memorandum, has 49 international and inter-regional routes. Since 2012, JSC Passenger Transportation has been implementing a high-speed passenger traffic programme and has established 15 expressways linking all major cities in Kazakhstan. A subsidiary of JSC Passenger Transportation, JSC Suburban Transportation, had 59 inter-regional and intercity and suburban routes as at the same date. For the six months ended 30 June 2017, the Group had passenger turnover of 9.4 billion passenger-kilometres, reflecting a 6.8% increase from 8.8 billion passenger-kilometres for the corresponding period in 2016, and the Group's passenger transportation revenue increased by 4.2% to KZT 37,650.8 million for the six months ended 30 June 2017 from KZT 36,135.7 million for the corresponding period in 2016, accounting for 9.0% and 9.4%, respectively, of total consolidated revenue. For the year ended 31 December 2016, the Group's passenger transportation revenue increased by 11.6% to KZT 80,133.6 million from KZT 71,787.4 million for 2015, accounting for 9.7% and 9.5%, respectively, of total consolidated revenue. The Group's passenger transportation business is not profitable, although the Group's losses on passenger transportation are mitigated by Government grants. See "*—Transportation Services—Passenger Transportation*" and "*Risk factors—Risk Factors Relating to the Group—The Group has historically received, and continues to rely on, support from the Government, which may be delayed, reduced or discontinued*".

- **Infrastructure Services**

  The Group's infrastructure services include selling access to the mainline railway network and logistic and infrastructure services, such as provision of armed security, flushing and steaming of wagons, loading and unloading wagons, assembly of locomotives and passenger cars (including through a joint venture with Patentes Talgo S.L. (Spain)) and other activities. See "*—Infrastructure Services*".

- **Support Services**

The Group provides services that support transport services and infrastructure services and which include, among others, telecommunication services, provision of locomotive supplies, heat, water and electricity, communication services and wagon repairs. See "—*Support Services*".

- **Multimodal Transportation and Logistics Services**

  The Group performs the functions of the national logistics operator through its wholly-owned subsidiary KTZ Express, which integrates multimodal transportation routes including railway, road, sea, and air with a network of terminals and warehouses, as well as the cargo loading operations at strategic points that are key gateways to freight moving from or to China. Multimodal transportation and logistics services include a variety of transport, handling, warehousing and other services provided by the Group, including the management of several airports, the Aktau Seaport and the SEZ Khorgos, among other logistical assets, KTZ Express is actively involved in managing airports and airport infrastructure, expanding the network of transport and logistics centres inside Kazakhstan and establishing transport and logistics centres and agent offices outside of Kazakhstan, allowing for more efficient transportation and delivery using one or several modes of transportation. All such activities are expected to support the Group's core freight transportation business, in particular, through increasing freight transit transportation volumes See "—*Multimodal Transportation and Logistics Services*" and "—*Ongoing Restructuring and Initiatives—Development of Transport Logistics*".

Ongoing Restructuring and Initiatives

After the break-up of the former Soviet Union, the Kazakhstan railway industry was consolidated by combining three separate railway entities into one railway entity to facilitate more efficient management of all operations. Since this time, the Government has continued to implement changes to the railway industry to create conditions in which railway transport may adapt to economic growth, develop competition and attract investments, while preserving the Government's control over the system.

As part of these changes, the Company was appointed the national operator of Kazakhstan's mainline railway network, which vested in the Company the power to grant or deny, in accordance with Government legislation, access to Kazakhstan's mainline railway network to private freight operators, thereby creating the Company's monopoly over Kazakhstan's mainline railway network. In its role as national operator, the Company enters into separate agreements with each private operator for the provision of services. In addition, the Company must ensure non-discriminatory access to, and provide carriers with an equal right to use, the mainline railway network. In cases where railway capacity is limited, such as with regard to passenger transportation, this must be done on a competitive, non-discriminatory basis in accordance with the terms of use of the mainline railway network. In addition, the Company divested various social welfare facilities and other non-core operations, and several support activities (for example, repair and maintenance of the railway track, repair of railcars and locomotives, supply of water and heat to the units and provision for the supply of communication services) were transferred from the Company to certain subsidiaries of the Company. The freight transportation tariff was also modified to distinguish among transportation categories, including the destination and type of freight, which allowed the Company to approach different customer categories individually depending on their operational needs and financial position.

In 2012, the President announced the 2050 Strategy, which includes the goal of Kazakhstan becoming one of the 30 most developed states in the world by 2050. In line with the 2050 Strategy, in 2014, Samruk-Kazyna launched the SK Transformation Programme, which aims to overhaul Samruk-Kazyna's business strategy, including its approach to the management of state-owned companies and investments. See "*Kazakhstan's Economy and the Railway Industry in Kazakhstan—Kazakhstan's Economy—Economic Programmes and Initiatives*".

In the context of the transformation of the Group into a national transportation and logistics company, since 2015, a number of transportation and logistics infrastructure and assets were placed under the Group's management, including the Aktau seaport, the Khorgos International Centre of Boundary Cooperation and the airport network. In this connection, the Group entered into various trust management agreements in respect of certain Government-owned entities, including KazAutoZhol National Company JSC, JSC Khorgos International Centre of Cross-border Cooperation, Koskshetau Aircompany, Petropavlovsk International Airport, Astana International Airport, Kostanay International Airport, Shymkent Airport, Aktobe International Airport, Atyrau International Airport, Pavlodar Airport and Aktau International Sea Commercial Port. Pursuant to these arrangements, the Group's role, which is exercised through KTZ Express, role is to manage and operate the relevant assets, while the ownership of such assets remains with the State. While Management does not expect revenue from KTZ Express's infrastructure-related activities to have a material impact on the Group's core business or revenue composition in the medium-term, such activities are expected to support the Group's core business of freight railway transportation and, in particular, transit freight transportation.

Development Strategy 2015-2025

In order to achieve the targets set out in Government initiatives, including the 2050 Strategy, the National Plan and the SK Transformation Programme, in November 2015, the Company's Board of Directors approved the Development Strategy. The Development Strategy was further amended by the Board of Directors on 11 February 2016.

The Development Strategy targets the transformation of the Company into an integrated transport and logistics company responsible for the implementation of the Government's strategy on transit transport and logistics services, while also increasing the Company's "economic value added" ("**EVA**") to its shareholder and continuing to provide its customers with quality service.

The Development Strategy is focused on the following areas:

- **Development of Domestic Market Sales**, through the maintenance and improvement of freight turnover by focusing on segments that are most susceptible to replacing rail transportation with road transportation.

- **Increase of Own Railcar Utilisation**, targeting increased revenues from the Group's existing underutilised railcar fleet and improved transportation conditions for freight forwarders through the provision of a best-in-market railcar operation offering.

- **Container Transit Development**, targeting increased transit freight turnover by attracting container freight between China, Europe, the Middle East and Russia and developing the internal and external network of distribution centres to create routes from east coast and inland provinces of China to EU countries, the TRACECA corridor and the North-South corridor. Key measures to be implemented to help optimise container transit growth include:

    - the strengthening of the Group's marketing and sales function in China;

    - lowering transportation costs for freight forwarders to allow the Group to offer competitive pricing in comparison to sea transportation offerings;

    - increasing the Group's back loading ratio to the average rate for each route by increasing sales to forwarders in Europe;

    - optimising transportation costs through the further implementation of a cost reduction programme with extended savings targets;

    - strengthening the Group's positions in freight consolidation and deconsolidation to improve control over flows;

    - maintaining the Group's existing competitive delivery periods (of 12-14 days) while increasing transit volume to the targeted levels; and

    - ensuring the quality of monitoring and implementation of the planned measures through co-operation with all structural units and subsidiaries.

- **Improved Passenger Transportation Efficiency**, targeting increased value from passenger transportation and lower subsidies on regulated routes, while preserving the existing rail service range and the quality of services rendered. Key measures to be implemented to help improve passenger transportation efficiency include:

    - improving the operational efficiency of the Group's fleet of railcars on subsidised routes;

- strengthening marketing efforts and reviewing pricing to promote the Group's competitiveness with other passenger transportation;

- assessing potential new routes and the optimisation of the existing route network;

- standardising the passenger transportation offering and focusing on the digitalisation of services; and

- improving the efficiency of JSC Passenger Transportation's interaction with third parties, including through the revision of certain maintenance contracts and the recalculation of financial metrics.

- **Greater Operational Efficiency**, through the optimisation of infrastructure and locomotive facilities expenses in order to capture transit potential. In this respect, in 2015, the Company implemented an operational transformation programme, which targets optimisation of existing resources without significant capital expenditure, greater transparency and implementation monitoring and the establishment of a new team tasked with overseeing operational performance improvement. These targets are expected to provide favourable conditions for growth in both the internal and the external markets.

- **Launch of a "Project Office"**, tasked with, among other things, structuring all Group projects, managing the deadlines of strategic initiatives and supporting the budget process and ensuring the efficient use of project management information systems.

- **Liberalisation of the Rail Industry**, through, *inter alia*, proposing changes to de-regulate gradually freight and passenger transportation and for passenger transportation losses to be fully and directly covered by the Government's budget, thereby abolishing the existing system of indirect subsidisation of passenger transportation by freight transportation.

- **Increased Chinese Transit through Kazakhstan**, through increased transit volumes while maintaining the existing transportation tariff and developing relationships with Chinese partners.

Restructurings and Privatisations

In order to optimise the structure of the Group's assets, the Development Strategy envisages a number of restructurings and privatisations.

In 2016, the Group approved a list of 47 of the Company's subsidiaries, associates and joint ventures subject to disposal to private investors in accordance with the Government's 2016 Complex Privatisation Plan, which also identifies certain other assets of the Group as potential targets for privatisation. The list of companies sets out ten companies to be sold as a matter of priority, including up to 75% minus one share of each of Kaztemirtrans and JSC Passenger Transportation. Thirty-seven Group companies are also identified as to be sold, reorganised or liquidated. The method and timing of any such disposals have not yet been agreed and will be subject to review and consultation with independent consultants. As at 30 June 2017, the Group had completed the sale of shares and interests in the following subsidiaries to third parties: Transport Services Center JSC, Regional Forward Logistics LLC, Rauan Burabai LLP, Mak-Ekibastuz LLP and Bas-Balkash LLP. The Company currently anticipates that ten Group companies will be privatised in 2017, as well as four of the Group's assets under trust management.

After carrying out a pre-sale review of Kaztemirtrans and JSC Passenger Transportation, however, an independent accounting firm determined that such investments appeared unattractive and unprepared for privatisation. On the basis of this review, Management understands that Kaztemirtrans has been excluded from the list of companies to be privatised as a matter of priority. A potential initial public offering by Samruk-Kazyna of a minority stake in the Company (not to exceed 49%) is also contemplated by the Government's 2016 Complex Privatisation Plan, although the terms and timing of any such offering have not been finalised. On 17 October 2016, the State Committee on Modernisation of Economy of Kazakhstan, chaired by the Prime Minister of Kazakhstan, concluded that any privatisation of the Company should not take place before 2020. The Company proposes to dispose of Kaztemirtrans as part of any initial public offering of the Company.

The Group's restructuring plans also envisage the establishment of an infrastructure operator within the Group, which is still being considered.

For information regarding the Company's disposal of interests in certain subsidiaries, see "*Management's Discussion and Analysis of Results of Operations and Financial Conditions—Factors and Trends Affecting Financial Condition and Results of Operations—Restructurings and Privatisations*".

The aim of the Group's restructuring and privatisation projects is to transform the Group from a railway group of companies to a logistics group to support the aim of making Kazakhstan a key freight and transportation hub. This restructuring process is not intended to weaken the link with, or result in a reduction of support from, the State.

Development of Transport Logistics

The President instructed the Government to create a national transportation and logistics company to promote the development of Kazakhstan's transportation and logistics capacity. This function is conducted by KTZ Express, a wholly-owned subsidiary of the Company. KZT express co-ordinates use of railway, road, sea, and air transport modes, seaport and airport infrastructure and a network of terminals and warehouses, as well as the cargo loading operations, at strategic points that are key gateways to freight moving to or from China.

KTZ Express's activities support the Group's core business of freight transportation and seek to enhance the logistics operations and establish complex customer oriented logistics services through performance of the targeted door-to-door delivery service and attraction of additional freight (in particular transit freight) through the expansion of trade routes between the EU and China (rather than the existing sea routes). KTZ Express' primary goal is to create a viable network of infrastructure facilities and link it to Kazakhstan's transportation system and, thereby, increase freight turnover. The infrastructure network formed by KTZ Express is based on the near-border transport and logistic centres to connect the Aktau Seaport with the SEZ Khorgos and Dostyk railway station. In addition, KTZ Express is actively involved in managing airports and airports' infrastructure (although the Government remains the owner of such assets), expanding the network of transport and logistic centres inside and establishing transport and logistic centres and agent offices outside of Kazakhstan, arranging intermodal transportation and creating its own dry-cargo merchant fleet. See "*—Multimodal Transportation and Logistics Services*".

Internal organisational and operational measures

The Company has undertaken a number of internal measures to improve its organisational and operational efficiency and effectiveness, including:

- undertaking an investment programme to modernise and renew the Company's principal assets, including passenger and freight cars, locomotives and spare parts for assembly of locomotives;
- introducing an integrated management system, which allows the Company to link its key service management processes through a single process model, and training its employees to use such systems in line with international standards;
- adopting an internal corporate ideology and business policy to define the mission, strategic vision and values of the Company;
- introducing improvements to its customer services and transport, operational and maintenance processes, including adopting a "MULTIRAIL" automated system for planning the transportation processes, which has permitted the Company to switch from the "tonnage" model to the "cruise" model of organising freight traffic;
- commencing the operation of an automated system of contractual and commercial work (ASU DKR), which allows for paperless and automatic processing of applications of consignors and has significantly simplified customs applications and reduced processing times;
- introducing measures to reduce its delivery cycle length, including through the automisation of supply planning to improve the processes of supply and logistics; and
- commencing implementation of large-scale measures to improve productivity and lower service costs.

Transportation Services

Freight Transportation

Freight transportation plays a key role in the Group's business operations. Overall freight turnover for the Group was 98.0 billion tonne-kilometres and 88.1 billion tonne-kilometres for the six months ended 30 June 2017 and 2016, respectively. The Group's freight transportation revenue increased by 9.1% to KZT 352,326.4 million for the six months ended 30 June 2017, as compared to KZT 322,899.3 million for the corresponding period in 2016, accounting for 84.4% and 84.2%, respectively, of total consolidated revenue. Overall freight turnover for the Group was 188.2 billion tonne-kilometres and 189.8 billion tonne-kilometres for the years ended 31 December 2016 and 2015, respectively. For the year ended 31 December 2016, the Group's freight transportation revenue increased by 9.4% to KZT 688,204.3 million, as compared to KZT 629,049.7 million for 2015, accounting for 83.6% of total consolidated revenue in each of 2016 and 2015.

The following tables set forth certain information regarding the Group's revenue from freight transportation tariffs, by type of transportation activity, for the periods indicated:

	For the six months ended 30 June		**% change between the six months ended 30 June 2017 and 2016**
	2017	**2016[(1)]**	
	(unaudited) *(KZT millions)*		*(%)*
Export	65,047.1	59,041.2	10.2
Domestic	93,108.3	95,159.3	(2.2)
Transit[(2)]	92,183.3	99,996.3	(7.8)
Import	40,117.8	32,785.3	22.4
Other[(3)]	61,869.9	35,917.2	72.3
Total	**352,326.4**	**322,899.3**	9.1

Notes:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 4 to the Interim Financial Statements. The 2016 figures are taken from the Interim Financial Statements.

(2) Transit freight tariffs are set in Swiss Francs and re-calculated in U.S. Dollars for settlement purposes.

(3) Includes revenue for use of freight cars by third parties, revenue for locomotive haulage and additional charges, including support services such as loading, cleaning, storage, shunting and other services, which do not form part of the freight tariff.

	For the year ended 31 December		**% change between the years ended 31 December 2016 and 2015**
	2016	**2015[(1)]**	
	(KZT millions)		*(%)*
Export	125,882.8	124,423.1	1.2
Domestic	182,069.1	180,691.9	0.8
Transit[(2)]	212,760.6	156,782.9	35.7
Import	72,361.8	72,313.3	0.1
Other[(3)]	95,130.0	94,838.5	0.3
Total	**688,204.3**	**629,049.7**	**9.4**

Notes:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

(2) Transit freight tariffs are set in Swiss Francs and re-calculated in U.S. Dollars for settlement purposes.

(3) Includes revenue for use of freight cars by third parties and revenue for locomotive haulage and additional charges, including support services such as loading, cleaning, storage, shunting and other services, which do not form part of the freight tariff.

The following tables set forth certain information regarding the Group's freight transportation volume, freight transportation turnover and average freight transportation distance, by type of transportation activity, for the periods indicated:

	For the six months ended 30 June									
	2017					2016				
	% of Total Volume	**Volume**	**% of Total Turnover**	**Turnover**	**Average Distance**	**% of Total Volume**	**Volume**	**% of Total Turnover**	**Turnover**	**Average Distance**
	(%)	*(millions of tonnes)*	*(%)*	*(billions of tonnes-km)*	*(km)*	*(%)*	*(millions of tonnes)*	*(%)*	*(billions of tonnes-km)*	*(km)*
Export	29.8	38.4	35.0	34.4	893.4	30.1	34.3	35.6	31.4	916.2
Domestic	58.3	74.9	43.4	42.5	568.2	58.3	66.3	43.1	38.0	572.4
Transit	5.3	6.8	12.0	11.7	1,735.1	5.5	6.3	12.5	11.0	1,744.2
Import	6.6	8.5	9.6	9.4	1,105.7	6.1	6.9	8.7	7.7	1,104.9
Total	**100.0**	**128.5**	**100.0**	**98.0**	**762.3**	**100.0**	**113.9**	**100.0**	**88.1**	**773.3**

	For the year ended 31 December									
	2016					2015				
	% of Total Volume	**Volume**	**% of Total Turnover**	**Turnover**	**Average Distance**	**% of Total Volume**	**Volume**	**% of Total Turnover**	**Turnover**	**Average Distance**
	(%)	*(millions of tonnes)*	*(%)*	*(billions of tonnes-km)*	*(km)*	*(%)*	*(millions of tonnes)*	*(%)*	*(billions of tonnes-km)*	*(km)*
Export	29.3	71.5	34.8	65.5	916.6	29.3	73.7	33.7	64.0	867.7
Domestic	59.1	144.2	43.8	82.4	571.6	58.5	147.0	43.8	83.1	564.8
Transit	5.3	13.0	12.2	22.9	1,756.6	5.5	14.0	13.0	24.6	1,762.3
Import	6.3	15.4	9.2	17.3	1,119.5	6.7	16.8	9.6	18.2	1,080.9
Total	**100.0**	**244.2**	**100.0**	**188.2**	**770.5**	**100.0**	**251.5**	**100.0**	**189.8**	**754.5**

Despite the relatively low volumes of transit freight, transit freight continues to be an important part of the Group's business as tariffs rates on transit freight are not subject to the Natural Monopoly Committee's approval and are, on average, higher than rates for other services, which are subject to approval by the Natural Monopoly Committee. See "*—Government Regulation and Tariffs—Freight Tariff Regulation and Pricing—Transit Freight Tariffs*" and "*Management's Discussion and Analysis of Results of Operations and Financial Condition of the Group—Revenue—Freight Transportation*" for more information on the Group's freight transportation revenue by transportation type.

Coal has historically been the main product, by volume, transported by rail and is the main source of energy in Kazakhstan for generation of electric energy and heating, although the transportation of oil and oil products generated more revenue for the Group in each of the periods shown than coal due to higher tariff rates on these items. See *"Management's Discussion and Analysis of Results of Operations and Financial Condition—Factors and Trends Affecting Financial Condition and Results of Operation—Demand for the Transportation of Commodities*". The following tables set forth certain information regarding the Group's revenue from freight transportation tariffs, by type of freight, for the periods indicated:

	For the six months ended 30 June		**% change between the six months ended 30 June**
	2017	**2016[1]**	**2017 and 2016**
	(unaudited) *(KZT millions)*		*(%)*
Coal	31,388.2	27,147.2	15.6
Ore	9,286.4	8,666.9	7.1
Oil	1,361.7	2,050.9	(33.6)
Oil products	61,868.1	60,926.2	1.5
Construction materials	12,286.9	12,226.3	0.5
Grain and grain products	8,893.9	9,557.3	(6.9)
Ferrous scrap	2,567.5	1,905.1	34.8
Chemicals and sodium carbonate	12,659.5	12,948.0	(2.2)
Chemical and mineral fertilisers	3,797.2	2,185.4	73.8
Coloured ore	10,217.9	9,297.5	9.9
Nonferrous metals	3,689.9	3,568.1	3.4
Ferrous metals	25,269.6	24,113.8	4.8
Other[2]	169,039.6	148,306.6	14.0
Total	**352,326.4**	**322,899.3**	9.1

Notes:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 4 to the Interim Financial Statements. The 2016 figures are taken from the Interim Financial Statements.

(2) Includes revenue for use of freight cars by third parties, revenue for locomotive haulage services rendered to third parties in freight traffic and additional charges, which include charges for ancillary services rendered by Company, such as loading, cleaning, storage, shunting and other services, that are not part of the freight tariff.

	For the year ended 31 December		**% change between the years ended 31 December**
	2016	**2015[1]**	**2016 and 2015**
	(KZT millions)		*(%)*
Coal	57,937.1	66,182.3	(12.5)
Ore	16,867.6	14,032.5	20.2
Oil	3,646.4	14,786.0	(75.3)
Oil products	132,716.5	109,821.1	20.8
Construction materials	28,426.0	27,961.9	1.7
Grain and grain products	18,392.4	15,503.4	18.6
Ferrous scrap	4,103.5	2,986.1	37.4
Chemicals and sodium carbonate	26,228.6	19,996.0	31.2
Chemical and mineral fertilisers	4,390.9	4,046.5	8.5
Coloured ore	19,031.8	18,478.4	3.0
Nonferrous metals	7,199.1	7,063.6	1.9
Ferrous metals	50,055.8	42,376.9	18.1
Other[2]	319,208.6	285,815.0	11.7
Total	**688,204.3**	**629,049.7**	9.4

Notes:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

(2) Includes revenue for use of freight cars by third parties, revenue for locomotive haulage services rendered to third parties in freight traffic and additional charges, which include charges for ancillary services rendered by Company, such as loading, cleaning, storage, shunting and other services, that are not part of the freight tariff.

The following tables set forth certain information regarding the Group's freight transportation volume, freight transportation turnover and average freight transportation distance by type of freight, for the periods indicated:

	For the six months ended 30 June									
	2017					**2016**				
	% of Total Volume	**Volume**	**% of Total Turnover**	**Turnover**	**Average Distance**	**% of Total Volume**	**Volume**	**% of Total Turnover**	**Turnover**	**Average Distance**
	(%)	*(millions of tonnes)*	*(%)*	*(billions of tonnes-km)*	*(km)*	*(%)*	*(millions of tonnes)*	*(%)*	*(billions of tonnes-km)*	*(km)*
Coal..................	38.9	50.0	27.3	26.7	535.0	37.3	42.5	25.2	22.2	521.3
Iron ore	16.2	20.9	12.8	12.5	598.6	16.2	18.4	13.0	11.4	619.9
Construction materials...........	7.0	9.0	5.8	5.7	6228.5	6.3	7.2	5.3	2.7	652.7
Oil and oil products	8.9	11.4	10.8	10.6	930.1	9.7	11.0	11.1	9.8	886.1
Grain and grain products	4.6	5.9	9.9	9.7	1,633.4	5.7	6.4	11.6	10.2	1,590.8
Ferrous metals.	3.8	4.9	6.0	5.9	1,197.2	3.7	4.2	6.4	5.6	1,333.8
Other................	20.6	26.4	27.5	26.9	1,019.1	21.2	24.1	27.5	24.2	1,003.3
Total	**100.0**	**128.5**	**100.0**	**98.0**	**762.3**	**100.0**	**113.9**	**100.0**	**88.1**	**773.3**

	For the year ended 31 December									
	2016					**2015**				
	% of Total Volume	**Volume**	**% of Total Turnover**	**Turnover**	**Average Distance**	**% of Total Volume**	**Volume**	**% of Total Turnover**	**Turnover**	**Average Distance**
	(%)	*(millions of tonnes)*	*(%)*	*(billions of tonnes-km)*	*(km)*	*(%)*	*(millions of tonnes)*	*(%)*	*(billions of tonnes-km)*	*(km)*
Coal...............	37.6	91.7	26.0	48.9	533.0	38.8	97.7	28.1	53.3	545.6
Iron ore	15.3	37.5	12.2	23.0	613.5	15.3	38.5	11.6	22.0	571.5
Construction materials.........	7.8	19.1	6.2	11.6	609.2	7.3	18.3	5.8	11.0	602.1
Oil and oil products	9.3	22.7	11.2	21.1	931.4	9.8	24.5	11.8	22.4	912.2
Grain and grain products	5.2	12.7	10.7	20.1	1,585.6	4.3	10.9	8.8	16.7	1,538.6
Ferrous metals.	3.7	9.1	6.2	11.7	1,289.7	3.5	8.7	5.9	11.3	1,294.4
Other.............	21.1	51.5	27.5	51.7	1,004.6	21.0	52.9	27.9	53.0	1,002.8
Total	**100.0**	**244.2**	**100.0**	**188.2**	**770.5**	**100.0**	**251.5**	**100.0**	**189.8**	**754.5**

Due to the country's limited access to navigable water routes, Kazakhstan has entered into several bilateral treaties in order to facilitate access to sea ports. In order to avoid having to transfer freight from ship containers to train wagons or containers, container trains are used. These container trains expedite freight transportation to and from sea ports and make additional routes available for imports and exports because such freight is carried in uniform, sealed, movable containers whose contents do not have to be unloaded at each point of transfer.

As at 30 June 2017, container transportation accounted for 2% of all railway freight turnover of the Group, although the Company believes that container transportation continues to be one of the fastest growing segments of the Group's freight transportation business.

The Group is actively involved in organising container train routes from the Baltic states and from South-Eastern Asia and China to Central Asia. In line with the targets set out in the President's January 2017 message to the nation, the Company aims to increase the volume of transit container traffic seven-fold, to 2.0 million TEU by 2020. In order to achieve this goal, the Company is taking measures to: (i) develop infrastructure in line with the targets and reforms set out in the Infrastructure Development Programme and the National Plan; (ii) continue to develop its framework of strategic alliances with partners in the main transport corridors to, *inter alia*, increase service levels, develop competitive tariff rates and increase the speed of cargo delivery; (iii) conduct marketing initiatives to attract new cargo flows; and (iv) work with Government agencies to reduce administrative barriers to transit activities and improve transit-related logistics.

Passenger Transportation

For the six months ended 30 June 2017, the Group had passenger turnover of 6.8 billion passenger-kilometres, reflecting a 9.3% increase from 7.5 billion passenger-kilometres for the corresponding period in 2016. For the year ended 31 December 2016, the Group had a passenger turnover of 16.5 billion passenger-kilometres, reflecting an increase of 5.7% from 15.6 billion passenger-kilometres for 2015. The Group's passenger transportation revenue increased by 4.2% to KZT 37,650.8 million for the six months ended 30 June 2017 from KZT 36,135.7 million for the corresponding period in 2016, accounting for 9.0% and 9.4%, respectively, of total consolidated revenue. For the year ended 31 December 2016, the Group's passenger transportation revenue increased by 11.6% to KZT 80,133.6 million from KZT 71,787.4 million for 2015, accounting for 9.7% and 9.5%, respectively, of total consolidated revenue. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition of the Group— Consolidated Results of Operations for the Years Ended 31 December 2016 and 2015—Revenue—Passenger Transportation*" for details of the Group's passenger transportation revenue.

The Group provides inter-regional, international, intercity and suburban passenger services throughout Kazakhstan. The following tables set forth certain information regarding the Group's passenger turnover and numbers, by route, for the periods indicated:

	For the six months ended 30 June							
	2017				**2016**			
	% of Total Turn over	**Turnover**	**% of Total Number**	**Number of Passengers**	**% of Total Turnover**	**Turnover**	**% of Total Number**	**Number of Passenger s**
	(%)	*(billions of passenger-km)*	*(%)*	*(millions)*	*(%)*	*(billions of passenger-km)*	*(%)*	*(millions)*
Inter-regional	81.9	5.6	69.9	6.0	83.5	6.3	70.7	6.7
International..........	7.7	0.5	7.2	0.6	6.2	0.5	5.7	0.5
Intercity and suburban................	4.2	0.3	21.9	1.9	5.0	0.4	22.4	2.1
Trains of foreign railway administrations...........	6.2	0.4	1.0	0.1	5.3	0.4	1.2	0.1
Total	**100.0**	**6.8**	**100.0**	**8.6**	**100.0**	**7.5**	**100.0**	**9.5**

	For the year ended 31 December							
	2016				2015			
	% of Total Turn over	Turnover	% of Total Number	Number of Passengers	% of Total Turnover	Turnover	% of Total Number	Number of Passenger s
	(%)	*(billions of passenger-km)*	*(%)*	*(millions)*	*(%)*	*(billions of passenger-km)*	*(%)*	*(millions)*
Inter-regional	83.6	13.8	71.5	14.5	81.4	12.7	67.5	13.3
International..........	6.3	1.0	5.8	1.2	7.9	1.2	7.1	1.4
Intercity and suburban................	4.8	0.8	21.5	4.4	5.3	0.8	23.5	4.6
Trains of foreign railway administrations..........	5.3	0.9	1.2	0.3	5.4	0.8	2.0	0.4
Total	**100.0**	**16.5**	**100.0**	**20.3**	**100.0**	**15.6**	**100.0**	**19.7**

The following tables sets forth certain information regarding JSC Passenger Transportation's revenue from passenger transportation, by type of transportation activity, for the periods indicated:

	For the six months ended 30 June		% change between the six months ended 30 June
	2017	2016[(1)]	2017 and 2016
	(KZT millions)		*(%)*
Inter-regional..	24,880.9	22,925.7	8.5
International	9,171.4	9,296.0	(1.3)
Intercity and suburban..	1,000.6	1,162.2	(13.9)
Other[(2)]	2,597.9	2,751.8	(5.6)
Total	**37,650.8**	**36,135.7**	4.2

Note:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 4 to the Interim Financial Statements. The 2016 figures are taken from the Interim Financial Statements.

(2) Includes revenue for baggage transportation, passenger service and other services.

	For the year ended 31 December		% change between the years ended 31 December 2016 and 2015
	2016	2015[(1)]	
	(KZT millions)		*(%)*
Inter-regional...	51,848.1	45,284.5	14.5
International	19,960.9	18,263.7	9.3
Intercity and suburban...	2,867.0	2,839.6	1.0
Other[(2)]	5,457.6	5,399.6	1.1
Total[(3)]	**80,133.6**	**71,787.4**	11.6

Notes:

(1) Restated. See "*Presentation of Financial, Reserves and Certain Other Information—Restatements*" and Note 5 to the 2016 Financial Statements. The 2015 figures are taken from the 2016 Financial Statements.

(2) Includes revenue for baggage transportation, passenger service and other services.

(3) Figures taken from JSC Passenger Transportation's standalone financial statements. Figures in this table include intragroup turnover which is excluded from the Group's consolidated figures. Accordingly, this figure differs from total passenger transportation revenue set out in the Financial Statements.

The Company participates in passenger transportation through its wholly-owned subsidiary JSC Passenger Transportation, which, as at the date of this Offering Memorandum, has 49 international and inter-regional routes. JSC Passenger Transportation carries out both socially significant passenger transportation (which is regulated and partly subsidised by the State) and rapid transit passenger transportation (the tariffs for which are not regulated). Since 2012, JSC Passenger Transportation has been implementing a high-speed passenger traffic programme and has established 15 expressways linking all major cities in Kazakhstan. A subsidiary of JSC Passenger Transportation, JSC Suburban Transportation, has 59 inter-regional and intercity and suburban routes as at the same date. The Government's 2016 Complex Privatisation Plan includes the proposed sale of up to 75% minus one share of JSC Passenger Transportation. As at the date of this Offering Memorandum, the timing and terms of any such sale are not yet known.

The Group's passenger transportation business is not profitable. The Group's losses on passenger transportation are mitigated by Government grants, subsidies and low-cost loans. Beginning in 2005, the Government introduced a competitive open tender system to issue grants for passenger transportation routes that are important to the public. Open tenders are held on an annual basis by the Ministry of Transportation and by local municipalities for the inter-regional, intercity and suburban routes, respectively. Open tenders are not held for international routes because international routes are operated exclusively by the Group. The grants for inter-regional and international routes (for the parts of the routes that are within Kazakhstan) are funded from the Government's budget, while the grants for intercity and suburban routes are funded from the budgets of local municipalities. The grant contracts obtained through the open tender process are for a fixed term of one year, with the right to extend up to three times, each for a period of up to one year. The amount of the grant under any extension shall not exceed, in total from the beginning of the contract, the amount initially granted for the relevant year. In addition, the grant contracts require the carrier receiving the grant to own or lease at least half of the passenger cars needed for the relevant route and to meet certain scheduling demands in order to ensure due and timely transportation for passengers. The Group submits applications and participates on equal terms with all other participants. If there are no private operators bidding for a particular route, the servicing of such route is automatically shifted to JSC Passenger Transportation.

The Government has recently taken steps to develop competition in the railway industry. Access to the mainline railway network is open and the Company provides non-discriminatory access to the network for private carriers. As at the date of this Offering Memorandum, there are 11 private carriers operating passenger transportation activities alongside the national carrier, JSC Passenger Transportation. In 2017, the Government implemented a new model to subsidise passenger transport, which provides for long-term contracts of 20 years and establishes certain minimum requirements for carriers, including investment, rolling stock renewal and quality standards. This replaced the procedure in place prior to 2017, pursuant to which only the losses of the relevant carrier were covered. In December 2016, JSC Passenger Transportation entered into two long-term agreements relating to the subsidisation of passenger transportation with the Transportation Committee of the Ministry for Investments and Development of Kazakhstan, which regulate certain matters, including passenger loading and offloading and potential increases in tariffs. These contracts came into effect on 1 January 2017 and are valid until 31 December 2036.

For the six months ended 30 June 2017, revenue from Government grants was KZT 8,549.9 million, as compared to KZT 10,250.7 million for the corresponding period in 2016. For the year ended 31 December 2016, revenue from Government grants was KZT 22,528.8 million, as compared to KZT 21,721.7 million for 2015 and KZT 24,637.8 million for 2014. As at the date of this Offering Memorandum, approximately 83.7% of passenger routes in Kazakhstan are operated by the Group and the remainder are operated by private operators.

In addition, the Group's passenger transportation business is cross-subsidised by its freight transportation business through the application of a digression factor to the mainline railway tariff and the locomotive haulage tariff. See "*—Government Regulation and Tariffs—Freight Tariff Regulation and Pricing*".

Overview of Rolling Stock

As at 1 January 2017, there are 1,778 locomotives operating on the mainline railway network, of which 1,697 are owned and operated by the Group.

The following table sets forth certain information regarding the Group's locomotives fleet as at the dates indicated:

	As at 30 June	As at 31 December	
	2017	**2016**	**2015**
Electric			
Mainline freight locomotives	246	224	237
Mainline passenger locomotives ...	89	91	106
Total electric locomotives	**335**	**315**	**343**
Diesel			
Mainline freight locomotives	261	254	254
Mainline passenger locomotives ...	106	118	137
Shunting locomotives	291	269	286
Total diesel locomotives	658	641	677
Total	**993**	**956**	**1,020**

KTZFT owns the Group's locomotives, provides freight transportation and locomotive haulage services for its freight and the Group's passenger transportation and provides shunting operations, which involve the sorting of rolling stock into trains.

Generally, the Group from time-to-time acquires or leases locomotives or rolling-stock pursuant to long-term contracts entered into in the ordinary course, including contracts with its associates.

The Group owns and operates the majority of railcar fleet in Kazakhstan operating on the mainline railway network. The following table sets forth certain information regarding the structure of the Group's freight and passenger rail cars as at the dates indicated:

	As at 31 December	
	2016	**2015**
Freight rail cars	29,654	30,303
Gondola	2,280	2,664
Platform	5,438	5,657
Rail tank	8,420	8,806
Box car	1	3
Hopper	10,939	11,163
Other	56,372	58,596
Total		
Passenger rail cars	81	106
First-class coach	697	735
Third-class sleeper	748	762
Compartment coach	38	48
Dining cars	16	16
Interregional	25	25
Baggage and luggage wagons	13	13
ZAK type cars	608	492
Talgo cars	321	326
Officer's and maintenance cars ...	2,547	2,523
Total	29,654	30,303

Kaztemirtrans, one of the Guarantors, owns the Group's freight railcar fleet, which is primarily used for the Group's transportation services (i.e., where a customer uses the Group's freight cars), and provides freight railcars and other services, such as arranging for transportation from starting points to points of destination, preparing transportation documents, transporting freight between warehouses and railway stations and packing and marking of freight. A large proportion of the Group's railcars are leased to KTZ Express. The Government's 2016 Complex Privatisation Plan includes the proposed sale of up to 75% minus one share of Kaztemirtrans. As at the date of this Offering Memorandum, the timing and terms of any such sale are not yet known. See "*—Ongoing Restructuring and Initiatives—Restructurings and Privatisations*".

The Group from time-to-time acquires/purchases railcars from Kazakhstan Wagon Construction Company LLP, an associate of the Company, and from JSC ZIKSTO.

The Rail System

Overview

Kazakhstan's railway system, which is wholly owned and operated by the Group, consists of the mainline railway network, also known as corridors, which connect to rail networks in the Russian Federation, Kyrgyz Republic, Uzbekistan, Turkmenistan and China, as well as ancillary tracks. As at 31 December 2016, the railway system had an operational length of 15,529.8 kilometres, of which 4,217.0 kilometres were electrified tracks. The operational length includes 4,885.6 kilometres of double tracks and 14.7 kilometres of triple tracks.

The Kazakhstan railway network uses type P65 tracks, certain categories of which are thermally reinforced. The tracks are laid on wooden and concrete rail sleepers, also known as rail ties. As at 31 December 2016, wooden and concrete rail sleepers comprised 30.8% and 69.2%, respectively, of the total rail sleepers in Kazakhstan. As at 31 December 2016, the Kazakhstan railway system had 6,548.2 kilometres of tracks at rail yards and special tracks that facilitate yard operations, three tunnels, 3,558 bridges, two interstate border stations and one sea port.

Electrified tracks are used in districts where electric haulage is required in order for freight and passenger trains to move at the required speeds. Freight turnover by electric locomotives on electrified tracks constituted 53.7% and 55.7% of total freight turnover of the Group for the years ended 31 December 2016 and 2015, respectively, while the balance of freight turnover was by diesel locomotives on non-electrified tracks. Electricity for electrified tracks is supplied by various electricity supply companies, but is primarily provided by Temirzholenergo LLP. The supply of electricity is sometimes subject to interruptions that may result in a cut-off or under voltage of power lines. The delays caused by such interruptions are generally minimal. The Company monitors interruptions in the supply of electricity and for each interruption it generates a report documenting the reasons for such interruption, the actions taken or to be taken to promote a reliable supply of electricity and any damages to be recovered from the electricity provider.

Network Specifications and Land Leases

The Company is the only entity authorised to operate and manage the mainline railway network in Kazakhstan. Pursuant to Article 26 of the Land Code of the Republic of Kazakhstan dated 20 June 2003 No. 442-11 (the "**Land Code**"), the land underneath the mainline railway tracks is the property of Kazakhstan and is not subject to privatisation. The Company has entered into a number of land lease contracts with local executive authorities in Kazakhstan so that it may use the land underneath its railway tracks. Lease payments are determined in accordance with the 2009 Tax Code, which makes certain distinctions based on region, location and soil type. The term of the land lease contracts is typically five years, but is renewable upon agreement of the parties. According to the Land Code, the Company has a priority right to renew, typically for five years, and the local executive authorities may not unilaterally terminate the land lease contracts. In addition, the local executive authorities may not transfer the land lease rights to any third person unless and until the Group transfers the legal title to the immovable property located on the land, including, but not limited to, the railway track, to such person. As at the date of this Offering Memorandum, the Company owns all of the mainline railway tracks in Kazakhstan and, as a result, it is the only entity leasing land underneath such railway tracks from local executive authorities.

Existing Infrastructure, Investment Projects and Expansion

In addition to the railway tracks and stations, as at 31 December 2016, the Group owned all of the rail terminals, signals and other technology and property it uses to provide logistical and operational support for freight and passenger transportation services, including 10,729 buildings (primarily transformer stations), 22 locomotive maintenance depots, 68 passenger car maintenance depots, 98 freight car maintenance depots, 24,709 kilometres of power lines, 11,950.2 kilometres of aerial communication lines, 19,105.1 kilometres of cable communication lines and 8,628.9 kilometres of fibre-optic communication lines.

The Group recognises the importance of developing its infrastructure in order to further adapt the Kazakhstan railway system to meet international rail standards and future transportation demand. The Company intends to continue its capital investments, albeit at a slightly reduced pace than previously. The Company estimates capital expenditures will amount to KZT 1.0 billion for the 2017-2021 period, as compared to capital expenditures of more than KZT 1.7 billion during 2012-2016. In connection with the Development Strategy and Government initiatives, the Group intends to invest a significant amount over the next several years to:

- construct the secondary railway line between Almaty and Shu;
- construct a ferry complex in Kuryk port for the operation of multipurpose passenger-and-freight ferries;
- develop the Astana railway junction, including construction of the railroad complex;
- acquire new railway rolling stock and locomotives and modernise existing railway rolling stock and locomotives; and
- renew and develop existing infrastructure.

The Company has also entered into strategic cross-border partnerships and, in April 2017, GE Transportation invested in one of the Group's locomotive plants.

See "*Risk Factors—Risk Factors Relating to the Group—Maintenance and modernisation of the Group's railway infrastructure requires significant ongoing investment, and there can be no assurance that the Group will receive the funding necessary to make such investments*".

During the six months ended 30 June 2017, the Company made capital expenditures of KZT 1.8 billion, KZT 0.2 billion and KZT 3.6 billion in respect of construction work on the new railway line between Zhezkazgan and Beineu, the new railway line between Arkalyk and Shubarkol and the secondary railway line between Almaty and Shu, respectively. Construction of the new railway line between Zhezkazgan and Beineu (totalling approximately 1,040 kilometres in length) is aimed at providing a direct route for freight delivery between central and western Kazakhstan and the Aktau Port, in order to increase transit freight turnover. The new railway line between Arkalyk and Shubarkol (totalling approximately 215 kilometres in length) is expected to simplify the route for freight delivery between central Kazakhstan and the western regions of Kazakhstan, Russia and Europe, decreasing transportation time by up to two days and transportation costs by approximately 35%. The secondary railway line between Almaty and Shu (totalling approximately 112 kilometres in length) is intended to increase freight turnover and decrease shipping time between these areas. The construction period for this secondary railway line was extended from the initially planned 1.5 years to three years and four months and construction costs have increased more than tenfold, as compared to the original construction agreement. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition of the Group—Liquidity and Capital Resources—Capital Expenditure*" for details of the capital expenditures incurred and budgeted by the Group in connection with this project.

The Group owns or leases all the buildings, equipment and other assets necessary for it to conduct its business as it has historically been conducted and such buildings, equipment and other assets are generally in good operating condition and repair. The Group's existing infrastructure, however, requires significant ongoing investment and the value of the principal types of the Company's fixed assets (for example, track, electricity supply equipment, alarm systems and connections and rolling stock) have depreciated significantly in the past.

During the six months ended 30 June 2017, the Company made KZT 106.6 billion in capital expenditure investments for the construction of rail lines and plants, the modernisation and renewal of railway rolling stock and locomotives fleet and the modernisation and renewal of infrastructure, as compared to KZT 86.5 billion in the corresponding period in 2016. The increase in capital expenditure during the six months ended 30 June 2017, as compared to the corresponding period in 2016, was primarily due to acceleration of construction of the new railroad complex in Astana.

During the year ended 31 December 2016, the Company made KZT 304.6 billion in capital expenditure investments for the construction of rail lines and plants, the modernisation and renewal of railway rolling stock and locomotives fleet and the modernisation and renewal of infrastructure, as compared to KZT 312.3 billion in 2015.

As a result of modernisation works undertaken by the Group, in 2016, the asset deterioration ratio of the Group's locomotives was 51% (as compared to 78% in 2008), freight railcars was 42% (as compared to 71% in 2008), passenger railcars was 44% (as compared to 85% in 2008) and railway infrastructure was 51% (as compared to 69% in 2008).

See "*Risk Factors—Risk Factors Relating to the Group—Maintenance and modernisation of the Group's railway infrastructure requires significant ongoing investment, and there can be no assurance that the Group will receive the funding necessary to make such investments*" and "*Management's Discussion and Analysis of Results of Operations and Financial Condition of the Group—Liquidity and Capital Resources—Capital Expenditure*".

International Transit Corridors

Kazakhstan's railway system forms part of the following five international transport corridors, which facilitate the delivery of freight between Asia and Europe:

- **Northern corridor of the Trans-Asian Railroad.** The Northern corridor connects Western Europe with the Korean peninsula and Japan through the Russian Federation and Kazakhstan. In Kazakhstan, the Northern corridor is approximately 1,910 kilometres long and includes the cities of Dostyk, Aktogay, Astana and Petropavlovsk.

- **Southern corridor of the Trans-Asian Railroad (Central).** The Southern corridor connects Southeast Europe with China and Southeast Asia through Turkey, Iran, Central Asian countries and Kazakhstan. In Kazakhstan, the Southern corridor is approximately 1,831 kilometres long and includes the cities of Dostyk, Aktogay, Almaty, Shu and Saryagash.

- **Mid-Asian corridor of the Trans-Asian Railroad.** The Mid-Asian corridor is approximately 2,147 kilometres long and plays an important role in the support of regional transit transportation through the cities of Saryagash and Kandyagash.

- **TRACECA.** The TRACECA links Eastern Europe to Central Asia through the Black Sea, Caucasus and the Caspian Sea. In Kazakhstan, the TRACECA is approximately 3,836 kilometres long and includes the cities of Dostyk, Almaty and Aktau.

- **North-South Corridor.** In Kazakhstan, the North-South corridor is approximately 838 kilometres long and includes the cities of Aktau, Uralsk and Atyrau.

The OSJD facilitates the development of international railway routes between Europe and Asia. There are 25 member countries of OSJD, including Kazakhstan's neighbours Georgia, Mongolia, Russia and Uzbekistan.

Infrastructure Services

The Group's corporate plan, which was approved in 2016, included the establishment of a new subsidiary, KTZ-Infrastructure JSC, which was intended to be responsible for its own operational and financial results and independently provide carriers with access to railway infrastructure. KTZ-Infrastructure JSC was expected to be tasked with improving the Group's efficiency and to have strategic control of the Group's asset portfolio. For reasons beyond the Company's control, as at the date of this Offering Memorandum, KTZ-Infrastructure JSC has not been created and the Group is considering the appropriate method and timing to establish an infrastructure operator within the KTZ framework.

In addition to selling access to the mainline railway network, the Group's infrastructure services include the following activities:

- **Local Railway Line Operations.** The Group provides access to railway lines for various purposes, such as to allow trains to pass each other, for shunting operations, loading and discharging and layovers. In addition, the Group rolls out wagons and provides specialised mechanical equipment. The Group also arranges for various transportation services, which include customs clearance, warehousing, car and container supply and rebooking freight services.

- **Repair Services.** The Group provides repair services for its railcars and the railcars of third parties. The Group also repairs locomotives and railway lines and prepares locomotives for use during the winter and summer seasons.

- **Assembly of Locomotives and Passenger Cars.** The Group assembles locomotives, provides spare parts and facilitates the planning and protection of locomotives and their technical maintenance and support. In April 2017, the Group disposed of a 50% interest in its joint venture with Lokomotiv Kurastyru Zauyty JSC to GE Transportation for an amount of KZT 15,716.3 million. The Group also assembles passenger cars using "Patentes Talgo" technology through its joint venture with Patentes Talgo S.L. (Spain).

- **Flushing and Steaming of Wagons.** Flushing and steaming services are provided by the Group in order to prepare wagons for the loading of bulk oil. This activity is performed by the Group in the South Kazakhstan and Pavlodar regions (oblasts). The Group has installed purification facilities where it flushes wagons in order to minimise the environmental impact of the activity. The Group's flushing activity is subject to annual inspection by the department of ecology of each of the South Kazakhstan and Pavlodar oblasts. See "*—Environmental Protection, Health & Safety—Environmental Policies*".

Support Services

Support services include providing locomotive supplies, water, heating, electricity and communication services. The Group also provides fuel oil and lubricants for the locomotives, as well as locomotive haulage services and arranges for locomotive brigades. Communication services include providing local, inter-regional and international communication, data transmission, audio/visual conferences, Internet access, circuit line rentals and mobile communication services. The Group creates integrated communication networks, fibre-optic and traditional wire communications networks and satellite and radio relay systems for use by rail operators. In addition, the Group collects and disposes of waste water and maintains water supply systems.

Multimodal Transportation and Logistics Services

The Group is responsible to act as the national transport and logistics operator, in line with State economic programmes and initiatives, combining various transportation assets, including several airports, the Aktau Seaport and the SEZ Khorgos, among other logistical assets, with the intention of coordinating freight flows to promote efficiency to shorten transport times and competitive pricing for cargo moving across Kazakhstan. The Group performs the functions of the national transport and logistics operator through its wholly-owned subsidiary KTZ Express, which integrates multimodal transportation routes including railway, road, sea, and air with a network of terminals and warehouses, as well as the cargo loading operations at strategic points that are key gateways to freight moving from or to China.

In the context of the transformation of the Group into a national transportation and logistics company, since 2015, a number of transportation and logistics infrastructure and assets were placed under the Group's management, including the Aktau seaport, the Khorgos International Centre of Boundary Cooperation, the Khorgos-Eastern Gates free economic zone and the airport network. In this connection, the Group entered into various trust management agreements in respect of certain Government-owned entities, including KazAutoZhol National Company JSC, JSC Khorgos International Centre of Cross-border Cooperation, Koskshetau Aircompany, Petropavlovsk International Airport, Astana International Airport, Kostanay International Airport, Shymkent Airport, Aktobe International Airport, Atyrau International Airport, Pavlodar Airport and Aktau International Sea Commercial Port. Pursuant to these arrangements, the Group's role, which is exercised through KTZ Express, role is to manage and operate the relevant assets, while the ownership of such assets remains with the State. While Management does not expect revenue from KTZ Express's infrastructure-related activities to have a material impact on the Group's core business or revenue composition in the medium-term, such activities are expected to support the Group's core business of freight railway transportation and, in particular, transit freight transportation.

KTZ Express has determined a number of priority projects, which it is currently implementing in line with the Government's intention to expand the "New Silk Road" trade route between European countries and China, as a faster more efficient alternative to the long sea route from China's Eastern coast to the Western states. A primary part of the "New Silk Road" is the entrance from China at the SEZ Khorgos where a new train terminal and inland container depot are expected to facilitate the movement of cargo to the EU, Turkey, the Baltic states and the Middle East. For further transportation to Turkey and the Black Sea coast and Persian Gulf states, the cargo can be moved from the SEZ Khorgos to the Aktau Seaport by railway and handled in the Aktau Seaport for shipping across the Caspian Sea. In addition, KTZ Express owns four ships operating in the Caspian Sea to support its wider transportation and logistics activities. In addition to sea routes, KTZ Express expects to offer services connecting the SEZ Khorgos to certain airports located in Kazakhstan. In addition, KTZ Express is actively involved in managing airports and related infrastructure, expanding the network of transport and logistic centres inside Kazakhstan, establishing transport and logistic centres and agent offices outside of Kazakhstan, arranging intermodal transportation and creating its own dry-cargo merchant fleet.

Creation and integrated development of the "Khorgos-Eastern Gateway" SEZ

On 18 October 2014, the Khorgos-Eastern Gateway SEZ (made up of the SEZ Khorgos and Altynkol and Dostyk railway stations, which form the eastern gate of Kazakhstan receiving and releasing freight streaming between China and the Far East and Europe) was put into operation. The SEZ Khorgos is expected to incorporate a railway hub and inland container depot and provide logistic services, including customs services. Apart from operations at the inland container depot, the SEZ Khorgos is also expected to provide warehousing, light assembly and other value added services to be completed in its logistics and industrial zones. The estimated total cost of the project is KZT 73 billion to complete.

The SEZ Khorgos is managed by the Khorgos Managing Company, which is a wholly-owned subsidiary of KTZ Express. The SEZ Khorgos is intended to become one of the largest transport and logistics and industrial hub on the Western Chinese border to promote the overland route between South-Eastern Asia, Europe, including the Baltic states and the Middle East.

In November 2013, the Khorgos Managing Company signed the SEZ Khorgos Services Agreement with Dubai Ports World in respect of technical and management assistance for the management of the SEZ Khorgos, as well as the integration and efficient future operation of the SEZ Khorgos and the Aktau Seaport. See "*—International Joint Ventures and Projects*".

In May 2017, KTZ Express entered into an agreement with COSCO Shipping (China) for the sale of a 49% interest in KTZE-Khorgos Gateway LLP. In June 2017, KTZ Express received an initial payment of KZT 23.1 billion. As at 30 June 2017, the transaction had not yet completed and KTZ Express retained its 100% ownership interest. In July 2017, KTZ Express registered the transfer of its 49% interest to COSCO-Shipping (China). The transaction is expected to be completed by the end of December 2017.

Expansion of Aktau International Sea Port

The Aktau Seaport is one of the largest ports on the Caspian Sea and the only sea port in Kazakhstan, equipped for international shipping of different dry cargos, crude oil and oil products. The Aktau Seaport is the transport and logistic centre at the western gate of Kazakhstan. In November 2013, Samruk-Kazyna, the owner of the Aktau seaport, transferred the Aktau Seaport to the trust management of the Company in order to facilitate the management of transportation and logistics through that port. Accordingly, in 2013, the Company took control over the Aktau Seaport, which is treated as a subsidiary and consolidated in the Group's financial statements.

In June 2016, KTZ Express commissioned a project to expand the Aktau Seaport to the north, which aimed to increase the Aktau Seaport's capacity from 16 million tonnes per year in 2016 to 19 million tonnes per year. As at the date of this Offering Memorandum, work has been completed on the construction of three cargo berths, a grain terminal (capable of storing approximately 60,000 tonnes) and a container area (capable of storing approximately 30,000 tonnes) and Aktau Seaport's capacity has reached 19 million tonnes.

Creation of a Network of Domestic and External Transport and Logistic Centres

Following the Group's appointment as the national transport and logistics operator, the Group, primarily through KTZ Express, has actively participated in the formation of an external and internal network of transport and logistic centres for the origin and distribution of cargo flows, including through the implementation of a roadmap for the integration of transport and logistic centre development projects with custom clearance zones with the Committee of State Revenues of the Ministry of Finance.

In January 2014, KTZ Express and the operator of the Lianyungang Port entered into a Joint Venture Agreement to construct and develop a new terminal at the Lianyungang Port, which is now the main point for the consolidation of cargo flows to and from Kazakhstan and the key transit port for the transhipment of goods to and from countries in South-East Asia, as well as China's inland ports. See "*—International Joint Ventures and Projects*".

In June 2016, KTZ Express completed the construction of a transport and logistic centre and a customs clearance centre in Astana. In the eight months ended 31 August 2017, 3,035 wagons, including 1,324 containers, were processed at the Astana customs clearance centre.

A transport and logistic centre and customs clearance zone is also under construction in Shymkent and is expected to be completed by the end of 2017.

KTZ Express has also announced its intention to construct transport and logistic centres in Aktobe (at an estimated cost of KZT 27 billion), Aktau and Ust-Kamenogorsk. KTZ Express is in the process of conducting feasibility studies for these projects.

Acquisition of fitting platforms leased from "DBK-Leasing" JSC

As at the date of this Offering Memorandum, KTZ Express operates on 17 regular container routes, which connect to cities in China, including Zhengzhou, Wuhan, Chengdu and Lanzhou. Pursuant to the 2050 Strategy, the Government proposed to increase the annual volume of transit traffic to 2 million containers by 2020. This target was reiterated by the President in his address to the people of Kazakhstan in January 2017. In 2015, the annual volume of transit traffic doubled to KZT 46,000 before further increasing to KZT 120,000 in 2016. In 2017, the annual volume of transit traffic is expected to be more than KZT 250,000 and is anticipated to exceed KZT 800,000 by 2020. See "*Kazakhstan's Economy and the Railway Industry in Kazakhstan—Kazakhstan's Economy—Economic Programmes and Initiatives*".

In order to increase the volume of container traffic, the Company is focused on increasing the availability of its fleet for fitting platforms. At present, "Kedentransservice" JSC operates 1,000 80-foot fitting platforms. By the end of 2017, it is expected to operate 1,208 80-foot fitting platforms, with the additional platforms purchased through lease agreements with "DBK-Leasing" JSC. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Financial and Contingent Liabilities—Finance leases*". The Company believes that a larger number of 80-foot fitting platforms will provide an economic benefit as such platforms have the capacity to load two 40-foot wagons, thus reducing the cost that is currently borne by the Company when such platforms return empty. The Company is also considering purchasing additional fitting platforms with the goal of bringing the total number of fitting platforms owned by the Company to 17,000 by 2020.

Airport Management Group

Airport Management Group LLP ("**AMG**"), a subsidiary of KTZ Express, provides centralised management of a number of state owned airports in Kazakhstan, nine of which, including Astana International Airport, Kokshetau Aircompany, Kostanay International Airport, Petropavlovsk International Airport, Shymkent Airport, Aktobe International Airport, Atyrau International Airport and Pavlodar Airport, have been transferred to KTZ Express under trust management agreements dated September 2014 and February 2016. Pursuant to such arrangements, the airports are managed by AMG but ownership of the airports remains with the State. The trust management agreements set out certain targets, including to improve the profitability, liquidity and cost-effectiveness of each of the airports and to introduce flight safety systems at each of the airports in accordance with international standards. Other airports that are planned for transfer in 2020 under the trust management of KTZ Express are Semey and Ust-Kamenogorsk airports. In 2015, AMG signed an operation and management services contract to cooperate with Zurich Airport International A.G. in order to improve the operating standards and the infrastructure at AMG's airports in line with international standards and to improve profitability. It is expected that more efficient handling of passengers and freight may result in the increase of passenger traffic, an increase in freight traffic and an increase in transit landing in Kazakhstan. In addition to the efficiency of passenger handling, a key part of AMG's operations is to optimise efficient freight handling opportunities to complement its ground transportation services.

Government Regulation and Tariffs

Government Regulation

As Kazakhstan's national railway company, the Company has a monopoly over providing services on the mainline railway network of Kazakhstan and, through its subsidiary KTZFT, is the dominant provider of freight transportation services and, as such, is regulated by the Natural Monopoly Committee under the Natural Monopoly Law and the Commercial Code, which regulates, among other things, protection of competition (the "**Natural Monopoly and Competition Laws**"). The Natural Monopoly and Competition Laws, among other laws applicable to the Company, regulate all the Company's tariffs, except for transit tariffs, which are subject to controls under the CIS Tariff Policy (as defined below), the Uniform Transit Tariff (as defined below) and the International Railway Transit Tariff (as defined below).

KTZFT, one of the Guarantors, is a member of the market of public importance in the sphere of freight transportation by rail and, as such, it is subject to Government oversight. The Natural Monopoly Committee approves the locomotive haulage tariff and the freight and commercial services tariff, as well as any increases thereof. The Natural Monopoly Committee may disallow proposed changes to such tariffs.

The Natural Monopoly Committee has announced its intention to develop and approve a new tariff calculation method by 2020, which is expected to allow flexible tariff policies that take into account the interests of consumers and supplier of train services. The Company intends to participate in the development of this methodology.

See "*Risk Factors—Risk Factors Relating to the Group—The position of the Company as a monopoly and the dominant entity, as well as the position of KTZFT as a member of the market of public importance, may result in adverse interference in the Group's operations.*".

Freight Tariff Regulation and Pricing

The primary freight tariffs that are applicable to the Group's operations are:

- the unified freight tariff charged by KTZFT for freight transported within, imported into or exported from Kazakhstan ("**unified freight tariff**"); and

- transit freight tariffs charged by KTZFT for freight transported from outside of Kazakhstan using the Group's locomotives and/or freight cars or containers in respect of freight that passes through Kazakhstan to its final destination outside of Kazakhstan ("**transit freight tariffs**").

Freight Tariffs

As part of the SES established by Belarus, Kazakhstan and Russia, the unification of tariffs, by route, was envisaged by 1 January 2013, covering freight tariffs for domestic, export and import routes within each of these countries and permitting rail transportation operators, at their discretion, based on certain economic factors, to amend the tariffs. The Group completed unification of its domestic, export and import transportation tariffs and currently charges a unified tariff for freight transportation by rail which does not take into account whether the cargo is transported within, imported into or exported from Kazakhstan.

The unified freight tariff comprises (i) the mainline railway tariff (approximately 47% of total freight tariff), (ii) the locomotive haulage tariff (approximately 50% of total freight tariff) and (iii) the freight and commercial services tariff (approximately 3% of total freight tariff). There is an additional optional tariff for the use of the Group's freight cars and containers, if applicable (approximately 18% of total freight tariff). The tariff for the use of the Group's freight cars and containers are not subject to Government oversight and, accordingly, are determined by the Group based on market rates and operating costs. If a customer uses freight cars or containers other than those owned by the Group, the Group charges only the mainline railway tariff, the locomotive haulage tariff and the tariff for freight and commercial services. The unified freight tariff for domestic, export and import transportation varies depending on the type of freight being transported, the length of the delivery, the type of delivery and the level of loading of the rolling stock used. As at 30 June 2017, the unified freight tariff (excluding VAT) ranged from approximately KZT 1,300 per tonne per 1,000 km (for coal) to KZT 12,120 per tonne per 1,000 km (for crude oil). As at 30 June 2017, the tariff for the use of KTZFT's freight cars and containers, which is one of the four component tariffs of the total freight tariff and the only one with respect to which the Group currently faces competition from private carriers, on average accounted for 18% of the total unified freight tariff.

Freight tariffs increased by 7% in 2014, did not change in 2015 and increased by an average of 4% in 2016 and by an average of 5% to date in 2017. Increases in the overall freight tariffs result from increases in one or more of the Group's mainline railway tariffs, locomotive haulage tariffs, freight and commercial services tariffs or the tariffs for use of the Group's cars and containers. The Natural Monopoly Committee has approved further average annual increases to the mainline railway tariff of 4% between 2018 and 2020. The Company expects future annual increases of the locomotive haulage tariff and the freight and commercial services tariff to be determined based on then applicable rates of inflation. See "*Risk Factors—Risk Factors Relating to the Group—The position of the Company as a monopoly and a dominant entity and the position of the other Guarantors as dominant entities may result in adverse regulatory interference in the Group's operations*".

The mainline railway tariff, is proposed by the Company and must be approved by the Natural Monopoly Committee for a four-year period. The Company calculates the proposed mainline tariff taking into account the level of income the Group will need to generate in order to cover its costs and expenses for the provision of its services and any planned investments. The Group provides these calculations to the Natural Monopoly Committee.

The Natural Monopoly Agency's procedure for approving the mainline railway tariff is set out in the Order of the Chairman of the Natural Monopoly Agency (a predecessor of the Natural Monopoly Committee) order No. 215-OD, dated 19 July 2013. When determining whether to approve the mainline railway tariff, the Natural Monopoly Committee must consider a number of factors including the income and investment needs of the Group, as well as operational considerations. In addition to providing the Natural Monopoly Committee with the calculation of the Group's proposed costs for consideration, a public hearing is held in respect of any proposed tariff increase. Members of legislative bodies, state authorities, customers, public associations, independent experts and members of the media, among others, are permitted to attend public hearings. At the public hearing, the Group presents a detailed explanation and rationale for its requested tariff level. Other participants at the hearing are invited to present their opinions on the proposed tariff, which the Natural Monopoly Committee may (but is not required to) take into account. Inflation and commodity prices may also be taken into account in the setting of tariffs.

In certain cases, the Group provides discounts to the mainline railway tariff. Any customer that seeks a discount to the mainline railway tariff must submit an application, in writing, to the Company, the Transport Committee of the Ministry of Investment and Development, the State Revenue Committee of the Ministry of Finance and the Natural Monopoly Committee. The customer must also submit to the Natural Monopoly Committee documentation evidencing a need for such discount. The Company, the Transport Committee and the State Revenue Committee will then consider the request for the mainline railway tariff discount and give their opinions to the Natural Monopoly Committee on whether the discount should or should not be granted or not to the Natural Monopoly Committee. When considering the request for a discount, consideration may be given to a variety of factors, including the volume of freight being shipped, the extent to which the freight transportation will utilise the mainline railway network and whether the customer is a new or an existing customer of the Group. The Natural Monopoly Committee makes the final decision on whether the discount is granted.

Tariffs for locomotive haulage services, freight and commercial services are initially calculated by KTZFT and are subsequently subject to the consent of the Natural Monopoly Committee. Compared to the process for approving mainline railway tariffs, obtaining the Natural Monopoly Committee's consent in respect of these other tariffs requires fewer documents and the process is generally less onerous. Unlike the mainline railway tariff approval process, the consent process for these other tariffs does not require a public hearing. KTZFT must notify the Natural Monopoly Committee of any proposed increases in tariffs for locomotive haulage services, freight and commercial services or the use of the Group's freight cars and containers at least 30 calendar days prior to the proposed increase.

Transit Freight Tariffs

Freight tariffs for transit transportation vary depending on the type of freight being transported. As at 30 June 2017 and 31 December 2016, tariffs for transit freight transportation (excluding VAT), which are set in Swiss Francs and re-calculated in U.S. Dollars for settlement purposes at specified exchange rates, ranged from approximately U.S.$43.45 per tonne per 1,000 km (coal) to U.S.$86.90 per tonne per 1,000 km (non-ferrous metals). Freight tariffs for transit transportation of all freight did not change between 2014 and 2016.

Kazakhstan is party to the Tariff Agreement between the railway administrations of the CIS, which was approved on 17 February 1993, the Concept of Concurrence of Railway Tariff Policies of the CIS dated 18 October 1996 and the Agreement of Mutual Policy on Tariffs dated 17 January 1997 (collectively, the "**CIS Tariff Agreement**"). The parties to the CIS Tariff Agreement meet annually to approve the Tariff Policy of Railways of CIS Countries for International Cargo Transportation ("**CIS Tariff Policy**"), which establishes the framework for tariffs that CIS member states then agree to follow. The CIS Tariff Policy that is approved annually is based on International Railway Transit Tariffs and Unified Transit Tariffs, each of which has been approved under the Agreement on International Goods Transport by Rail. The Agreement on International Goods Transport by Rail, effective as of 1 November 1951, establishes unified regulations for the international transportation of freight between member states. As at the date of this Offering Memorandum, 28 countries, including Kazakhstan, are party to this agreement. The rates provided by the CIS Tariff Policy determine the maximum tariff rate for the corresponding year; the railway administration of each country party to the CIS Tariff Policy may decrease the tariff rate by providing discounts or may increase the rate not more than twice per year. If the rate is increased by a country's railway administration, the CIS Tariff Agreement requires it to provide one month advance notice of such increase to the other parties to the CIS Tariff Agreement. Although the CIS Tariff Policy does not compel Kazakhstan to adopt specific transit freight tariffs, Kazakhstan's transit freight tariffs are typically set by the Company on the basis of the CIS Tariff Policy.

Certain Deregulation Initiatives

In October 2015 amendments were introduced to the Natural Monopoly Law to deregulate the container freight transportation on the mainline railway network and, in December 2016, transit transportation was also deregulated, which has providing increased flexibility in the setting of the Group's tariffs.

In December 2016 Kazakhstan introduced amendments to the Commercial Code, which abolished (i) the price regulation of services provided by dominant service providers (including price regulation on services of platform, wagon and container operators, railcars and container rental services); and (ii) the state registers of dominant service providers. Prices charged by each of Kaztemirtrans (which focus on the leasing of freight railcars to KTZ Express) and KTZ Express (which focuses on the operation of railcars leased from Kaztemirtrans) were deregulated in these amendments. KTZFT and JSC Passenger Transportation, as the dominant providers of services are still subject to non-price regulation of the Natural Monopoly Committee.

The law also introduced a concept of "market of public importance" and established price regulation for members of this market. KTZFT's freight transportation services (except for transit services) fall within the scope of public importance and, accordingly, the Natural Monopoly Committee regulates the activities of KTZFT by establishing tariffs for domestic, import and export freight transportation on the mainline railway network.

Passenger Tariff Regulation and Pricing

Basic rates for international tariffs for passenger, cargo and baggage transportation by rail were approved in Kazakhstan in 1995 ("**Basic Rates**"). Kazakhstan adopted the tariffs suggested by the Board for Railway Transportation of CIS Country Members, a body promulgated under the Agreement on International Passenger Transportation, which became effective in 1951. As at the date of this Offering Memorandum, 28 countries, including Kazakhstan, are party to this agreement. The main focus of this agreement is to adopt unified rules among member states that are applicable to the international transportation of passengers.

Kazakhstan has not amended the Basic Rates since their adoption in March 1995; however, current international and domestic tariffs for passenger, cargo and baggage transportation by rail are determined by multiplying the Basic Rates by multipliers that are revised from time-to-time. The international and domestic passenger transportation multipliers vary based on the length of time travelling, the distance travelled, the number of tariff zones crossed and the type of train and passenger car. These multipliers are subject to Natural Monopoly

Committee consent generally in the same manner as tariffs for locomotive haulage services, freight and commercial services and the use of the Group's freight cars and containers. See "*—Freight Tariff Regulation and Pricing—Freight Tariffs*". The currency used for international and domestic passenger transportation tariffs is the Swiss Franc. For the purpose of such tariffs, the Swiss Franc rate was fixed at KZT 103.05 (the official rate of the NBK as of 1 October 2002). The currency used for interstate passenger transportation tariffs is the Tenge, recalculated on a monthly basis on the last working day of the previous month at the current official rate of the NBK against the Swiss Franc, as set at the beginning of the month.

The Natural Monopoly Agency (the predecessor of the Natural Monopoly Committee), pursuant to its notification dated 24 December 2012, consented to a 12% increase in passenger tariffs from January 2013 on domestic and international routes for all types of rail cars. Through its notification on 18 December 2013, the Natural Monopoly Agency consented to an additional 7% tariff increase in passenger tariffs on international and domestic inter-regional passenger transportation for all types of rail cars, as well as tariffs for the transportation of mailing items by railway effective as of 1 January 2014. The National Monopoly Committee consented to a 10% tariff increase in passenger tariffs on major inter-regional routes in April 2016, and to a further 7% increase in passenger tariffs, with effect from 1 January 2017.

Passenger transportation of the Group is subsidised by the Government grants and cross-subsidised through application of a digression factor to the mainline railway tariff and the locomotive haulage tariff.

See "*Risk Factors—Risk Factors Relating to the Group—The position of the Company as a monopoly and a dominant entity and the position of the other Guarantors as dominant entities may result in adverse regulatory interference in the Group's operations*".

Customers and Suppliers

Freight Customers

The Group had approximately 10,000 customers for freight transportation during 2016. The largest freight shippers are suppliers of coal, oil and oil products, metals, chemicals, sodium carbonate and agricultural products. No single customer accounted for more than 10% of the Group's freight transportation revenue for either the six months ended 30 June 2017 or the year ended 31 December 2016.

The following table identifies the Group's top five customers (together comprising more than 30% of the Group's services) by volume of freight loaded, in tonnes and as a percentage of total volume of freight loaded:

		For the six months ended 30 June			For the year ended 31 December		
		2017	2017	2016	2016	2016	2015
Customer	**Product**	*(%)*	*(millions of tonnes)*		*(%)*	*(millions of tonnes)*	
Bogatyr Komir LLP.	*Coal*	17	18.7	15.7	16	34.4	33.3
EEC JSC	*Coal and coal ash*	8	8.7	8.0	7	15.6	18.8
SSGPO JSC	*Iron ore and ferrous metals*	6	6.3	6.2	6	12.3	13.3
Tengizchevroil LLP	*Oil and oil products, chemicals and sodium carbonate*	2	1.9	1.7	2	3.5	5.3
Kazakhmys Corporation LLP	*Coal, nonferrous metal ores, chemicals and sodium carbonate, nonferrous metals, ferrous metals, iron ore*	7	8.0	8.1	7	15.5	17.2
Total for top five customers................		**39**	**43.7**	**39.7**	**38**	**81.2**	**88.0**
Other customers.......		61	68.7	59.4	62	131.9	129.5
Total.......................		**100**	**112.4**	**99.2**	**100**	**213.1**	**217.4**

Transit freight transportation payments are made in advance upon entrance of the freight to the territory of Kazakhstan. The payment for intercity, inter-regional and international export transportation is made in advance, while payment for international import is made upon arrival of the freight. Payments can be made in cash at the freight pay offices of railway stations or by electronic funds transfers. The waybill is executed with a consignor for each freight transportation, which, under Kazakhstan law, is regarded as a transportation contract.

The Group contracts with freight forwarding companies for one year with advance payment conditions.

The Group is responsible for damage or loss of freight during its transportation, unless it can prove that such damage or loss was not the fault of the Group. Any shipping customer wishing to make a claim for damages or loss must do so in accordance with the procedural requirements set forth under the Agreement on International Goods Transport by Rail Instruction on Acts and Claims Activity at Railways of the CIS and Baltic States and Order of the Company No. 107-143 dated 9 June 2006. See "*Risk Factors—Risk Factors Relating to the Group—The Group faces numerous operating risks that may result in loss and additional expenditures, which may not be fully covered by insurance*". The Group is required to provide security services for transportation of certain goods, such as food products, alcoholic and non-alcoholic beverages, tobacco and industrial tobacco substitutes, pharmaceuticals, fuels, fertilisers, various chemicals, wood, paper and paper products, cotton and glass.

Suppliers

As the Company is a wholly-owned subsidiary of Samruk-Kazyna, the Group conducts its procurement of goods, works and services in accordance with the "Rules for the Procurement of Goods, Works and Services by Samruk-Kazyna and Organisations of Which 50% or More of Voting Shares (Participatory Interest) Is Owned or Trust Managed by Samruk-Kazyna", adopted by the Board of Directors of Samruk-Kazyna dated 28 January 2016 No. 126, which are Samruk-Kazyna's rules for companies directly or indirectly majority owned or trust managed by Samruk-Kazyna (the "**Procurement Rules**"). The Procurement Rules became effective on 10 September 2012. The Procurement Rules were amended in 2016 following Kazakhstan's joining of the WTO at the end of 2015. Such amendments to the Procurement Rules have not materially affected the Group's operations.

The Procurement Rules provide for the regulation of procurement procedures using various methods, including: holding tenders; sending requests for proposals; making purchases through electronic trades; commodity exchanges; procurement from single sources; entering into procurement agreements; and the monitoring and reporting by potential suppliers of the amount of Kazakhstan origin content in proposals, which is aimed at increasing the use of Kazakhstan-based goods and services.

Contracts with suppliers are entered into on an annual basis at set prices. According to the Procurement Rules, however, the prices may be adjusted when the market price for the relevant goods decreases (but not if such price increases) by 5% or more from the contracted price. The Group's contracts often include a similar provision regarding adjustments for the quantity of goods to be purchased during the term of a contract. Price and quantity terms are not, however, always subject to immediate adjustment by the Group. See *"Risk Factors—Risk Factors Relating to the Group—The Group is subject to commodity price risk and foreign currency exchange rate risk, each of which the Group has a limited ability to manage*". The Group's contracts with suppliers do not typically require the Group to make payment in advance, except to organisations of persons with disabilities who conduct entrepreneurial activities listed in the Samruk-Kazyna Register of organisations of disabled persons, local producers of procured goods and participants in the Free Economic Zone "Innovation Park" (for the procurement of goods and services listed as priority goods or services in accordance with the objectives of Free Economic Zone "Innovation Park"), which are paid 30% in advance. The Group's suppliers are generally required to submit security for the performance of contract's with the Group, which shall not exceed 3% of the sum designated for the goods, works or services procured. In cases where the supplier breaches its contractual obligations, the Group may deduct an amount from the security provided as a result of such breach to cover any subsequent damages.

The Group's principal purchases from suppliers are fuel and lubricants, electricity and various non-core materials and supplies. The Group acquires petrol and diesel fuel for its locomotives primarily by holding open tenders. For the six months ended 30 June 2017 and 2016, and in 2016, 2015 and 2014, fuel and lubricants accounted for 12.1%, 10.0%, 11.0%, 10.7% and 15.1%, respectively, of the Group's total cost of sales. According to the Procurement Rules, electricity is purchased from Temirzholenergo LLP, which was a subsidiary of the Group until 2015, through a single-source procurement procedure. The single-source procurement procedure is used when a competitive tender reveals that there is only one supplier conforming to the tender requirements or, due to the specific nature of the goods procured or the supplier. Tariffs for electricity are dependent on certain factors, which include, among others, capped rates established by the Government, tariffs for transmission services provided by JSC Kazakhstan Electricity Grid Operating Company "KEGOC" and regional energy companies, and losses resulting from energy transfers. For the six months ended 30 June 2017 and 2016, and in 2016, 2015 and 2014, electricity accounted for 6.5%, 6.3%, 6.0%, 6.6% and 6.4%, respectively, of the Group's total cost of sales. Non-core materials and supplies primarily include: (i) rail lifters, which are supplied by JSC Petropavlovsk Heavy-Engineering Plant; (ii) connectors, which are supplied by JSC Plant Named after S.M. Kirov; (iii) anti-creep angles, which are supplied by Karaganda Machinery Plant Named after Parkhomenko LLP; (iv) wooden sleepers, which are supplied by Semey Sleepers LLP; (v) cabling and wiring products, which are supplied by Kazcentrelectroprovod LLP; (vi) pumps, which are supplied by JSC Kelet; and (vii) package transformer substations (PTS), which are supplied by JSC Kentau Transformer Plant. Materials and supplies comprised 5.6%, 4.9%, 7.0% 6.5% and 7.7% of the Group's total cost of sales for the six months ended 30 June 2017 and 2016 and the years ended 31 December 2016, 2015 and 2014, respectively.

Armed security services, repair services, freight transportation fleets, passenger car and locomotive haulage, Internet access, telecommunication services and water for the Kazakhstan railway network are supplied by members of the Group.

International Joint Ventures and Projects

The Group is actively involved in bilateral cooperation with foreign railway operators and companies. The main partners of the Company in joint projects are OJSC Russian Railways (Russian Railways Operator), Finmeccanica S.p.A (Italy), Alstom Transport (France) and GE Transportation (United States). The Group's major ongoing and planned projects include the following:

- In March 2011, the Company entered into the Agreement on Development of Cooperation in Production Cooperation with the State Enterprise "Belorusian Railway", according to which the parties agreed to develop production and scientific technical cooperation on a mutually beneficial basis.

- In February 2011, the Company signed a Memorandum on Cooperation in Construction of the "Astana-Almaty" High Speed Railway with the Ministry of Railways of the People's Republic of China, according to which the parties intend to jointly implement the construction of the high speed railway between Astana and Almaty. The project includes the development of the technical economic feasibility study, designing, construction, delivery of the rolling stock and equipment. It was agreed that the project will be implemented by the Chinese general contractor using technologies provided by the Chinese side. Based on the technical economic feasibility study, the cost of construction of the Project will be around KZT 5.2 trillion.

- As part of the growing trend toward electrification of the railways in Kazakhstan that has resulted from the Group's efforts to reduce its energy costs and its environmental footprint, as well as to facilitate the supply of electricity to certain areas in Kazakhstan that are adjacent to railways, in October 2010, the Company and Siemens AG (Germany) signed an agreement to establish a joint venture. As part of this joint venture, a company was established on 1 April 2011 under the name of Temir Zhol Electrification LLP, of which 49% is owned by Siemens AG through a contribution by it of KZT 19.6 million and the remaining 51% is owned by JSC Remlocomotive through a contribution by it of KZT 20.4 million. Each partner to the joint venture has a put option to acquire the other party's interest upon the occurrence of certain conditions. In this respect, Siemens AG has the right to acquire JSC Remlocomotive's participation, *inter alia*, upon the failure of the joint venture to reach 30% of order quantity as stipulated in the business plan; if the joint venture incurs losses exceeding 50% of its charter capital; or upon a default by the joint venture in paying its debts which continues for a period of more than 60 days. In turn, JSC Remlocomotive has the right to acquire Siemens AG's participation, *inter alia,* if the joint venture exceeds 80% of order quantity specified in the business plan; where total losses of the joint venture do not exceed 50% of its charter capital; and if Siemens AG defaults on local content requirements. In order for JSC Remlocomotive's put option to arise, all conditions must occur simultaneously. Temir Zhol Electrification LLP is engaged in the process of modernising the infrastructure of Kazakhstan's electric railways and is actively involved in the implementation of the Programme for Modernisation of Tracking Substations of Kazakhstan Railways, which commenced in 2012. As at the date of this Offering Memorandum, since the establishment of the joint venture, seven traction substations have been modernised, and 12 design and estimate documents have been developed. According to a framework agreement covering the period 2012 to 2020 that has been entered into by the Company, Temir Zhol Electrification LLP and Siemens AG, investments in the equipment necessary for the modernisation of railway tracking substations and all associated works and services are currently expected, subject to adjustments pursuant to procurement agreements concluded under the Procurement Rules, to amount to approximately KZT 46 billion. The Company currently expects that by 2018, 55% of the joint venture's production will be sourced locally from local producers acting as subcontractors, which will involve the training of local specialists. The Company expects that JSC Remlocomotive will dispose of its interest in Temir Zhol Electrification LLP by January 2018.

- In June 2010, the Company signed a Memorandum on Mutual Cooperation with CJSC Transmasholding (Russia) and Alstom Transport (France), according to which the parties intend to establish production of modern mainline electric locomotives to satisfy the Company's demands for traction rolling stock. The purpose of the project was to design, assemble, manufacture, realise and maintain electric locomotives (freight trunk eight-axle locomotives with asynchronous drive type KZ8A, freight trunk six-axle locomotives with asynchronous drive type KZ6A and passenger trunk four-axle locomotives with asynchronous drive type KZ4AT). To implement the project, a joint venture named Electrovoz Kurastyru Zauyty was established by the parties, of which 50% was owned by JSC Remlocomotive, a wholly owned subsidiary of the Company, 25% was owned by Alstom Holdings (France) and 25% was owned by CJSC Transmasholding (Russia). In February 2016, 25% of Remlokomotiv JSC's share was sold to Alstom Holdings. Following this transaction, the shareholders are: Alstom Holdings (50%), ZAO Transmashholding (25%) and JSC Remlokomotiv (25%). The Group is in discussions to transfer JSC Remlokomotiv's remaining share to Alstom Holdings, which the Group does not expect will have a material adverse effect on its results of operations. Although the parties had originally intended to construct the plant in Atbasar, Akmola oblast, it was subsequently decided to locate the plant in the free economic zone of Astana at the existing facilities of Locomotiv Kurastyru Zauyty JSC, a 100% subsidiary of the Company, in order to reduce investment expenditures. The total cost of the project is estimated to be approximately KZT 19.8 billion, which is expected to cover the expenditures for construction of the plant, the transfer of technologies and the acquisition of licences, among other things. This amount includes KZT 8.1 billion contributed by the parties based on their ownership interests in the joint venture, with the remainder representing pre-payments by clients of the joint venture. On 31 July 2012, the joint venture entered into a loan agreement with Eurasian Development Bank for an amount of KZT 10 billion. The loan is guaranteed by the Company, Alstom Holdings and CJSC Transmasholding. The Company's guarantee of the loan is limited to a total amount of KZT 2.37 billion. As at 15 August 2017, the principal amount of the loan outstanding was KZT 6.8 billion. Construction of the plant commenced in October 2011 and was expected to be completed in December 2012. The anticipated production capacity of the plant was expected to be 100 electric locomotives per year. Since the launch of the plant in 2012, 64 electric locomotives have been produced in Kazakhstan, including 47 freight electric locomotives and 17 passenger electric locomotives.

- In May 2009, the Company and OJSC Russian Railways executed an Agreement on Cooperation in Terminal Freight Handling, which was aimed at equal 50% ownership interests of the Company and OJSC Centre for Transportation of Freights in Containers "Transcontainer", a subsidiary organisation of OJSC Russian Railways, in JSC Kedentransservice, in which the Company currently holds a 33% participatory interest. The business of JSC Kedentransservice includes the sale of transportation, logistics and related services, operation of freight handling terminals, railcar platforms for carriage of containers in Kazakhstan and containers; technical servicing of the terminals and sale of services; and the ownership and leasing of locomotives, among other things. In March 2011, the parties concluded a Joint Venture Cooperation Agreement outlining steps for the increase of the Company's ownership interest in this joint venture through the creation of a holding company that will be jointly owned by the joint venture partners. The Joint Venture Cooperation Agreement also provides certain triggering events for a put option that would permit OJSC Transcontainer to demand the purchase by the Company of its shares in the joint venture, and other options stipulating different scenarios for the transfers of shares.

- In May 2012, the Company, OJSC Russian Railways and Belorussian Railways signed a Memorandum on Development of the Transport and Logistics System in the SES. The parties acknowledged a necessity for joint efforts and expanded cooperation in the development of the transport and logistics system in Kazakhstan, Russia and Belarus that would be aimed at providing quality transportation and logistics services within the SES and across all areas where 1,520 millimetre railway tracks are used. The parties agreed that the main objectives should be: i) consistent formation of prices through the coordination of tariff policies, including railway tariffs; ii) standardisation of technological parameters of services and guaranteed quality of such services; and iii) economic efficiency and competence in the SES and worldwide transportation market. The parties acknowledged a need to create the International Transport and Logistics Association in order to achieve the said objectives, and agreed to form a jointly-owned transport and logistical company on a parity basis, which would work on market principles. In order to implement the provisions agreed in the Memorandum, a joint working group comprising representatives of the Company, OJSC Russian Railways and Belorussian Railways was established. OJSC Russian Railways retained a consulting company to develop drafts of the strategy and business plans for the jointly-owned transport and logistical company. As at the date of this Offering Memorandum, Boston Consulting Group was analysing potential markets and evaluating business models for operations of the joint transport and logistical company.

- In 2010, JSC Remlokomotiv and Talgo Kazakhstan S.L. (a branch of Patentes Talgo (Spain)) established Tulpar Talgo LLP, a plant tasked with designing, assembling, manufacturing, selling and maintaining railway passenger cars. JSC Remlokomotiv owns 99.99926% of Tulpar Talgo LLP and Talgo Kazakhstan S.L. owns the remaining 0.00074%. Tulpar Talgo LLP was intended to produce around 150 wagons per year; however, since the launch of the plant in 2011, only 552 passenger wagons have been produced in Kazakhstan by Tulpar Talgo LLP.

- In 2015, Astana Diesel Service LLP (a subsidiary of Lokomotiv Yarastyru Zauyty JSC) began construction on a plant in the Industrial Park of the SEZ Astana-New City, which officially opened in December 2015. On 4 July 2017, the plant became operational.

- In 28 August 2012, the Company signed a memorandum of understanding with Transport Technologies LLP to cooperate on the construction of a rail and structural plant in the Aktobe region. Remlok LLP "Aktobinsk Rail-Belt Plant" was established in January 2013. JSC Remlokomotiv owned 30% and Transport Technologies LLP owned 70%. The joint venture established a plant in June 2016, which produces and sells and R-65 type rails, including corners, channels and beams. The plant is unique in that it manufactures thermally reinforced high quality rails that are 120m in length that can be used for high-speed lines and lines with increased freight stress. As at 1 October 2017, the plant had produced 191,000 tonnes of rail and 332kW/h of electricity. It is expected that JSC Remlokomotiv's 30% share will be sold.

The Group has plans for the establishment of other joint ventures with foreign partners and, to this end, has signed certain preliminary documents, including a framework agreement with China South Locomotive and Rolling Stock Corporation Limited (CSR) on cooperation in establishment of a plant producing shunting locomotives in Zhambyl oblast of Kazakhstan.

International Co-operation

Kazakhstan, and the Company, as the case may be, are members of various international transportation organisations, such as the Economic Cooperation Organisation (the "**ECO**"), the International Union of Railways (the "**UIC**"), the OSJD, the Board for Railway Transportation of CIS Country Members (the "**BRT CIS**"), the EEU, the EBRD and the WTO.

The ECO

In 1992, Kazakhstan became a member of the ECO. The ECO was founded in 1985 as a successor to the Organisation of Regional Cooperation for Development and is aimed at securing cooperation for assistance in social, economic, technical, scientific and cultural spheres. Kazakhstan's priorities within the ECO include the development of transportation and communications, trade, energy and the fight against drugs. The Company is actively involved in developing an international passenger and container transportation line through Almaty, Tashkent, Tehran and Istanbul using the Trans-Asian Railroad, as well as constructing a railway line through Kazakhstan, Turkmenistan and Iran.

The UIC

The Company has been a member of the UIC since 2003. The UIC is a Paris-based organisation uniting railway operators from more than 90 countries and five continents. The UIC's principal purpose is to promote the improvement of technical means and operation of the railways. The Company is an active member of the UIC's Executive Council and its Asian Regional Assembly. The President of the Company is a Deputy Chairman of the Asian Regional Assembly.

The OSJD

The OSJD was established in 1956 and unites transportation ministries and central state agencies administering railway transportation in countries across Europe and Asia. The OSJD is dedicated to developing and improving international rail transportation between Europe and Asia. The OSJD also encourages co-operation on issues related to economic, informational, scientific, technological and environmental aspects of rail transportation.

The BRT CIS

The BRT CIS is a co-operative organisation between railway administrations in the CIS and Baltic states. The BRT CIS was created in 1992 with the purpose of coordinated performance of railway operations on an international level. The BRT CIS retains and develops common information, provides unified tariff policy and implements legal bases which support interstate railway communication.

The Customs Union and Eurasian Economic Union

A Customs Union between Kazakhstan, Russia and Belarus was established on 1 January 2010, which marked an important milestone in regional integration. The Customs Union envisaged a unified customs territory within which customs tariffs and economical limitations are not applicable to mutual trade between entities of member states, except for certain protective, antidumping and compensational measures.

The Customs Union's Customs Code of July 2010 incorporated a common external tariff structure (with a number of temporary exemptions) based largely on established Russian tariffs. The objective of the Customs Union was to harmonise and simplify standards, while reducing the costs of trade through the elimination of border controls within the Customs Union.

Within the framework of the Customs Union, and following the removal of border customs between the member states in July 2011, Kazakhstan, Russia and Belarus established the SES.

In 2014, Kazakhstan, Russia and Belarus entered into the treaty establishing the EEU, which came into force in January 2015. This treaty incorporated the SES into the EEU's legal framework. The EEU provides for the free movement of goods, services, capital and labour and pursues co-ordinated, harmonised and single policy in specified sectors of the economy, including the transport, technology and customs regulation sectors. The main objectives of the EEU are to enhance the competitiveness of the member states' economies, increase co-operation among member states and promote stable development in order to raise standards of living in all member states. In 2015, the EEU was enlarged to include Armenia and the Kyrgyz Republic.

In the context of implementation of the treaty establishing the EEU, a unified transport policy for member states was agreed, which sets out the general principles for the functioning of the transport industry in the context of integration, including provisions for the phased formation of a common market and the liberalisation of transport services. Such principles aim to ensure the effective use of member states' transit potential and to develop Eurasian rail transport corridors.

In 2017, the member states of the EEU approved a new Customs Code, which is expected to enter into force in January 2018. The new Customs Code provides for the full transition to electronic customs declarations, a reduction in the time required for customs clearance of transit goods from one working day to four hours and a 50% reduction in the time permitted for customs authority inspections from 10 days to five days. The Company expects the new Customs Code to enhance Kazakhstan's export potential, shorten customs administration periods and to accelerate the Group's delivery times for transit goods.

See "*—Government Regulation and Tariffs—Freight Tariff Regulation and Pricing—Transit Freight Tariffs*".

The EBRD

Several of the Group's projects are financed by loans obtained from the EBRD. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Liquidity and Capital Resources—Borrowings*".

The WTO

On 30 November 2015, Kazakhstan joined the WTO.

Competition

Competition with Private Operators

As the national operator of Kazakhstan's railway system and as the primary provider of freight and passenger rail transportation in Kazakhstan, the Group is not generally subject to competition from other rail operators.

As independent operators do not have access to the mainline railway network, private participation in the Kazakhstan rail industry is currently limited to ownership, leasing and operation of railcars and containers. Due to lack of available rolling stock, some major freight companies have invested in their own railcar fleets or entered into contracts for long-term railcar leases with private owners. As at 30 June 2017, private operators owned approximately 61% of all the railcars operating in Kazakhstan. Transcom LLP, Eastcomtrans LLP, Transcom LLP, Tengiztransgaz LLP, Bogatyr Trans LLP, Petroleum LLP, Texol Trans LLP, DBK-Leasing JSC, Pro Trans Logistics LLP, IEC Transsystem LLP and GE Logistics LLP, among others. Many of these private railcars owners are affiliated with the largest customers of the Group and use their railcars and containers for the needs of such customers. The main private competitors from neighbouring countries are JSC Federal Freight Company and OJSC First Freight Company, whose share in all volume of freight loaded in Kazakhstan is relatively low compared to the volume of freight transported in the Group's freight railcars.

In circumstances where privately owned railcars or containers are used, the Group charges its standard freight tariff but excludes the tariff for the use of the Group's freight cars and containers. See "*—Government Regulation and Tariffs—Freight Tariff Regulation and Pricing—Freight Tariffs*". The Group's freight turnover accounted for 59.5% (including freight transported in third-party wagons hauled by the Group, calculated in accordance with data published by the Statistics Committee) and 47% (excluding freight transported in third party wagons, according to the Company's own data) of all freight turnover in Kazakhstan by all modes of transport (excluding pipelines) for the year ended 31 December 2016, as compared to 59.8% and 46.4%, respectively, for the year ended 31 December 2015.

The process of opening the carriage of goods by rail to private cargo companies is currently under way. When transporting goods in their own (leased) wagons or containers, a railway tariff is charged without taking into account the tariff component for the use of freight cars and containers.

Since 1 January 2015, each of the EEU member states has agreed to provide equal access to their respective railway infrastructure to transport carriers from other EEU countries, subject to the principles established under the agreement on the regulation of access to rail transport services, including the tariff policy framework. In accordance with the Commercial Code of the Republic of Kazakhstan, since 1 January 2017 a price regulation of dominant service providers was abolished. The Group can therefore independently set the prices for the rental of wagons and wagon operator services. On 5 April 2016, the Development Committee of the Company established a single sales centre for the Group.

As at the date of this Offering Memorandum, in addition to the national passenger carrier, JSC Passenger Transportation, 11 private carriers provide passenger transportation services in Kazakhstan.

As at the date of this Offering Memorandum, more than 92% of passenger routes in Kazakhstan are operated by the Group. In addition, the Group comprised 91.0% and 91.3% of the total passenger turnover by rail transportation in Kazakhstan for the years ended 31 December 2016 and 2015, respectively. As at the date of this Offering Memorandum, the Group operates on 108 international, inter-regional, intercity and suburban routes. Because the Group’s passenger transportation operations are not profitable, it receives grants in respect of its passenger transportation services from the Ministry of Transportation and local authorities. See “*—Business Operations of the Group— Transportation Services—Passenger Transportation*”.

See “*Risk Factors—Risk Factors Relating to the Group—Each of the Group and the railway industry in Kazakhstan has undergone and is continuing to undergo significant restructuring that will require the Group to adapt and will likely result in a more competitive environment*”.

Competition with Other Modes of Transportation

Rail transportation competes favourably with other modes of transportation in terms of regularity of service, safety, speed and cost. The Kazakhstan railway system has a high carrying capacity at a relatively low cost for freight and passenger transportation and generally operates despite adverse weather conditions. In addition, due to Government grants received for passenger transportation, passenger fares are kept low. For the six months ended 30 June 2017, revenue from Government grants was KZT 8,549.9 million, as compared to KZT 10,250.7 million for the corresponding period in 2016. For the year ended 31 December 2016, revenue from Government grants was KZT 22,528.8 million, as compared to KZT 21,721.7 million for 2015. The Company expects to receive approximately KZT 22 billion each year during 2017-2020 in the form of subsidies for passenger transportation. The railway system ranks third behind that of air and road transportation with respect to the speed of freight delivery. The railway transportation system also ranks third behind water (river) and pipeline transportation in terms of freight transportation costs.

The following table sets forth certain information published by the Statistics Committee regarding freight turnover in Kazakhstan by transportation type for the year ended 31 December 2016:

	For the year ended 31 December 2016	
Type of Transportation	**Billion tonne-kilometres**	**Percentage *(%)***
Railway[(1)]	239.0	46.3
Pipeline	114.9	22.2
Road	160.8	31.1
Water	2.0	0.4
Air	0.0	0.0
Total	**516.7**	**100.0**

Note:

(1) Freight turnover data provided by the Company.

The following table sets forth certain information published by the Statistics Committee regarding passenger turnover in Kazakhstan by transportation type for the year ended 31 December 2016:

	For the year ended 31 December 2016	
Type of Transportation	**Billion tonne-kilometres**	**Percentage *(%)***
Railway	17,914	6.7
Bus	194,497	72.9
Air	11,313	4.2
Water (river)	1	0.0
Total	**266,784**	**100.0**

See "*Risk Factors—Risk Factors Relating to the Group—Railway transportation may be subject to increasing competition from other modes of freight transportation, and the Group may be subject to increasing competition from other transportation and logistics companies*".

Transportation by Pipeline

According to the data published by the Statistics Committee, the total length of pipelines in Kazakhstan as at 31 December 2016 was 8,015 kilometres. The Asian Development Bank noted that a key consideration in Kazakhstan's transportation strategy is the determination of how to transport oil and gas to markets in the East, principally to China, and the West. While the volume of crude oil transported by rail, primarily towards China, decreased, and shipments by almost all of the Group's customers who ship crude oil have generally decreased from 2011 onwards, the overall volume of crude oil transported by pipeline has increased since 2015.

Transportation by pipeline offers certain advantages over other modes of transportation, since pipelines are not affected by weather or climate conditions, are less complicated than other modes of transportation in terms of automation and mechanisation of operations and are less costly to use. Additionally, the capital investment per one unit carried is lower than all other types of transportation. However, pipeline systems typically transport only oil and gas and are more limited in terms of the volume of oil and gas that may be transported, compared to other modes of transportation. In general, pipelines are more vulnerable to oil theft than railway transportation.

Due to the expansion of pipeline networks in Kazakhstan, transportation of crude oil by railway decreased from 30% in 1999 to 0.003% in 2016. The main pipelines, which are mostly oriented to the export of crude oil from Kazakhstan to bordering states, are as follows:

- The "Uzen-Atyrau-Samara" pipeline, which transports crude oil from Western Kazakhstan to Russia and, as at 31 December 2016, consisted of 5,495 km of pipe having flow capacity of 48.7 million tonnes per year. In 2016, the "Uzen-Atyrau-Samara" pipeline exported 15.0 million tonnes of oil.

- The CPC Pipeline, which transports crude oil from Tengiz oilfield to Novorossiysk sea port, Russia and, as at 31 December 2016 was 1,510 km long (including storage and loading facilities), with the segment in Kazakhstan totalling 492 km. In 2016, the CPC Pipeline exported 40.8 million tonnes of oil.

- The "Atasu-Alashankou" pipeline, which, together with the Kenkiyak-Kumkol pipeline described below, transports crude oil from Central Kazakhstan to China. As at 31 December 2016, the "Atasu-Alashankou" pipeline was 962 km long. In 2016, the "Atasu-Alashankou" pipeline exported 10.0 million tonnes of oil.

- The "Kenkiyak-Kumkol" pipeline, which as at 31 December 2016, was 794 km long. In 2016, the "Kenkiyak-Kumkol" pipeline exported 4.2 million tonnes of oil.

In addition to the existing pipelines, a new system of pipelines for the Kazakhstan Caspian Transport System is planned to be constructed. The Kazakhstan Caspian Transport System envisages the construction of the "Eskene-Kuryk" pipeline and the establishment of the "Kuryk-Baku" trans-Caspian system, which is expected to comprise oil loading and unloading terminals, tankers and ships and facilitate connecting the Kazakhstan Caspian Transport System to the "Baku-Tbilisi-Ceyhan" international pipeline. Other pipeline routes from Kazakhstan are being considered, such as routes through the Caucasus region to Turkey and routes through Iran and Afghanistan.

Transportation by Air

Air transportation is a high-speed service that provides short delivery times for freight and passenger transportation. Kazakhstan is serviced by 25 airports, of which the airports of Almaty, Shymkent and Astana bear most of the freight and passenger transportation load. According to data published by the Statistics Committee, the level of freight and passenger transportation in Kazakhstan has recently increased. In 2016, 6.0 million passengers travelled through Kazakhstan airports, as compared to 5.9 million passengers in 2015. In that same period, the volume of freight transportation handled by Kazakhstan airports increased by 5.4% from approximately 17,178 tonnes in 2015 to approximately 18,120 tonnes in 2016. Air transportation, however, is generally more expensive than other modes of transportation and is subject to weather conditions. In addition, air transportation is more limited by the weight and dimension of the freight being carried than other modes of transportation.

Transportation by Road

According to data published by the Statistics Committee, Kazakhstan had approximately 96,353 kilometres of roads as at 31 December 2016. Much of the road network in Kazakhstan was constructed during the Soviet era and has significantly deteriorated since that time due to inadequate maintenance. Further, Kazakhstan has a poor road safety record with the number of accidents and fatalities increasing in recent years, as reported by the World Bank. The President and the Government have implemented a number of initiatives, including the Infrastructure Development Programme, to improve the conditions of Kazakhstan's road network and, thereby, enhance the development of international and regional trade, as well as the access of rural communities to essential public services and work opportunities.

By way of example, the Kazakhstan South-West Roads Project, which was announced in April 2009, is currently being implemented with the aim of upgrading the trade route linking China to Russia and Western Europe through Kazakhstan. Following the most recent restructuring of the project in June 2017, the project includes the financing of two new road sections: the Kurty-Togyz road section and the Otar-Uzynagash road section. These sections are expected to be completed by 30 June 2018. The Asian Development Bank is providing financing to the Government to assist in the implementation of the Central Asia Regional Economic Cooperation ("**CAREC**") Transport Corridor 1 Programme. The Programme involves the rehabilitation, upgrading and construction of an International Transport Corridor between Western Europe and Western China. Both projects are being implemented as part of the Transcontinental Corridor "Western Europe - Western China", which envisages the development of a transcontinental automobile road corridor. A 2,787 kilometre part of the corridor crosses Kazakhstan, of which 2,452 kilometres require construction or rehabilitation. For this purpose, three sources of financing have been agreed, including state budget funds, loans from international financial organisations and private investment contributed under concession agreements. As at the date of this Offering Memorandum, road works under the project were still in progress in all five regions of Kazakhstan that are crossed by the corridor.

Despite the poor condition of the Kazakhstani roadway system, freight delivery by way of roads is often faster than by rail due to the more extensive road network and the ability to provide door-to-door service without the need to use other transfer operations. In addition, trucking companies may efficiently deliver smaller freight quantities, compared to that of rail delivery. Further, road transportation operations require lower capital investments with respect to the development of small passenger and freight flows over small distances, as compared to capital investments required for rail transportation.

Transportation by Water

According to data published by the Statistics Committee, Kazakhstan had over 4,151 kilometres of internal navigable water routes as at 31 December 2016. Water transportation offers high transport capacity and low carrying costs, especially with respect to bulk freight. Despite such advantages, water transport is subject to differences in transport times and increased fuel costs that depend on whether freight is being transported with or against the current. Water transportation is generally slower than other modes of transportation and transportation by boat is subject to changes in weather conditions.

Environmental Protection, Health & Safety

Environmental Policies

The Company conducts its operations in accordance with Kazakhstan environmental legalisation, the Environmental Code, the Rail Transport Law and other laws, regulations and international conventions. The Company believes that it is in compliance with all applicable Kazakhstan environmental protection regulations. Since 2014, the Group has not been subject to any material fines, although the Group has been assessed and has paid nominal fines for minor emissions infractions.

The Company monitors its production processes and hazardous emissions through the use of industrial ecological control and management systems. These controls enable the Company to make environmental management decisions and to formulate environmental and ecological policies associated with protecting the environment, regulating the production process, minimising the effect of the production process on the environment and public health and increasing efficiency with respect to the use of energy and natural resources.

In May 2013, the Management Board of the Company approved its 2013-2020 energy saving programme, which is aimed at improving environmental safety in the railway sector principally by reducing: (i) emission volumes; (ii) discharges of polluting substances; (iii) the formation of processing waste; and (iv) any other damaging effects of transport on the natural environment.

The Group annually reviews its environmental plans to minimise the impact that its business operations have on the environment and to take into account Government initiatives, including green economy initiatives. The Group's current environmental strategy includes, among other things: (i) equipping sources of emissions with cleaning equipment; (ii) reconstructing sewage treatment facilities; and (iii) developing regulatory and environmental policies and documentation.

Examples of measures being implemented by the Group to reduce the negative impact of rail transportation on the environment include:

- the installation of dust and gas cleaning stations in boil-houses (at Tobol station);
- the treatment of oil-contaminated soil with biological solutions (in Almaty);
- the transfer of certain railway stations to electric heating and the replacement of mercury lamps with LEDs;
- updating the Group's locomotive fleet by replacing diesel-generators with modern generators and purchasing locomotives with emission reduction technology; and
- the implementation of programmes to equip passenger transportation rolling stock with environmentally friendly closed toilet facilities and to replace solid fuel heating systems with liquid fuel heating systems, which reduce emissions.

As a result of efforts undertaken by the Company, in 2016, emissions from polluting substances were reduced by 5.5% to 102,000 tonnes from 107,900 tonnes in 2015. In 2016, the Group's emissions were assessed and monitored by third party laboratories in accordance with Kazakhstan law. As part of this assessment, 1,258 control measurements were carried out. The concentration of pollutants and annual emissions did not exceed the emissions thresholds permitted by Kazakhstan law. In 2016, the Company was fined, and environmental damages in the amount of KZT 1.9 million were imposed in respect of the conduct of operations without an emissions permit on one of its branches.

As at the date of this Offering Memorandum, the Company has an integrated management system (the "**IMS**") in place, which is certified for compliance with the requirements of ISO 9001, ISO 14001, ISO 50001 and OHSAS 18001 standards. The Company is in the process of updating its basic and operational documentation for compliance with ISO 9001 and ISO 14001 management standards. Between May and July 2017, 134 employees attended training on the following topics:

- the development and implementation of the IMS in compliance with ISO 9001, OHSAS 18001 and ISO 14001;

- the application of the IMS on the basis of ISO 9001, OHSAS 18001 and ISO 14001 for the internal auditor;

- the application of the IMS on the basis of ISO 50001 for the auditor.

The Company intends to conduct a recertification audit in November 2017.

During the six months ended 30 June 2017 and the years ended 31 December 2016 and 2015, the Group allocated KZT 243.6 million, KZT 684.0 million and KZT 716.7 million, respectively, to its environmental programme.

Significant Licences

The Company conducts its business operations under various licences, which authorise it to carry out a full range of railway-related business activities. In particular, the Company holds licences allowing it to transport hazardous materials and perform expert works and engineering services, including planning, surveying, building and installation services; a licence for the project engineering of communication channels and Internet protocol telephony; environmental permits and licences relating to the project engineering of transfer and distribution of heat and electric energy and for the exploitation of electric power plants, electric networks and electric power sub-stations; a licence allowing it to manufacture and repair weightlifting devices; and a licence authorising activity in connection with the acquisition, storage, usage, distribution, transportation, realisation and utilisation of certain controlled chemicals, or "precursors". KTZFT holds a freight transportation licence and a licence to carry hazardous materials by rail. Except for licences for the transportation of precursors, which are issued for five-year periods, the Group's licences are generally of perpetual duration and are almost all subject to annual or quarterly reporting requirements with respect to the activities performed under the respective licences. JSC Passenger Transportation does not require a licence in respect of its passenger transportation services.

Insurance

The insurance market is still in the early stages of development in Kazakhstan. Similar to many other state-owned enterprises in Kazakhstan, the Group maintains limited insurance coverage. The Group holds the required statutory minimum insurance coverage with respect to automobile insurance, employer liability insurance, environmental insurance and passenger insurance for personal injury, death and loss or damage to passenger property. Insurance policies that are maintained by the Group are purchased from commercial insurance operators in Kazakhstan.

The Group maintains insurance coverage in accordance with rules of cooperation between the Company and its subsidiaries with respect to insurance coverage that are approved by the Company's Management Board from time-to-time (the "**Insurance Rules**"). The Insurance Rules were drawn up on the basis of the insurance coverage rules of Samruk-Kazyna and national development institutes, national companies and other legal entities in which Samruk-Kazyna holds at least, directly or indirectly, a 50% participatory interest, as approved by the Management Board of Samruk-Kazyna on 16 October 2012. Except for certain types of voluntary insurance that exceed U.S.$10.0 million (or the Tenge-equivalent as at the relevant date) per policy and are required to be included in a corporate reinsurance programme established by the Company and agreed with Samruk-Kazyna, subsidiaries of the Group are authorised to purchase mandatory and voluntary insurance at their own discretion within their budgets, provided they meet the requirements set forth under the Insurance Rules.

The Company has entered into two reinsurance agreements relating to property owned by the Group (including its headquarter offices located in Astana): (i) an agreement with "London Almaty" insurance company in respect of a one-year voluntary insurance policy that covers the Company's administrative buildings in Astana on an all risk basis (including separate coverage for terrorism-related risk) up to an amount of KZT 29.1 billion; and (ii) an agreement with "Kazakhinstrakh" insurance company in respect of a one year policy with coverage up to KZT 25.3 billion.

While subsidiaries of the Company insure their respective rolling stock, tracks and rails owned by the Group are not insured and, in general, the Group's infrastructure assets are not insured unless insurance is required pursuant to any relevant financing agreements.

The Group carries the risk of loss in respect of the freight it transports, assuming the consignor has properly prepared the freight so that it can be transported safely and the consignee handles the freight properly upon delivery. The Group may also be responsible for the security of the freight it transports where it has been hired to provide security services in respect of the freight. The Group may also be exposed to potential liability to its customers if the freight it transports is not timely delivered.

See "*Risk Factors—Risk Factors Relating to the Group—The Group faces numerous operating risks that may result in loss and additional expenditures, which may not be fully covered by insurance*".

Litigation

The Group is occasionally subject to legal proceedings and other investigations in the ordinary course of business, which proceedings and investigations have not had, and are not expected to have, either individually or in the aggregate, a material adverse effect on the Group's business, operations and financial condition.

Information Technology

The Group relies on its information technology systems to, among other things, increase the efficiency of its railway operations. These systems include:

- an operational management system used to process data from the Company's trains and information relating to train, locomotive, wagon and container operations;
- a system of real-time mode automatic dispatcher control over energy demands by the traction rolling stock in comparison with the actual work performed, including with respect to the distances of the route, the weight of freight, the length of the train and the grading of track, which is linked to the traffic schedule;
- an integrated system of passenger transportation management that monitors ticket and cash operations;
- a complex processing system used to produce the transportation contract, one of the most important railway documents, which allows the Company to calculate the volume of rail turnover for any given route;
- an integrated processing system that produces locomotive haulage data and reports on crew performance and locomotive haulage, all of which can be monitored by the Company in real-time;
- an interactive information system of fieldwork controls that allows the Company to introduce, process and record the information into a single database, calculate daily balance availability of railcars and issue certificates for the Company;
- an automatic system of internal book-keeping and accounting for the Company;
- a corporate information portal containing information resources regarding the Company;
- an automated management system of track facilities, alarms and communications and power supply infrastructure;
- an integrated system of yard operations management, which automates commercial and technical survey processes, the reading of numbers and controls over yard wagon fleets, the planning and recording of fulfilment of yard assignments using systems of intelligent video monitoring and hybrid technologies, and transfers of technological documentation in electronic format;
- an integrated system regulating train movements using high speed digital radio standards of data transmission that minimises trackside assets and increases train effectiveness rates, which is in the process of being implemented); and
- an automated management system for contract and commercial work, through which all requests for freight transportation are collected electronically, thereby optimising the documentation process through the

automatic compilation of freight transportation plans and reports, and international exchanges of information relating to exports, imports and transit transportation.

The Group has launched a number of development projects with respect to information technology, including the following:

- *Automated process of planning and measuring freight transportation.* This project will allow the Company to plan and analyse freight transportation and offers opportunities for interactive planning of the transportation process including import, data input and plan adjustments for wagon formations. The Group has completed the main stages of this project involving determination of functions, organisation of the hardware, testing, scanning, data updates, examination and planning and analysis, among others.

- *Geographic information system of the mainline railway.* This project, the data processing design phase for which has been completed, is expected to calculate safe interval distances between trains, as adjusted for various factors, and transfer such information to on-board computers. To permit the data building of this system, the Group had developed and approved the technical inquiry, acquired a space survey for the Astana-Atbasar railway line and purchased special software for regulation of the train separation and calculation of haulage for trains working at optimum performance. The Group also acquired diagnostic equipment, which allows for surveys of the conditions of tracks (odograph) and monitoring and recording adjacent infrastructure (up to 70-80 metres sidewards from the tracks centreline) with geodetic accuracy, and GPR (ground penetrating radar) equipment, which is used for monitoring the roadbed up to four metres deep.

The Group is also planning to implement additional information technology projects, such as an automated system of management of passenger services of the Company through the use of electronic tickets. The Group has implemented an automated system of operational control over transportation on the DB2 platform shoe and a system to transfer messages on the basis of WebSphere MQ. The Group is also in the process of implementing the second stage of the automated integrated processing system called the "Energy Dispatcher of Haulage" automatic control systems project (ACS), which permits the transfer of the machinist's route lists in electronic format for 100% of the Group's routes and full automation of storage and processing functions. This project was granted the status of a strategic investment project by Samruk-Kazyna's Committee for Investment and Innovations.

The Group has a total budgeted capital expenditure for all information technology projects of KZT 866 million in 2017, KZT 608 million in 2018, KZT 218 million in 2019 and KZT 400 million in 2021. No capital expenditure for such projects has been budgeted for 2020. See "*Risk Factors—Risk Factors Relating to the Group—The Group relies heavily on information technology systems to operate its business and any failure of these systems could harm its business*".

The Company's information technology management is undertaken by the Company's IT system operators. The Company's principal informational technologies are located in the main computer centre of the Company and include various technical measures to ensure that the Company is able to operate continuously. The Company provides electric power supply by two separate feeders from different electrical substations. Additionally, the Company's mainframes and servers operate from an uninterrupted power supply with back-up systems. Moreover, the Company has a diesel electric engine to generate electricity in the event of an external power failure. The Company's informational systems operate on IBM mainframes simultaneously on four machines that will use the resources of each other in the event of a technical failure.

MANAGEMENT AND EMPLOYEES

The following is a discussion of the management structure and certain employee matters of the Company, Kaztemirtrans and KTZFT.

Company

General

The Company's management structure consists of its sole shareholder, Samruk-Kazyna, its Board of Directors, its Management Board and its President. The following roles report directly to the President: Vice-President of Infrastructure Projects, Vice President of Logistics, Vice-President of Finance, Vice-President of Development, Vice-President of Corporate Support, Vice-President of Personnel, Vice-President of Information Technology, Executive Director – President of Passenger Transportation, Executive Director– President of KTZ – Freight Transportation, Executive Director of the Network Directorate, Chief Engineer, Director of the Department of Legal Support and Claims, Chief Accountant – Director of the Department of Accounting and Taxation, and the Director of the Risk Management Department.

Sole Shareholder

The sole shareholder performs the functions of the general shareholders' meeting as set forth in the Law on Joint Stock Companies of the Republic of Kazakhstan (№ 415-II, dated 13 May 2003), as amended from time-to-time (the "**JSC Law**"), the Kazakhstan Law on the National Welfare Fund dated 1 February 2012 (the "**Samruk-Kazyna Law**"), the Company's charter and presidential edicts and decrees of the Government on the establishment of Samruk-Kazyna and its role and functions in Kazakhstan's economy.

The exclusive functions of the sole shareholder include, among other things, (i) approving any amendments to the Company's charter, as well as approving new versions of the charter; (ii) approving the Company's corporate governance code, as well as any amendments thereto; (iii) approving a reorganisation or liquidation of the Company; (iv) appointing the Company's auditors; (v) approving the payment of dividends by the Company; (vi) approving the Company's annual financial statements; (vii) approving the number, the term of authority and the members of the Board of Directors of the Company; (viii) appointing the Chairman of the Management Board and Chairman of the Board of Directors; (ix) approving the Company's participation in the establishment of other legal entities where a transfer of all or a part of the Company's assets occurs in an amount equal to 25% or more of the Company's total assets; and (x) approving major transactions involving the transfer of assets of the Company at an amount equal to 50% or more of the book value of the Company's total assets.

Board of Directors of the Company

The Board of Directors is responsible for the overall management of the Company's activities and directs the Company's strategy and policy, except for those matters, which are expressly reserved to the sole shareholder pursuant to the JSC Law, the Samruk-Kazyna Law and the Company's charter.

In particular, the powers of the Board of Directors include, among others, (i) setting the priorities of the Company's activities; (ii) approving the terms of bonds and derivatives to be issued by the Company; (iii) appointing the members of the Management Board including the Chairman of the Management Board (subject to the approval of Samruk-Kazyna as sole shareholder); (iv) approving the remuneration of the members of the Management Board and the Chairman of the Management Board; (v) approving all interested party transactions, excluding transactions within the Samruk-Kazyna group; and (vi) approving major transactions involving the transfer of all or a part of the Company's assets at an amount equal to 25% or more of the Company's total assets.

The members of the Company's Board of Directors are appointed by a resolution of the sole shareholder for a term of not more than three years, the duration of which is defined by the sole shareholder. A person generally shall not serve as a member of the Board of Directors for more than nine years; however, in exceptional cases, an appointment for terms aggregating more than nine years is permitted, if the relevant person is re-appointed on an annual basis.

The Board of Directors must have not less than seven members, of which at least one-third must be independent directors. Members of the Management Board, other than the President, may not be elected to the Board of Directors. The President is not permitted to serve as Chairman of the Board of Directors.

The following table sets forth certain biographical information regarding the members of the Company's Board of Directors:

Name (current position)	**Date of Birth**	**Age**	**Background and principal outside activities and duties**
Askar Uzakpayevich Mamin (Chairman of the Board of Directors of the Company)	23 October 1965	51	Mr. Mamin was born in 1965 and graduated from Tselinograd Institution of Civil Engineering in 1987 specialising in Construction Engineering. He also graduated from the Plekhanov Russian Academy of Economics in 2003 where he specialised in economics. Mr. Mamin started his career as an assembler in the Tselintyazhstroy Group. From 1991 to 1993, he served as Deputy General Director of the Union of Innovative Enterprises of Kazakhstan. Between 1996 and 2008, Mr. Mamin occupied the following positions: First Deputy Akim (Mayor) of Astana; Vice-Minister of Transport and Communications; First Vice-Minister of Industry and Trade; Minister of Transport and Communications; and Akim (Mayor) of Astana. He was appointed to his current position at the Company in April 2008. In 2016, Mr. Mamin was appointed First Deputy Prime Minister of Kazakhstan.
Tito Uakhapovich Syzdykov (Independent Director)	2 October 1948	69	Mr. Syzdykov was born in 1948. In 1971, he graduated from Semipalatinsk Zootechnical and Veterinary Institute where he specialised in Academic Zootechnician. In 1999, Mr. Syzdykov obtained a master's degree in Economics and Management from Pavlodar University. In 2005, he obtained a Ph.D. degree in Economics. He started his career in 1971, as Chief Specialist at "Belovodskiy", a position he held until 1977. From 1977 to 1980, Mr. Syzdykov worked as a Director of "Kharkovskiy", a state-owned farm in the Pavlodar oblast. From 1980 to 1988, he worked as a Second Secretary of the Yermakovskiy District and City Committees of Communistic Party of Kazakhstan. From 1988 to 1992, Mr. Syzdykov was Chairman of the Executive Committee, First Secretary of the District Committee and Chairman of the Council of People's Deputies in the Uspensk district of the Pavlodar oblast. From 1992 to 1997, he was Head of Administration and Akim (Mayor) of the Irtysh district of the Pavlodar oblast. From 1997 to 1999, Mr. Syzdykov was Akim (Mayor) of Aksu city of the Pavlodar oblast. From 1999 to 2000, he served as a Deputy in the Mazhilis of the Kazakhstan (the lower chamber of the Kazakhstan Parliament), as a member of the Finance and Budget Committee. From 2000 to 2004, Mr. Syzdykov was Deputy Chairman of the Committee on Questions of Ecology and Use of Natural Resources in the Mazhilis of Kazakhstan. From 2004 to 2011, he was a Deputy of the Mazhilis and a member of the Finance and Budget Committee. Since 2012, Mr. Syzdykov has served as Head of the Regional Development Directorate at the chancellery of Prime-Minister's Office. Mr. Syzdykov has been an Independent Director of the Company since 2012 and the Senior Independent Director since July 2015.
Berik Tursynbekovich Beisengaliyev (Managing Director of Asset Optimisation)	2 December 1966	51	Mr. Beisengaliyev was born in 1966. In 1990, he graduated from Karaganda State University where he specialised in Economics. In 2000, Mr. Beisengaliev obtained a doctorate of Economic Sciences in Law from Karaganda State University. He began his career as a teacher and post-graduate student at Karaganda State University in 1990. Mr. Beisengaliev worked as a dealer at Kazkommertsbank from 1995 to 1996, and then as Deputy Head of the Karaganda Division of Alem Bank

			Kazakhstan from 1996-1997. He served as Head of the Akmola branch of JSC Bank TuranAlem from 1997 to 1998 and Director of the branch of JSC Almaty Merchant Bank in Astana from 1998 to 2001. Mr. Beisengaliev held the position of Managing Director, First Deputy Chairman of the Board of JSC ATFBank from 2001 to 2006. He was Director General of Astana Capital Investment Group Investment Company from 2006 to 2009. Mr. Beisengaliev was Deputy Chairman of the Board of JSC National Holding KazAgro from 2009 to 2011, and Chairman of the Board of JSC National Holding KazAgro from 2011 to 2012. He has been Managing Director and Chief Director of Business Development, Managing Director of Asset Optimisation of Samruk-Kazyna and Member of the Management Board of Samruk-Kazyna since 2012. Mr. Beisengaliyev also serves as a member of the Board of Directors of JSC Halyk Savings Bank of Kazakhstan, the Chairman of the Board of JSC Bank Sibir, a member of the Board of Directors of JSC Kazakh Economic University, a member of the Board of Directors of JSC Energobank Kyrgyzstan, a member of the Board of Directors of JSC NC Food Contract Corporation, Chairman of the Board of Directors of JSC KazAgroFinance, JSC Agrarian Credit Corporation, Chairman of the Board of JSC Temirbank (Almaty), and a member of the Board of Directors of the Company.
Adamas Olegas Ilkevicius (Director).....	10 December 1975	41	Mr. Ilkevicius was born in 1975. He holds degrees in business administration, computer sciences and visual communications from HEC in France, Copenhagen Business School in Denmark, and Louvain School of Management in Belgium. Mr. Ilkevicius began his career in 1996 working for Digital Equipment Corporation (DEC) and later with its successor, Compaq. Between 2001 and 2008 Mr. Ilkevicius held various senior positions at HP, Siemens and IBM and served as a consultant to a range of global organisations across the private, public and not-for-profit sectors. From 2008 to 2013 Mr. Ilkevicius was General Director, SPV at ENRC BTS. In October 2013, he was appointed as a Chief Business Transformation Officer and a member of the Corporate Executive Team of Samruk-Kazyna. Mr. Ilkevicius was elected as a member of the Company's Board of Directors in November 2014. He currently holds various non-executive roles, including: member of the Board of Directors of JSC "Kazpost", member of the Modernisation/Transformation Board of JSC NC KazMunaiGas, Member of the Modernisation/Transformation Board or JS NAC "Kazatomprom", member of the Modernisation/Transformation Board of the Kazakhstan Electricity Grid Operating Company and member of the Modernisation/Transformation Board of JSC "Samruk-Energy".
Christian Kuhn (Independent Director)	1 July 1965	52	Mr. Kuhn was born in 1965. He began his career at the University of Hannover as a research associate at the Institute for Transportation, Railway Construction and Operations. Mr. Kuhn obtained his Masters in Engineering and Doctorate of Science at the University of Hannover between 1992 and 1996. He was a project manager at Deutsche Eisenbahn Gesellschaft mbH from 1996 and head of the department for freight traffic from 1998 until 1999. Mr. Kuhn was Managing Director of Connex Cargo Logistics and Connex Cargo Logistics GmbH from 2000 to 2005 and Managing Director of Industrie-Gesellschaft Berlin mbH and a member of the Management Board of Niederbarnimer Eisenbahn AG. From 2005 to 2009, he served as the head of the steel and coal industry division of Stinnes Freight Logistics/Railion Deutschland AG. Mr. Kuhn has been the managing director of Martrade Holding and Management GmbH, an Independent Director of Martrade Group and Tata Martrade International Logistics Ltd (TMILL), Kolkata, India since 2009. He served as Executive Vice President of Production

			for DB Schenker Rail from 2010 to 2011. Mr. Kuhn has been Managing Director for Production DB Schenker Rail Gmb, an Independent Director for BLS Cargo AG (Bern), NordCargo srl (Milan), DB Schenker Rail Scandinavia A/S (Copenhagen) and XRail SA (Brussels) He was a Managing Director and member of the production steering committee at Deutsche Bahn AG from 2005 to 2009 and 2010 to 2011. Since 2011, Mr. Kuhn has worked as an independent consultant in the area of railways and logistics. He has served as an Independent Director on the Board of Directors of the Company since 2014.
Serik Amanzholovich Svyatov (Independent Director)	15 June 1954	63	Mr. Svyatov was born in 1954. He graduated from Lomonosov Moscow State University in 1976 with a degree and Ph.D. degree in Economics. He began his career in 1976, as a researcher and teacher until 1986. Between 1986 and 1991, Mr. Svyatov worked for the Government as an economic advisor in the Almaty regional committee of the Communist Party of Kazakhstan. He then served as a consultant to the Head of the Economic Department of the Central Committee of Communist Party of Kazakhstan, Presidential Administration and the Cabinet of Ministers. From 1991 to 1997, he was Deputy and First Deputy Chairman of the Board for various leading commercial banks in Kazakhstan. From 1997 until 2002, Mr. Svyatov was First Deputy Chairman of the Board of JSC ATF Bank, and, from 2002 to 2004, he served as First Deputy Chairman of JSC Halyk Bank of Kazakhstan. From 2004 to 2006, he was Chairman of the Board of Directors of JSC ATF Bank. Mr. Svyatov was Chairman of the Board of Directors of JSC Kazakh Economic University from 2006 to 2012. Following this, he was Rector of JSC Kazakh Economic University, until January 2015. Since 2015, Mr. Svyatov has been Chairman of the Board of Directors of JSC ForteBank, and Chairman of the Board of Directors of JSC Narhoz University. Mr. Svyatov was appointed to the Board of Directors of the Company in July 2016.
Prof Dr. Wilhelm Bender (Independent Director)	3 August 1944	73	Dr. Bender studied Law and Economic Sciences and holds a doctorate in Law. From 1974 to 1984, Dr. Bender held various positions with Deutsche Bahn. In 1984, he became the first managing director of "Verkehrsforum Bahn". From 1990 he served as chairman of the executive board of the international forwarding company Schenker and later as member of the executive board of Schenker-Rhenus and chairman of the executive board of Schenker Waggon-und Beteiligungs AG. Dr. Bender served as chairman of the executive board of Fraport AG and chief executive officer of the Fraport Group from January 1993 to August 2009 Since 2008, Dr. Bender has been an honorary professor of the Johann Wolfgang Goethe University in Frankfurt, and delivers seminars on aviation issues. He has had supervisory or advisory board member roles for corporates such as Thyssen Krupp Services, Adtranz, Signal Iduna, RBS, Stinnes, DZ-Bank, Allianz, Lufthansa City Line or Airport Council International. Dr. Bender is currently a member of a number of supervisory boards, including: MTU AG and Lufthansa Cargo AG. He also serves on the advisory board of Deutsche Bank AG, is chairman of the supervisory board of Bombardier Transportation and is on the supervisory board of the regional football club Eintracht Frankfurt Fußball AG. In addition, Dr. Bender is Senior Advisor to Advent International and Norton Rose Fulbright. Dr. Bender was appointed to the Board of Directors of the Company in July 2016.
Kanat Kalievich Alpysbayev	31 March 1972	45	For information regarding Mr. Alpysbayev, see "—*Management Board of the Company*".

The business address of each of the members of the Board of Directors is the legal address of the Company, located at 6 Konaeva Street, Esil District, Astana, 010000, The Republic of Kazakhstan.

Management Board of the Company

The Management Board is responsible for executing the day-to-day management and administration of the Company, subject to the supervision of the Board of Directors and the sole shareholder. The Management Board's responsibilities include, among others: (i) implementing the decisions of the sole shareholder and the Board of Directors, (ii) approving and presenting to the Board of Directors the business strategy of the Company, (iii) implementing the development strategy of the Company, (iv) preliminary consideration and approval of issues to be put to a vote of the Board of Directors and the sole shareholder, (v) taking decisions relating to general meetings of shareholders (participants) of a legal entity (such as a joint-stock company or partnership), in which ten or more percent of shares (or a participation interest) are held by the Company, (vi) approving the budget of the Company within its business strategy, (vii) approving transactions related to the incurrence of liabilities by the Company in an amount of 10% or more of the Company's equity, (viii) approving related party transactions with companies within the Samruk-Kazyna group, and (ix) approving other decisions relating to the business of the Company that are not among the exclusive authority of the Board of Directors of the Company or its sole shareholder.

In accordance with the Company's charter, the Management Board must consist of not less than five members. The Board of Directors elects the members of the Management Board (subject to the approval of Samruk-Kazyna as sole shareholder) for a maximum term of three years.

Since July 2002, the Company has been included in the list of national holdings, companies, development institutions and state higher educational institutions of which only the Prime Minister may (or at least only with his agreement) appoint or dismiss the chief executive officer or president of the relevant company. Accordingly, any appointment of the Chairman of the Management Board of the Company must be approved by the Prime Minister.

As at the date of this Offering Memorandum, the Company's Management Board consists of ten members. The following table sets forth certain biographical information regarding the members of the Company's Management Board:

Name (current position)	Date of Birth	Age	Background and principal outside activities and duties
Kanat Kalievich Alpysbayev (President, Chairman of the Management Board)	31 March 1971	46	Mr. Alpysbayev was born in 1972. In 1994, he graduated from the Almaty Institute of Railway Engineers, where he specialised in Automation, Telemechanics and Communication of Railway Transport. In 1998, he obtained a BBA degree from the University of Kentucky and in 2007 received an MBA degree from Moscow International School of Business. Mr. Alpysbayev started his career in 1994 as an electrician of computing techniques for the repair and maintenance group of the third signalisation and communication division of the Tselinnaya railway controlled by the Ministry of Transport of Kazakhstan. In 1999, he joined RSE Kazakhstan Temir Zholy. Mr. Alpysbayev held the following positions at RSE Kazakhstan Temir Zholy between 1999 and 2002: Analyst and Deputy Head of the Financing and Budget Financing Divisions; Head of the Budget Division and Department; Head of the Finance Department; Deputy Head of Economy and Finance of the Locomotives Facilities Department; and Director of ASE Locomotive. From 2002 to 2003, Mr. Alpysbayev worked as Vice-President of Finance of JSC Air Astana. Between 2003 and 2005, he worked as First Deputy General of CJSC "Dala Group" and as a Director of "Mercury - Invest". Mr. Alpysbayev held the positions of Deputy Chairman of the Board and Advisor to the Chairman of the Board of JSC Intranscom. From 2005 to 2008, Mr. Alpysbayev was employed by General Electric International Inc. as a Sales Manager and Director of Business Development of the Transport Systems Department. From 2008 to 2012 he was the Vice-President for Economics and Finance of the Company. From January 2013 to December 2014, Mr. Alpysbayev was Vice-President of Logistics of the Company, and from December 2014 to April 2016 he was Vice-President of the Company. In April 2016, he was appointed the Vice-President of

			Operations Coordination of the Company. Mr Alpysbayev was appointed President (Chairman of the Management Board) on 15 September 2016 by the decision of the Board of Directors and on 10 October 2016 Mr. Alpysbayev was elected as a member of the Board of Directors by a decision of the Management Board of Samruk-Kazyna.
Zhaslan Khassenovich Madiyev (Chief Financial Officer)	13 June 1983	34	Mr. Madiyev was born on 13 June 1983. He graduated from Kazakh National University. In 2007, Mr. Madiyev obtained a MPA degree from Columbia University, School of International Relations and Public Administration and, in 2016, he received an MBA degree from Massachusetts Institute of Technology, Sloan Business School. He started his career in 2004 as an intern at Alliance Bank, where, until 2006, he held various positions including: Specialist, Leading Specialist, Chief Specialist and Head of the Department for Debt Capital Markets. Between July and October 2007, Mr. Madiyev was an intern in the Securities and Bond Trading Department at the Morgan Stanley Investment Bank, in London. From December 2007 to March 2008, he was Chief Manager of the Corporate Finance Department of JSC Sustainable Development Fund Kazyna. From March to August 2007, he was an Expert at the Centre for Strategic Research and Analysis in the Administration of the President of Kazakhstan. From August 2008 to June 2009, he was a Director of the Treasury Department of JSC National Welfare Fund Samruk-Kazyna. From June 2009 to March 2010, Mr Madiyev was Deputy Chairman of the Management Board of JSC Kazyna Capital Management. Since 2010 Mr. Madiyev has held the following executive positions: Adviser to the Prime Minister of Kazakhstan, Member of the Board of Directors of JSC National Investment Corporation, Deputy Director for Monetary Operations and Asset Management of National Bank of Kazakhstan, Deputy Chairman of the Management Board of JSC Development Bank of Kazakhstan, and Member of the Board of Directors and Independent Director of NPF Ular-Umit, Zhetysu. In March 2017, he was appointed Chief Financial Officer of the Company.
Arman Turlykhanovich Sultanov (Vice-President of Development)	3 March 1976	41	Mr. Sultanov was born in 1976. He graduated from Al-Farabi Kazakh National University, Kazakh University of Communications, and the Kazakh Academy of Transport and Communications. Mr. Sultanov studied Business (Finance) at Cambridge International Centre (UK). He has worked at the Company since 2002. Until 2008, he worked as the Head of Marketing, and Executive Director of JSC Kaztransservice. From 2008 to 2010, he headed the transport marketing Department of the Company. From 2010 to 2012, he was Managing Director of passenger traffic of the Company. From 2012 to 2014, he was President of JSC Kaztransservice. From 2014 to June 2016, he was Managing Director for Logistics of the Company. Since June 2016, Mr. Sultanov has been an Advisor to the President of the Company and, since December 2016, he has been the Vice-President for development of the Company.
Erik Yerkinovich Imashev (Vice-President for Corporate Procurement)	22 April 1976	41	Mr. Imashev was born in 1976. In 1997, he graduated from the Kazakh State Law University with a degree in Law, following which he studied as a graduate student of the Department of Civil Law Faculty at Moscow State University. He also studied at the Royal Institute of Insurance, London, UK. From 1998 to 2011, Mr. Imashev worked in various managerial positions on administrative and legal matters in the banking and legal sectors. From 2013 to 2016, he was the Managing Director of Procurement of the Company. In April 2016, Mr. Imashev was appointed as Vice-President of Corporate Procurement of the Company. He is Vice-President of the RPO Kazakhstan Federation of Modern Pentathlon and a Member of the Council for the Settlement of Disputes on FID1C contracts under the Transit Corridor Western China-Western Europe project.

Sanzhar Bakhitovich Yelyubayev (Acting Vice-President for Logistics)	11 September 1975	42	Mr. Yelyubayev was born on 11 September 1975. He graduated from Kazakh State University of World Languages, Kazakh State Law University and Kazakh Academy of Architecture and Construction. Between 2002 and 2006, he worked as the General Manager in Trans-Siberian Express Service of Kazakhstan. Between 2006 and 2007, Mr. Yelyubayev was First Vice-President of JSC Kedentransservice. Between 2007 and 2008, he was General Manager of the Mediterranean Shipping Company in Kazakhstan. Between 2008 and 2011, Mr. Yelyubayev was Business Development Director of the Transport Division at General Electric International Inc. Between 2011 and 2013, he was Vice-President of Economics and Finance, of Kaztemirtrans. Between 2013 and 2016, Mr. Yelyubayev was President of KTZ Express. Between May and November 2016, Mr. Yelyubayev was Chairman of the Management Board (President) of Kaztemirtrans. Since November 2016, he has served as Acting Vice-President of Business Operations Coordination of the Company. In March 2017, he was appointed the Acting Vice-President of Logistics.
Bauyrzhan Pazylbekovich Urynbasarov (Vice-President for Infrastructure Projects)	22 October 1970	46	Mr. Urynbasarov was born in 1970. He graduated from the Almaty Institute of Railway Engineers, specialising in "Transport Management and Administration of Railways." He began his career as a railway inspector at the West – Kazakhstan Railroad station. Later he worked as a senior engineer, Head of Industrial Engineering for the Railway Management Department, Assistant to First Deputy General Director of the RSE "KTZ" in Almaty. Mr. Urynbasarov was Managing Director of Field Operations from 2012 to 2014. From February to April 2014 he was Acting Chairman of the Board (President) of JSC Kaztemirtrans. From April 2014 to April 2016, he was Vice-President of the Company. From April 2016 to March 2017, he was Chief Engineer of the Company. Since March 2017 he has been the Vice-President of Infrastructure Projects for the Company.
Rustem Koybagarovich Khasenov (Director of Legal and Claims Activities Department)	4 August 1962	55	Mr. Khasenov was born in 1962. He graduated from Karaganda State University in 1984 with a degree in law and began his career as an Investigator of the Kokshetau Municipal Department of Internal Affairs. From 1987 to 1991, he worked as a Senior Inspector in the housing department of Kokshetau Municipal Administration, Senior Specialist in legal department of Koskshetau Regional Agricultural Committee, and as a senior consultant in legal department of the Kokshetau Regional Executive Committee. From 1991 to 1997, Mr. Khasenov held the positions of Kokshetau Prosecutor's assistant, Kokshetau Region Prosecutor and Head of the Legal Department of Kokshetau Regional Agricultural Department. From 1997 to 2003, he worked as Head of the Legal Department of LLP. Between 2003 and 2006, he held the following legal positions with the Kazakhstan Ministry of Transportation: Chief Specialist; Head of the Division; and Deputy Director of the Legal Department. Prior to joining the Company, Mr. Khasenov served as Director of the State-Legal Department of Astana city Akim's (Mayor's) office. Mr. Khasenov was appointed to his current position in April 2008 (Managing Director of Legal Issues). From 2008 to 2016, he was Managing Director for the Company's Legal Department. On 29 April 2016, Mr. Khasenov was appointed as Director of the Company's Legal and Claims Activities Department.
Oralkhan Raykhanovich Kulakov (Executive Director)	17 August 1964	53	Mr. Kulakov was born in 1964. He graduated from the Almaty Institute of Railway Engineers with a degree in economics. He started his career in 1986 as the Aktogay station duty officer on the Almaty branch of the railway. Between 1988 and 1999, he worked at certain of the Company's subsidiaries on the Semipalatinsk branch. From 2002 to 2003, he was Executive Director of "Kedentransservice" company. From 2005 until 2008, Mr. Kulakov held positions in the Company's Transportation Process Directorate, and was Managing Director for Transportation Process, President of the "Center of

			Transport Service", "Remwagon", "National Center for the Development of Transport Logistics". Between 2014 and 2016, he was Managing Director of Operations for the Company and, in 2016, he was appointed President of KTZ-Freight Transportation JSC. Since March 2017, Mr. Kulakov has served as an Executive Director of the Company and President of KTZFT.
Nurdaulet Igilikuly Kilybai (Chief Executive Officer)	10 April 1978	39	Mr. Kilybai was born in 1978. In 1999, he graduated from M.Tynyshpayev Kazakh Academy of Transport and Communication. In 2003, Mr. Kilybai graduated from L.N.Gumilyov Eurasian National University, specialising in Finance and Finance Law. From 1999 to 2008, he held various positions at the Company. From 2008 to 2011 Mr. Kilybai served as Deputy Chairman of the Committee on Communication Routes for the Ministry of Transport and Communication of the Kazakhstan Parliament, President of "Vokzal Service" JSC, and Managing Director of Passenger Transportation for the Company. Since 2011, he has held various management positions at the Company, including Chairman of the Committee on Communication Routes for the Ministry of Transport and Communication of the RK. From 2013 to 2015, Mr. Kilybai was the Company's Managing Director. From 2015 to March 2017 he was Chairman of the Board of Passenger Transportation JSC. Since March 2017, he has served as acting director of the Company, and President of the Passenger Transportation department.
Zharas Tokenovich Izgulov (Executive Director)	28 September 1971	46	Mr. Izgulov was born in 1971. He graduated from the Samara Institute of Railway Transport Engineers and Almaty Academy of Economics and Statistics. In 1995, Mr. Izgulov began his career as assistant of a train composer in the Atyrau department of Kazakhstan Railway on the West side. Between 1998 and 2005, he worked as an engineer, the deputy head of a station, the head of Mangyshlak station, the first deputy head of the transportation department, the head of Atyrau's transportation department office of RGP KTZ, and a director of DGP "Infrastructure". He has also served as a director of the Company's Atyrau's transportation department. From 2005 until 2015, Mr. Izgulov was a director of the Company's Aktobe division. From July 2015 to March 2017, he was a director of the Company's Network Directorate and since, March 2017, he has served as an Executive director of the Network Directorate.

The business address of each member of the Management Board is the legal address of the Company, located at 6 Konaeva Street, Esil District, Astana, 010000, The Republic of Kazakhstan.

Management Remuneration of the Company

In accordance with the Company's charter, the remuneration of the members of the Board of Directors is determined by the sole shareholder, while the remuneration of the Management Board and the Company's internal audit service (the "**Internal Audit Service**") is determined by the Board of Directors.

Compensation paid to members of the Management Board is personalised and depends on personal work performance, difficulty level and the amount of responsibility required for assigned tasks, the specificity of the type of work performed and the personal qualifications of the individual director. Remuneration amounts may be reduced for an individual director as a result of (i) the deterioration in the financial and economic performance of the Company compared to the previous year, and (ii) a failure to accomplish assigned tasks or poor performance by the director.

The total compensation paid to members of the Management Board and Board of Directors amounted to KZT 574.8 million and KZT 486.4 million for the years ended 31 December 2016 and 31 December 2015, respectively. For the six months ended 30 June 2017, total compensation paid to members of the Management Board and Board of Directors amounted to KZT 145.2 million, as compared to KZT 157.5 million for the corresponding period of 2016.

Payment of remuneration to the Chairman and members of the Management Board and management personnel of the Company (*i.e.* employees directly supervising the strategic lines of business) is based on the results of work for the year, and is carried out in accordance with internal policies of the Company, developed in line with policies that regulate the payment of salary and bonuses of employees of Samruk-Kazyna. Compensation for the year is paid on the basis of performance reviews, with a view to rewarding progress achieved and to encourage efficiency. The main condition for the payment of a bonus is the availability of consolidated final profit for the reporting period, calculated taking into account anticipated expenses. A bonus is accrued in proportion to the time actually worked. Decisions on the payment of bonuses are made by the Board of Directors of the Company with respect to senior management and by the Management Board of the Company with respect to management employees.

Management Liability and Code of Business Conduct

Pursuant to the Company's charter and applicable corporate law, members of the Management Board of the Company and the President of the Company are personally liable to the Company for any damage caused by their acts or negligence. By a resolution of Samruk-Kazyna, as the Company's sole shareholder, the Company may sue any of its officials for damage or loss incurred by it as a result of the actions or inactions of its officials.

Officials and employees of the Company are required to adhere to the Company's code of business conduct (the "**Code of Business Conduct**"). The Code of Business Conduct was adopted to memorialise the Company's position on proper corporate conduct and the basic values and principles of business ethics and includes obligations of confidentiality. The Code of Business Conduct of the Company was adopted on 19 March 2013. Each employee is required to sign a document undertaking not to disclose confidential information. The Company maintains, on a group basis, policies and procedures designed, and which it reasonably deems sufficient, to monitor compliance with all applicable anti-bribery and anti-corruption laws.

Employees

For the six months ended 30 June 2017, the Group had an average of 130,270 employees, as compared to an average of 134,737 employees and 139,135 employees for the years ended 31 December 2016 and 31 December 2015, respectively. The decrease in employees for the six months ended 30 June 2017, compared to the year ended 31 December 2016 was mainly due to the imposition of a moratorium on new hires and the sale of JSC Almaty Wagon Repair Factory.

The following tables set forth certain information regarding the distribution of the Group's employees for the periods indicated:

	Average Number of Employees		
	For the six months ended 30 June	**For the year ended 31 December**	
Activity	**2017**	**2016**	**2015**
Infrastructure	46,302	44,757	41,987
Freight Transportation	49,672	52,227	53,761
Passenger Transportation	12,645	14,127	14,882
Other	21,651	23,626	28,505
Total	**130,270**	**134,737**	**139,135**

	Average Number of Employees		
	For the six months ended 30 June	**For the year ended 31 December**	
Employer	**2017**	**2016**	**2015**
Company	48,953	47,760	45,433
KTZFT	47,977	50,314	51,708
Kaztemirtrans	1,695	1,913	2,053
Other	31,645	34,750	39,941
Total	**130,270**	**134,737**	**139,135**

In each of 2015 and 2016, no salary increases were introduced for employees of the Group. In 2017, employees of the Group received an average 6% increase in their salary, which was indexed to inflation. The number of Group's employees, in particular employees of the Company, have been decreasing since 2015, primarily due to a Group-wide ban on the employment of persons from outside of the Group (subject to limited exceptions).

The majority of the Group's employees are members of the Trade Union. The Trade Union was established in 1992 and as at 31 December 2016, had 141,703 members representing employees of the Group and other companies engaged in the railway business. A total of 13 collective bargaining agreements have been reached between the Group and its employees for 2015-2017, including between KTZFT and Kaztemirtrans and their respective employees. The Group is in the process of negotiating collective bargaining agreements for 2018-2020 with the Trade Union. These collective bargaining agreements are expected to be signed by the end of 2017. See "*Risk Factors—Risk Factors Relating to the Group—the Group may be unable to retain key personnel or attract and retain highly qualified personnel*".

Training Programmes

The Group conducts regular training for its employees and approximately 14,000 of the Company's employees participate in training programmes at the Company's training centre on an annual basis.

Social Support of Employees

The collective bargaining agreements between the Company and certain of its subsidiaries and their respective employees provide for social support for employees (including medical care for employees, the provision of material assistance to employees for funeral costs, assistance at the birth of a child, anniversary bonuses, rehabilitation expenses, reimbursement of rental expenses, subsidised train travel, additional paid holiday, sports activities and a youth policy). There is also social support for the children of employees (including the organisation of summer holiday schemes for employees' children, material assistance for disabled children, Christmas gifts and children's matinees). In addition, there is social support for retired railway employees. See "*—Employee Retirement Benefits*".

Employee Retirement Benefits

In accordance with the collective bargaining agreements agreed with the Trade Union for 2015-2017, the Group provides, under an unfunded scheme, a one-time retirement grant, annual financial support to pension holders, complementary train tickets, funeral aid to pension holders, anniversary bonuses and assistance for dental treatment. The Group has no current or future obligations to make payments to employees following their retirement, apart from those stipulated in the collective bargaining agreements.

The cost of providing benefits is charged to the consolidated statement of operations, so as to attribute the total benefit cost over the service lives of employees in accordance with the benefit formula set out in the plan. This obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest on government bonds where the currency and terms of these bonds are consistent with the currency and estimated terms of the defined benefit obligation.

Committees

The Company's primary board committee is the audit committee. As at the date of this Offering Memorandum, the Company has also established a strategic planning and innovation committee, a human resources and remuneration committee and an environmental protection and safety committee.

Audit Committee of the Company

The Company's audit committee (the "**Audit Committee**") is a consulting and advisory body of the Board of Directors. The Audit Committee was established to consider in-depth issues, within the competence of the Board of Directors or examined by it, as part of a procedure to control operations of the Company and to provide required recommendations to the Board of Directors and Management Board. The Audit Committee acts on the basis of the Statute on the Audit Committee of the Board of Directors of the Company approved by a resolution of the Board of Directors of the Company dated 8 August 2016.

The Committee is generally responsible for (i) establishing an effective system of monitoring the financial activity of the Company (including, the completeness and accuracy of annual financial statements); (ii) monitoring the reliability and effectiveness of internal control and risk management, as well as the execution of documents in the field of corporate governance; and (iii) monitoring the independence of the external and internal audit services.

As at the date of this Offering Memorandum, the following individuals serve on the Audit Committee:

Name	Position
Serik Amanzholovich Syvatov...............	Chairman of the Audit Committee, Independent Director of the Company
Tito Uakhapovich Syzdykov..................	Member of the Audit Committee, Independent Director of the Company
Wilhelm Bender....................................	Member of the Audit Committee, Independent Director of the Company

Internal Audit Service

In accordance with the Company's charter, the Internal Audit Service was established to monitor the Company's financial and economic activities and its internal controls, to oversee risk management of the Company and the execution of documents in accordance with correct corporate governance and to provide counselling in order to improve the Company's activities. The Board of Directors determines the remuneration of the members of the Internal Audit Service and appoints the head of the Internal Audit Service. The Internal Audit Service reports to the Board of Directors and is monitored by the Audit Committee. As at the date of this Offering Memorandum, 19 individuals serve on the Internal Audit Service, comprising the Head of the Internal Audit Service, the Deputy Head of the Internal Audit Service, thirteen Senior Auditors and four Auditors.

Kaztemirtrans

General

As Kaztemirtrans' sole shareholder, the Company retains exclusive authority over the operations of Kaztemirtrans as set forth in the JSC Law, the laws and regulations of Kazakhstan and Kaztemirtrans' charter. Kaztemirtrans is managed by its Board of Directors, except for those limited matters expressly reserved to its sole shareholder. The President of Kaztemirtrans, elected by the sole shareholder but subject to the supervision of the Board of Directors, is responsible for the executive authority of the day-to-day management and affairs of Kaztemirtrans.

Sole Shareholder

The functions exclusive to the sole shareholder include, among other things; (i) approving any amendments to the charter of Kaztemirtrans or approval of a new version of the charter; (ii) approving the corporate governance code as well as any amendments thereto; (iii) approving a reorganisation or liquidation of Kaztemirtrans; (iv) appointing the auditors of Kaztemirtrans; (v) approving the payment of dividends; (vi) approving the annual financial statements of Kaztemirtrans; (vii) approving the number, the term of authority and the members of the Board of Directors of Kaztemirtrans; (viii) appointing the Chairman of the Management Board and the Board of Directors of Kaztemirtrans; and (ix) approving a decision with respect to Kaztemirtrans' participation in establishment of the business of other legal entities where a transfer of all or a part of Kaztemirtrans' assets occurs in an amount equal to 25% or more of the total amount of assets owned by Kaztemirtrans; (x) approving major transactions involving transfer by Kaztemirtrans of assets the value of which equals to or exceeds fifty percent of book value of the Kaztemirtrans' assets.

Board of Directors of Kaztemirtrans

The Board of Directors is responsible for the overall management of Kaztemirtrans' activities, and directs Kaztemirtrans' strategy and policy, except those matters which are expressly reserved to the Company. as sole shareholder.

Accordingly, the Board of Directors is generally responsible for: (i) setting the priorities of the company's activities; (ii) approving the terms of bonds and derivatives to be issued by the company; (iii) appointing the members of the Management Board, except for the Chairman of the Management Board; (iv) approving the remuneration of the members of the Management Board; (v) approving acquisitions by the company of 10% or more of the shares in other legal entities; (vi) approving transactions related to the incurrence of liabilities by the company in an amount exceeding 500,000 monthly calculated indices for the respective financial year; (vii) approving all interested party transactions, excluding transactions with companies owned by Samruk-Kazyna; and (viii) approving major transactions involving transfer by Kaztemirtrans of assets the value of which ranges from twenty five percent to fifty percent of book value of the Kaztemirtrans's assets.

Members of the Board of Directors are appointed by the Company, as sole shareholder, for a term of not more than three years, the duration of which is set by the sole shareholder. A person generally shall not serve as a member of the Board of Directors for an aggregate of more than nine years; however, in exceptional cases, an appointment for more than nine years is permitted if such person is re-appointed on an annual basis. The Board of Directors must not have less than three members and the President of Kaztemirtrans, if a member of the Board of Directors, is not permitted to serve as Chairman of the Board of Directors.

As at the date of this Offering Memorandum, Kaztemirtrans' Board of Directors consists of five members, with Mr. Kulakov serving as the Chairman of the Board of Directors. The following table sets forth certain biographical information regarding the Board of Directors of Kaztemirtrans.

Name (current position)	Date of Birth	Age	Background and principal outside activities and duties
Oralkhan Raikhanovich Kulakov (Chairman of the Board of Directors of Kaztemirtrans; Vice-President of the Company)	17 August 1964	53	For information regarding Mr. Kulakov, see "—*Management Board of the Company*".
Yevgenyi Pavlovich Ogay (Manager of the Department of Asset Management of the Company)	22 April 1955	62	Mr. Ogay has been working in the Company since 2002. He is a General Manager of the Department of Asset Management of the Company. He has extensive experience in public service. In 2005, he was deputy head of the Department of optimisation of the property of the Company. Since 2008, he has served as deputy head of the Department of Assets Management of the Company. He has held his current position since 2009 and was appointed to the Board of Directors of Kaztemirtrans in May 2015.
Timur Bokeykhanovich Abilkasymov	21 September 1989	28	Mr. Abilkasymov was born in 1989. He graduated from KIMEP University majoring in Public Economic Policy and Business Economics. He has MBA Master's degree in Risk Management from the London School of Business and Finance (UK). He was Head of the Department of Market Risks and Liquidity Risks of a second-tier bank as well as a Head of Risk Management and Internal Control Service of "KazMunaiGas Onimderi" LLP before his job in Risk Management Department of the Company. Mr. Abilkasymov was elected to the Board of Directors of Kaztemirtrans in June 2017.
Yeltay Nurbolatovich Mukhamedzhanov (Independent Director)	1 June 1983	34	Mr. Mukhamedzhanov was born in 1983. In 2004, he received a bachelor's degree from the Kazakhstan Institute of Management Economics and Planning (KIMEP). In September 2006, he obtained a Masters of Business Administration degree specialising in Finance from UWIC, Cardiff, Wales. Mr. Mukhamedzhanov started his career in June 2000 as a financial analyst for Baker Hughes, a position which he held until May 2003. From July 2007 to September 2010, he worked for HSBC Kazakhstan as business development manager in Global Banking, and then as Corporate Director. Since October 2010, Mr. Mukhamedzhanov has held his current position at HSBC Bank plc as Vice-President in the Institutional Sales and New Markets Group. He is a certified member of The Chartered Institute for Securities and Investment, London, UK. Since May 2012, Mr. Mukhamedzhanov has been an Independent Director and member of the Board of Directors of Kaztemirtrans.
Yerlan Baykenovich Smailov (General Director of "AKSU SD" LLP, Independent Director of the Board of Directors of Kaztemirtrans)	27 January 1951	66	Mr. Smailov was born in 1951. He graduated from Pavlodar Industrial Institute with a degree in Industrial and Civil Construction. From 1996 to 1997, Mr. Smailov served as Akim (Mayor) of the Zhezkazgan oblast. From 1997 to 2002, he served as President of "Kazenergoservis". From 2000 to 2002, Mr. Smailov was President of JSC "Zhezkazgan ore". Since 2003 he has been working with the Company "KVANT" as director of the Department of Corporate Development.

The business address of each member of the Board of Directors of Kaztemirtrans is the legal address of Kaztemirtrans located at 10 Konaeva Street, in the office building of JSC NC Kazakhstan Temir Zholy, 9-12 Floor, Esil District, Astana, 010000, Republic of Kazakhstan.

President of Kaztemirtrans

The President (who is also the Chairman of the Management Board) is appointed and relieved of his duties by a resolution of the Management Board of the Company, as sole shareholder, with subsequent approval of such decision by the Board of Directors of Kaztemirtrans, as set forth in Kaztemirtrans' charter. As at the date of this Offering Memorandum, the acting President of Kaztemirtrans is Mr. K.A. Saurbaev who was appointed by a resolution of the Company's Management Board dated 5 June 2017. The business address of the President is the legal address of Kaztemirtrans.

The President of Kaztemirtrans manages the day-to-day activities of Kaztemirtrans, including the implementation of the resolutions of the sole shareholder, the Board of Directors and the Management Board; entering into transactions for Kaztemirtrans; representing Kaztemirtrans in its relations with third parties; issuing powers of attorney to represent Kaztemirtrans; and performing other duties as set out in Kaztemirtrans's charter.

Employees of Kaztemirtrans

Kaztemirtrans employed an average of 1,695, 1,913, 2,053 and 1,498 individuals for the six months ended 30 June 2017 and for the years ended 31 December 2016, 2015 and 2014, respectively. As at 30 June 2017, 1,476 of Kaztemirtrans' employees were members of the Public Association Trade Union of JSC Kaztemirtrans (the "**Trade Union of Kaztemirtrans**").

As at the date of this Offering Memorandum, Kaztemirtrans has not experienced any material labour disputes or strikes.

Legal Address of Kaztemirtrans

The legal address of Kaztemirtrans is 10 Konaeva Street, in the office building of JSC NC Kazakhstan Temir Zholy, 9-12 Floor, Esil District, Astana, 010000, Republic of Kazakhstan and its telephone number is +7 (7172) 93 02 76.

Kaztemirtrans' Executive Compensation

In accordance with Kaztemirtrans's charter, the remuneration of the President is set by the Board of Directors, while the remuneration of the members of the Board of Directors is determined by the Company, as sole shareholder. Other than its independent director, all members of the Board of Directors of Kaztemirtrans are employees of the Company and, accordingly, receive remuneration from the Company. As at 31 December 2016, the annual fixed fee paid to each independent director of Kaztemirtrans was KZT 1.18 million.

The President of Kaztemirtrans received an aggregate of KZT 10.6 million for the six months ended 30 June 2017 and KZT 13.3 million and KZT 12.8 million in compensation for the year ended 31 December 2016 and for the year ended 31 December 2015, respectively, which includes both short-term and post-term employee benefits.

KTZFT

General

As KTZFT's sole shareholder, the Company retains exclusive authority over the operations of KTZFT as set forth in the JSC Law and KTZFT's charter. KTZFT is managed by its Board of Directors, except for those limited matters expressly reserved to the Company, as its sole shareholder. The President of KTZFT, elected by the sole shareholder upon agreement with the Management Board of the Company and subject to the supervision of the Board of Directors, is responsible for the executive authority of the day-to-day management and affairs of KTZFT.

Sole Shareholder

The functions of the sole shareholder include, among other things: (i) approving any amendments to the charter of KTZFT or approval of a new version of the charter; (ii) approving the corporate governance code, as well as any amendments thereto; (iii) approving a reorganisation or liquidation of KTZFT; (iv) appointing the auditors of KTZFT; (v) approving the payment of dividends; (vi) approving the annual financial statements of KTZFT;

(vii) approving the number, the term of authority and the members of the Board of Directors of KTZFT; (viii) appointing the Chairman of the Management Board and the Board of Directors of KTZFT; and (ix) approving a decision with respect to KTZFT's participation in establishment of the business of other legal entities where a transfer of all or a part of KTZFT's assets occurs in an amount equal to 25% or more of the total amount of assets owned by the company; and (x) approving major transactions involving transfer by KTZFT of assets the value of which equals to or exceeds fifty percent of book value of the Kaztemirtrans's assets.

Board of Directors of KTZFT

The Board of Directors of KTZFT is responsible for the overall management of KTZFT's activities, and directs KTZFT's strategy and policy, except those matters which are expressly reserved to the Company, as sole shareholder.

Accordingly, the Board of Directors is generally responsible for: (i) setting the priorities of the company's activities and business strategy or approving the development strategy; (ii) approving the terms of bonds and derivatives to be issued by the company; (iii) appointing the members of the Management Board, except for the Chairman of the Management Board; (iv) approving the remuneration of the members of the Management Board; (v) approving acquisitions by the company of 10% or more of the shares in other legal entities; (vi) approving transactions related to the incurrence of liabilities by the company in an amount exceeding 500,000 monthly calculated indices for the respective financial year; (vii) selecting a registrar of the company; (viii) approving all interested party transactions, excluding transaction with the companies within the group of Samruk-Kazyna; (ix) approving major transactions involving transfer by KTZFT of assets the value of which ranges fron twenty five to fifty percent of book value of KTZFT's assets.

Members of the Board of Directors are appointed by Company, as its sole shareholder, for a term of not more than three years, the duration of which is set by the sole shareholder. A person generally shall not serve as a member of Board of Directors for an aggregate of more than nine years; however, in exceptional cases, an appointment for more than nine years is permitted if such person is re-appointed on an annual basis. The Board of Directors must be comprised of at least three members, as set forth in KTZFT's charter. The President of KTZFT may be elected to the Board of Directors but is not permitted to serve as Chairman of the Board of Directors.

As at the date of this Offering Memorandum, KTZFT's Board of Directors consists of six members with Mr. Alpysbayev serving as the Chairman of the Board. The following table sets forth certain biographical information regarding members of the Board of Directors of KTZFT:

Name and position	Date of Birth	Age	Background and principal outside activities and duties
Kanat Kalievich Alpysbayev (Chairman, Vice-President of the Company)	31 March 1972	45	For information regarding Mr. Alpysbayev, see "*Management Board of the Company*".
Vladimir Vladimirovich Babichenko	5 April 1982	35	Mr. Babichenko was born in 1982. He graduated from Akmola University in 2006, from Kostanay Engineering and Pedagogical University in 2010 and from the Kazakh Academy of Transport and Communications in 2013. Mr. Babichenko began his career as a Pump Station Driver and Repairman and then became an Accountant at "Tobol". From 2004 to 2005, he worked as an Accountant and as an Economist at the Pribotolskaya branch of JSC "Remput". Between 2005 and 2007, Mr. Babichenko was Chief Accountant at the Tobolsk branch of JSC "Locomotive Service Center" and the Chairman of the Audit Commission of Taranovskiy Maslikhat. From 2008 to 2013, he worked as the Head of the Planning and Economic Department of KTZFT. In 2013, Mr. Babichenko served as Deputy Financial Director of LLP "Company Zholzhundeushi" and, from 2014 to 2015, he served as Deputy Director for Economics and Finance Directorate of the Transportation Process of the Company. Since 2015, Mr. Babichenko has headed the Department for Planning of Operational and Financial Activities, as well as serving as the Director of Financial Control of the Company. On 16 June 2016, he was elected as a member of the Board of Directors of KTZFT.
Ravshan Dzhuraevich Rakhmatullaev (Independent Director)	28 October 1961	56	Mr. Rakhmatullaev was born in 1961. He graduated from Novosibirsk State University in 1983 with a degree in physics. Mr. Rakhmatullaev began his career in 1990 as a Senior Research Fellow at the Space Research Institute of the Academy of Sciences of the Republic of Kazakhstan. From 1993 to 1996, he was the Head of Geo Ltd. and, from 1996 to 1999, he served as Vice-President of CJSC SAF Capital. From 1990 to 2000, Mr. Rakhmatullaev served as Deputy Director of the Department of Strategic Planning and Restructuring, Deputy Head of the Restructuring Department of the Company. He has previously worked at JSC "NC" KazMunayGas", JSC Trade House KazMunayGas, Key Century LLP and CBS Project LLP and, since 2010, he has served as a Director of "Advanced Business Technologies" LLP. On 16 June 2016, he was elected as an independent director of the Board of Directors of KZTFT.

Zhanasyl Begalievich Ospanov (Independent Director)	29 September 1975	42	Mr. Ospanov was born in 1975. In 1997, he graduated from the Kazakh Academy of Transport and Communications with a degree in mechanical engineering and, in 2001, he graduated from the Kazakh State University. Mr. Ospanov began his career as a mechanic for the Ministry of Defense of the Republic of Kazakhstan in 1997. From 1998 to 2005, he worked in the Republican State Enterprise “Information and Registration Center” of the State Property Committee and privatization of the Ministry of Finance of the Republic of Kazakhstan. He has been the Head of JSC “Information and Accounting Center” since 2005 and, since 2009, he has served as an Independent Director of JSC “Center for Special Security Service of the President of the Republic of Kazakhstan.” Between 2010 and 2012, Mr. Ospanov served as an Independent Director of the Board of JSC “Railway hospitals of disaster medicine”. He has served as an Independent Director of JSC “Kazaviaspas” since 2011 and as an Independent Director of JSC “Kazakhstan GIS Center” since 2014. On 16 June 2016, Mr. Ospanov was elected as an Independent Director of KTZFT.
Rustem Koibagarovich Khasenov	4 August 1962	55	Mr. Khasenov was born on 4 August 1962. In 1984, he graduated from Karaganda State University with a degree in law and he graduated from Kazakh Economic University and the European University’s joint international MBA programme with a master’s in Business Administration in 2014. From 1997 to 2004, Mr. Khasenov worked as Head of the Legal Service and Chief Specialist of the Legal Expertise Department of the Legal Department of the Ministry of Transport and Communications of the Republic of Kazakhstan, Head of the Legal Support Division of the Committee of Highways and Construction of an Infrastructure Complex of the Republic of Kazakhstan. From 2004 to 2008, he served as Deputy Director of the Legal Department of the Ministry of Transport and Communications of the Republic of Kazakhstan and Head of the State and Legal Department of the Akimat of the City of Astana. From April 2008 to April 2016, Mr. Khasenov worked as the Managing Director for Legal Issues of KTZFT. Since 29 April 2016, he has served as Director of the Legal Support and Litigation Department of KTZFT.
Almas Omarkhanli Omarkhanov	9 May 1983	34	Mr. Omarkhanov was born in 1983. He graduated from the Eurasian National University with a degree in finance and credit and from the West Coast University with a master’s in Business Administration in 2006. Mr. Omarkhanov began his career in 2003 as an assistant auditor-appraiser at LLP “Audit firm” Almas”. From 2007 to 2009, he worked as an Acting Chief Specialist and Chief Specialist of the Specialized Department of the Tax Committee of the Ministry of Finance of the Republic of Kazakhstan. Between 2009 and 2010, Mr. Omarkhanov served as Deputy Head of the Tax Department for the Yesil district of the Tax Department in Astana. From 2010 to 2011, he worked as a Managing Director of the Management Board of Astana-finance JSC. Between 2011 and 2012, Mr. Omarkhanov held the position of Managing Director - Member of the Board of JSC “Kazakhstan Center for Public-Private Partnerships”. From 2012 to 2016. he served as Chairman of the Board of JSC “Kazakhstan

Guarantee Fund for Mortgage Loans". From April 2016 to October 2016, Mr. Omarkhanov worked as Deputy General Director of LLP "Audit firm" Almas" and, since November 2016, he has worked as Head of the Risk Management Department of the Company. On 18 May 2017, Mr. Omarkhanov was elected as member of the Board of Directors of KTZFT.

The business address of each member of the Board of Directors is the legal address of KTZFT, located in the office building of JSC "National Company "Kazakhstan Temir Zholy", Office 416, 4th Floor, 6 Konaeva Street, Astana 010000, the Republic of Kazakhstan.

President of KTZFT

The President of KTZFT is appointed by the Company, as sole shareholder, in accordance with KTZFT's charter. As at the date of this Offering Memorandum, the President of KTZFT is Mr. O.R Kulakov who was appointed by a resolution of the Company dated 5 October 2016. The business address of the President of KTZFT is the legal address of KTZFT.

The President manages the day-to-day activities of KTZFT, including the implementation of the resolutions of the sole shareholder, the Board of Directors and the Management Board; entering into transactions on behalf of KTZFT; representing KTZFT in its relations with third parties; issuing powers of attorney to represent KTZFT; and performing other duties as set out in KTZFT's charter.

Employees of KTZFT

KTZFT employed an average number of 47,977, 50,314, 51,708 and 42,824 employees for the six months ended 30 June 2017 and for the years ended 31 December 2016, 31 December 2015 and 31 December 2014, respectively. KTZFT's employees are members of the Trade Union.

As at the date of this Offering Memorandum, KTZFT has not experienced any material labour disputes or strikes.

Legal Address of KTZFT

The legal address of KTZFT is located in the office building of JSC "National Company "Kazakhstan Temir Zholy", Office 416, 4th Floor, 6 Konaeva Street, Astana 010000, the Republic of Kazakhstan.

KTZFT Executive Compensation

In accordance with KTZFT's charter, the remuneration of the President of KTZFT is set by the Board of Directors, while the remuneration of the members of the Board of Directors is determined by the sole shareholder. The President of KTZFT and independent directors are the only members of the Board of Directors who receive remuneration from KTZFT. All other members of the Board of Directors are employees of the Company and, accordingly, receive remuneration from the Company. In 2016, no payments were made in compensation for the President of KTZFT and the independent directors.

The President of KTZFT received an aggregate of KZT 5.8 million, KZT 15.3 million and KZT 15.3 million in compensation for the six months ended 30 June 2017 and for the years ended 31 December 2016 and 2015, respectively, which includes both short-term and post-term employee benefits.

TRANSACTIONS WITH RELATED PARTIES

Related parties include the Company's shareholder, Samruk-Kazyna, and the Government, key management personnel, associates and enterprises in which the Company's shareholders or key management personnel have the ability to control or exercise significant influence over such other party in making financial or operational decisions. Parties under common control with the Group are also considered to be related parties. Because the Group is controlled by the Government, any other company controlled by the Government is considered a "related party" of the Group.

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

As a general rule, the Law of the Republic of Kazakhstan "On Joint-Stock Companies" No. 415-II dated 13 May 2003 provides that transactions with related parties should be approved by the Board of Directors by a majority of votes of non-interested directors. If all members of the Board of Directors are interested in a transaction or there is a lack of the required number of votes for approval of a transaction with a related party, a decision should be adopted by the General Meeting of Shareholders by a majority of votes not interested in the transaction. The decision is adopted by a majority of votes of the General Meeting of Shareholders if all members of the Board of Directors and all members of the General Meeting of Shareholders are interested in a transaction.

There is a less onerous procedure for the approval of transactions with related parties concluded between companies in the Samruk-Kazyna group, which is regulated by a special law, namely the Law of the Republic of Kazakhstan "On the National Wealth Fund" No. 55-IV dated 1 February 2012 and related by-laws. Companies in the Samruk-Kazyna group are considered to be Samruk-Kazyna itself, the companies (the national development institutes, national companies and other legal entities), which are more than 50% owned by or in trust management of Samruk-Kazyna, and subsidiaries of companies which are more than 50% owned by or in trust management of Samruk-Kazyna. Given that most of the Group members fall under the criteria for the Samruk-Kazyna group, the transactions entered into between the Group and the companies of the Samruk-Kazyna group should be approved by the Management Board by not less than three quarters of its elected members.

If a quorum of the Management Board is not available to approve the transaction, then a majority of the members of the Board of Directors who are not interested in the transaction may vote to approve the transaction. If all members of the Board of Directors are interested, then a majority of the independent directors may vote to approve the transaction. If the independent directors are not available to approve the transaction, then the sole shareholder may approve it.

Related party transactions with members of the Samruk-Kazyna group principally comprise transactions with JSC National Company KazMunayGas (for fuel), JSC Kazakhtelecom (for communication services), JSC Kazatomprom National Nuclear Company (for electricity), JSC KEGOC (for electricity) JSC Kazpost (for postal services), JSC National Company Kazakhstan Engineering (for engineering production services) and JSC Samruk-Energo (for electricity). In addition, the Group provides railway transportation services to associates and joint ventures of Samruk-Kazyna.

See Note 24 to the Interim Financial Statements and Note 31 to the 2016 Financial Statements for further details regarding the Group's related party transactions.

The table below sets forth certain information regarding the nature of the Group's related party relationships with whom the Group entered into significant transactions or had significant balances outstanding as at 30 June 2017, 31 December 2016 and 31 December 2015:

	Year	Shareholder	Associates	Joint Ventures where the Group is a participant	Companies in the Group of the Shareholder	Other related parties
				(KZT millions)		
Debt due from related parties for goods services and non-current assets	2017	2.6	15,470.5	471.2	1,296.9	—
	2016	—	9,580.2	7,397.8	1,656.9	—
	2015	—	3,614.8	13,861.5	410.4	—
Including allowance on doubtful debt	2017	—	(12.1)	(24.9)	(36.2)	—
	2016	—	(16.8)	(191.3)	(33.6)	—
	2015	—	—	(5.8)	(1,454.0)	—
Debt to related parties for goods, services and non-current assets	2017	—	4,065.8	2,397.5	4,018.5	118.2
	2016	—	1,619.5	4,299.4	3,816.6	—
	2015	—	1,015.9	3,590.1	1,938.3	0.02
Current accounts and contributions	2017	—	—	—	—	0.3
	2016	—	—	—	—	0.3
	2015	—	—	—	—	0.8
Restricted cash	2017	—	—	—	—	349.2
	2016	—	—	—	—	357.8
	2015	—	—	—	—	862.7
Loans issued	2017	—	—	—	—	—
	2016	—	—	99.4	—	—
	2015	—	—	1,301.6	—	—
Including allowance for impairment provision	2017	—	—	—	—	—
	2016	—	—	(590.1)	—	—
	2015	—	—	(562.1)	—	—
Loans received	2017	154,067.9	—	—	—	39,664.1
	2016	152,960.6	—	—	—	43,813.1
	2015	171,249.8	—	—	—	50,480.7
Finance lease liabilities	2017	—	—	—	—	—
	2016	—	—	—	—	136.1
	2015	—	—	—	—	229.1
Dividends receivable	2017	—	—	—	—	—
	2016	—	—	1,663.8	—	—
	2015	—	—	—	—	—
Dividends payable	2017	16,424.7	—	—	—	—
	2016	16,424.7	—	—	—	—
	2015	16,424.7	—	—	—	—

The following table sets forth certain information regarding related party transactions entered into for the six months ended 30 June 2017 and the corresponding period in 2016:

	Six months ended 30 June	Shareholder	Associates	Joint Ventures where the Group is a participant	Companies in the Group of the Shareholder	Other related parties
				(*unaudited*) (*KZT millions*)		
Debt due from related parties for goods services and non-current assets	2017	4.6	610.6	12,163.3	7,336.2	—
	2016	—	303.9	17,842.7	7,266.3	—
(Accrual)/ recovery of allowance on doubtful debt	2017	—	4.6	(1.0)	(2.7)	—
	2016	—	—	(189.2)	304.8	—
Purchase of goods, services and non-current assets	2017	0.1	20,166.2	561.3	7,315.9	0.1
	2016	—	11,843.2	1,628.2	5,452.0	124.5
Loans issued	2017	—	—	12.5	—	—
	2016	—	—	65.6	—	—
Loans received	2017	—	—	—	—	—
	2016	—	—	—	—	508.4
Repayment of loans received	2017	—	—	—	—	3,733.4
	2016	—	—	—	—	3,747.0
Finance income	2017	—	—	13.9	—	—
	2016	—	—	116.5	—	—
Finance costs	2017	3,693.9	—	0.9	—	1,437.0
	2016	4,366.9	—	1.0	—	1,798.9
Dividends receivable	2017	—	—	—	—	—
	2016	—	—	1,303.3	—	—
Contributions to charter capital	2017	50,000.0	—	—	—	—
	2016	36,543.6	—	—	—	—

As at 30 June 2017 and 31 December 2016, KZT 2,823.9 million and KZT 3,285.5 million of the Group's borrowings were guaranteed by the Government.

The Government (either directly or through Samruk-Kazyna) may impose on the Group certain social duties, such as requiring it to construct social and recreational infrastructure, engage in charitable activities and implement community development programmes. See "*Risk Factors—Risk Factors Relating to the Group—The Government, which indirectly controls the Company, may cause the Company to engage in business practices that conflict with the Company's commercial interests and the interests of the Noteholders.*" The following table sets forth certain information regarding the constructive obligations recognised by the Group for the construction of the following objects for the benefit of Samruk-Kazyna as at the dates indicated:

	Current Liabilities					**Non-current Liabilities**
	Teleradio complex equipment	**Mangistau municipalities**	**Kindergarten in Astana**	**Ice palace**	**Total**	**Total Ice palace**
	(unaudited)					
	(KZT millions)					
At 1 January 2016.............	28,238.6	247.2	1,702.7	—	30,188.6	48,601.3
Additions for the period......	—	—	195.6	—	195.6	—
Decrease in liabilities.......	—	—	(30.3)	—	(30.3)	(870.0)
Written-off during the period	—	—	(1,825.5)		(1,825.5)	—
At 30 June 2016.............	**28,238.6**	**247.2**	**42.5**	**—**	**28,528.4**	**47,731.1**
At 1 January 2017.............	—	247.2	42.5	47,778.1	48,067.8	—
Additions for the period......	—	—	—	5,733.3	5,733.4	—
Written-off during the period	—	—	—	(53,511.4)	(53,511.3)	—
At 30 June 2017.............	**—**	**247.2**	**42.5**	**—**	**289.7**	**—**

The following table sets forth certain information regarding the Group's construction costs related to the construction of the objects for the benefit of Samruk-Kazyna as at the dates indicated:

	Current Assets					Non-current Assets
	Teleradio complex equipment	**Mangistau municipalities**	**Kindergarten in Astana**	**Ice palace**	**Total**	**Total Ice palace**
			(unaudited) *(KZT millions)*			
At 1 January 2016.............	28,238.6	247.2	1,672.4	—	30,158.3	41,268.4
Additions......	—	—	—	—	—	4,535.3
Disposals	—	—	(1,629.9)	—	(1,629.9)	—
At 30 June 2016.............	**28,238.6**	**247.2**	**42.5**	**—**	**28,528.4**	**45,803.7**
At 1 January 2017.............	—	247.2	42.5	47,778.1	48,067.8	—
Disposals	—	—	—	(47,778.1)	(47,778.1)	—
At 30 June 2017.............	**—**	**247.2**	**42.5**	**—**	**289.7**	**—**

Following completion, in May 2017 the multi-purpose ice arena (ice palace) was donated (on a free of charge basis) to the Mayor's administration of Astana City, in accordance with a decision of the Government.

SHARE CAPITAL AND PRINCIPAL SHAREHOLDER

The Company

The Company, formed in May 2002, had a total authorised equity capital of 502,040,458 common voting shares as at 30 June 2017, of which 496,113,720 were issued and paid-in and held by Samruk-Kazyna. As at 30 June 2017, the share capital of the Company was KZT 1,043,460.5 million. Historically, all of the shares of the Company were owned directly by the Government. In January 2006, all of the Company's shares were transferred from the Government to Samruk, the predecessor of Samruk-Kazyna, which acceded to ownership by operation of law. As at the date of this Offering Memorandum, Samruk-Kazyna is the sole shareholder of the Company. 3,070,025 shares were issued by the Company in 2015 and 1,365,676 shares were issued by the Company in 2016 in order to raise capital for the construction of certain railway lines and infrastructure projects, including the Zhezkazgan-Beineu railway line, the secondary railway line between Almaty and Shu and a ferry complex at the Kuryk port. During the period from 1 January 2017 to 30 June 2017, 50,000 ordinary shares were issued in order to raise further capital for the construction project at the Kuryk port. Although the Company had profits for the year of KZT 41,276.6 million for the year ended 31 December 2016 (and profit for the year from continuing obligations of KZT 46,184.3 million), Samruk-Kazyna, as the sole shareholder of the Company, determined not to take any of such net profits in the form of dividends for 2016. As at 30 June 2017 and 31 December 2016, the amount of dividends payable to Samruk-Kazyna was KZT 16,424.7 million, which represented the obligation of the Company to distribute dividends declared but unpaid for the years ended 31 December 2013 and 31 December 2014.

Contributions to the Company's share capital

Contributions to the Company's share capital during the six months ended 30 June 2017 comprised: (i) 50,000 shares issued for KZT 50,000.0 million in cash. This contribution was used to fund the implementation of the construction of ferry facilities at Kuryk port.

Contributions to the Company's share capital in the year ended 31 December 2016 comprised: (i) an issue of 464,000 shares for which cash of KZT 46,400.0 million was received. This capital was used to finance the construction of the Zhezkazgan-Beineu railway line, the construction of a secondary railway line at Almaty 1-Shu, the construction of ferry facilities at Kuryk port and the development of multi-purpose freight-passenger ferries; (ii) an issue of 741,830 shares for which cash of KZT 74,183.0 million was received. This capital was used to finance the development of the Astana railway centre, including construction of a railway station complex and construction of the Zhezkazgan-Beineu railway line; (iii) an issue of 73,400 shares for which cash of KZT 7,340.0 million was received. This capital was received for the construction of ferry facilities at Kuryk port and the development of multi-purpose freight-passenger ferries; (iv) an issue of 642 shares for which an interest in the technical library (valued at KZT 57.8 million) at the Group Scientific and Technical Information and Analysis Centre was received; and (v) an issue of 85,804 shares for which seven building of railway stations and four passenger platforms valued at KZT 85.8 million were received.

See Note 14 to the Interim Financial Statements and Note 16 of the 2016 Financial Statements.

Samruk-Kazyna

Samruk-Kazyna is wholly-owned by the Government and is the national managing holding company for substantially all state enterprises. Samruk-Kazyna was created in 2008 pursuant to the Presidential Edict No. 669, dated 13 October 2008, and the Resolution of the Government No. 962, dated 17 October 2008, by way of the merger of JSC "Kazakhstan Holding for Management of State Assets" "Samruk" and JSC "Sustainable Development Fund" "Kazyna". Samruk-Kazyna is a joint stock company whose shares are held by the Ministry of Finance's Committee of State Property and Privatisation on behalf of Kazakhstan.

Samruk-Kazyna's primary objective is to manage shares (participatory interests) of legal entities it owns with a goal of maximising long-term value and increasing competitiveness of such legal entities in world markets.

The governance of Samruk-Kazyna's activities is subject to general corporate governance applicable to all joint stock companies in Kazakhstan. Accordingly, the corporate governance structure of Samruk-Kazyna is as follows: the Government, as the sole shareholder, constitutes the supreme governing body, the board of directors constitutes the managing body and the management board constitutes the executive body.

Members of Samruk-Kazyna's board of directors are appointed by the Government, and its members are, among others, the Minister of Economic Development and Trade, the Minister of Finance, the Minister of Oil and Gas, the Minister of Industry and New Technologies, independent directors and the chairman of the management board of Samruk-Kazyna. In addition, the board of directors is chaired by the Prime Minister of Kazakhstan.

The registered office of Samruk-Kazyna is 23 Kabanbay Batyr Avenue, 010000 Astana, The Republic of Kazakhstan and the telephone number is: +7 7172 790 486.

Kaztemirtrans

Kaztemirtrans is a joint stock company organised under the laws of Kazakhstan. Kaztemirtrans was initially registered with the Ministry of Justice of Kazakhstan on 21 October 2003 for an indefinite duration and was assigned business identification number 031040000572. As at 30 June 2017, Kaztemirtrans was the registered owner of the majority of the Group's freight rail cars. As at 30 June 2017, the total issued and outstanding share capital of Kaztemirtrans was 62,303,295 common shares, reflecting KZT 67,726.9 million. All issued and outstanding common shares of Kaztemirtrans are held by the Company.

KTZ – Freight Transportation

KTZFT (formerly JSC Lokomotiv) is a joint stock company organised under the laws of Kazakhstan. KTZFT's principal activity is railway freight transportation. KTZFT was registered with the Ministry of Justice on 14 October 2003 under the name JSC Lokomotiv for an indefinite duration and was assigned business identification number 031040001799. At an extraordinary meeting of the Board of Directors of the Company, on 16 June 2016, JSC Lokomotiv was renamed KTZFT. On 29 September 2017, the Government adopted Resolution No. 608 appointing KTZFT as the national carrier of goods and, accordingly, all necessary functions have been transferred to KTZFT to allow it to be referred to as the national carrier of goods. As at 30 June 2017, KTZFT had a total issued and outstanding share capital of 61,588,990 common shares, reflecting KZT 58,018.6 million. All issued and outstanding common shares of KTZFT are held by the Company.

FORM OF THE NOTES AND TRANSFER RESTRICTIONS

The following information relates to the form, transfer and delivery of the Notes.

1. Form of the Notes

All Notes will be in definitive fully registered form, without interest coupons attached. Notes offered and sold outside the United States in reliance on Regulation S will be represented by interests in the Unrestricted Global Note, in definitive fully registered form, without interest coupons attached, which will be deposited on or about the Issue Date with a common depositary for Euroclear and Clearstream, Luxembourg, and registered in the name a nominee for such common depositary in respect of interests held through Euroclear and Clearstream, Luxembourg.

Notes offered and sold in reliance on Rule 144A will be represented by interests in one or more Restricted Global Notes, in definitive fully registered form, without interest coupons attached, which will be registered in the name of Cede & Co., as nominee for, and which will be deposited on or about the Issue Date with a custodian (the "**Custodian**") for, DTC. The Restricted Global Notes (and any Note Certificates (as defined below) issued in exchange therefor) will be subject to certain restrictions on transfer contained in a legend appearing on the face of such Note as set forth under paragraph 3 below.

The Unrestricted Global Note will have an ISIN number and a Common Code and the Restricted Global Notes will have a separate CUSIP number.

For the purposes of the Restricted Global Notes and the Unrestricted Global Note, any reference in the Conditions to "**Note Certificate**" or "**Note Certificates**" shall, except where the context otherwise requires, be construed so as to include the Restricted Global Notes or, as the case may be, the Unrestricted Global Note and interests therein.

2. Notices

So long as the Notes are represented by a Global Note and the Global Note is held on behalf of a clearing system, notices to Noteholders required to be published in the Irish Times may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders except that so long as the Notes are listed on the Irish Stock Exchange and the rules of that exchange so require, notices shall also be published in a leading newspaper having general circulation in the Republic of Ireland (which is expected to be the Irish Times).

3. Transfer Restrictions

On or prior to the 40th day after the Issue Date, a beneficial interest in the Unrestricted Global Note may be transferred to a person who wishes to take delivery of such beneficial interest through the Restricted Global Notes only upon receipt by the Registrar and Transfer Agent of a written certification from the transferor (in the form set out in the schedule to the Agency Agreement), to the effect that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. After such 40th day, such certification requirements will no longer apply to such transfers, but such transfers will continue to be subject to the transfer restrictions contained in the legend appearing on the face of such Note, as set out below.

A beneficial interest in the Restricted Global Notes may also be transferred to a person who wishes to take delivery of such beneficial interest through the Unrestricted Global Note only upon receipt by the Registrar and Transfer Agent of a written certification from the transferor (in the form set out in the schedule to the Agency Agreement) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 (if available) under the Securities Act.

Any beneficial interest in either the Restricted Global Notes or the Unrestricted Global Note that is transferred to a person who takes delivery in the form of a beneficial interest in the other Global Note will, upon transfer, cease to be a beneficial interest in such Global Note and become a beneficial interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other Global Note for so long as such person retains such an interest.

The Notes are being offered and sold in the United States only to qualified institutional buyers within the meaning of and in reliance on Rule 144A. Because of the following restrictions, purchasers of Notes offered in the United States in reliance on Rule 144A are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such Notes.

Each purchaser of Notes offered hereby pursuant to Rule 144A will be deemed to have represented and agreed as follows (terms used herein that are defined in Rule 144A are used herein as defined therein):

(i) the purchaser (a) is a QIB within the meaning of Rule 144A, (b) is acquiring the Notes for its own account or for the account of such a QIB and (c) such person is aware that the sale of the Notes to it is being made in reliance on Rule 144A;

(ii) the Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and the Notes offered hereby have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged, or otherwise transferred except in accordance with the legend set out below; and

(iii) the Restricted Global Notes and any Restricted Note Certificates (as defined below) issued in exchange for an interest in the Restricted Global Notes will bear a legend to the following effect, unless the Issuer and the Guarantors determine otherwise in accordance with applicable law:

"NEITHER THIS NOTE NOR THE GUARANTEE HAS BEEN AND WILL NOT BE REGISTERED UNDER, AND EACH WAS ORIGINALLY ISSUED OR MADE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER, THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), AND THE NOTES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF REPRESENTS AND AGREES, FOR THE BENEFIT OF THE ISSUER AND THE GUARANTORS, THAT (A) THIS NOTE (AND ANY INTEREST HEREIN) MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE ISSUER OR THE GUARANTORS, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND THAT (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE (OR INTEREST HEREIN) FROM IT OF THE TRANSFER RESTRICTIONS REFERRED TO IN (A) ABOVE.

THIS NOTE AND ALL RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME-TO-TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFERS OF RESTRICTED SECURITIES GENERALLY. BY THE ACCEPTANCE OF THIS NOTE, THE HOLDER HEREOF SHALL BE DEEMED TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT."

Each purchaser of Notes outside the United States pursuant to Regulation S, and each subsequent purchase of such Notes in re-sales during the period which expires on and includes the 40th day after the later of the commencement of the offering of the Notes and the Issue Date (the "**distribution compliance period**"), will be deemed to have represented, agreed and acknowledged as follows:

(i) it is, or at the time Notes are purchased will be, the beneficial owner of such Notes and it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S);

(ii) it understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell pledge or otherwise transfer such Notes except in an offshore transactions in accordance with Rule 903 or Rule 904 of Regulation S, and in accordance with any applicable securities laws of any State of the United States; and

(iii) the Issuer, each Guarantor, the Registrar and Transfer Agent, the Joint Bookrunners and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

4. Exchange of Interests in Global Notes for Note Certificates

The Restricted Global Notes will become exchangeable, free of charge to the holder, in whole but not in part, for Note certificates in definitive form ("**Restricted Note Certificates**") if DTC (a) notifies the Issuer or the Guarantors that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Restricted Global Notes or ceases to be a "**clearing agency**" registered under the Exchange Act, or is at any time no longer eligible to act as such, and the Issuer or the Guarantors are unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC or (b) an Event of Default (as defined and set out in Condition 13 (*Events of Default*) of the Notes) occurs. In such circumstances, such Restricted Note Certificates shall be registered in such names as DTC shall direct in writing and the Issuer or the Guarantors will procure that the Registrar and Transfer Agent notify the holders as soon as practicable after the occurrence of the events specified in (a) and (b).

The Unrestricted Global Note will become exchangeable, free of charge to the holder, in whole but not in part, for Note certificates in definitive form ("**Unrestricted Note Certificates**") if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so or (b) an Event of Default (as defined and set out in Condition 13 (*Events of Default*) of the Notes) occurs. In such circumstances, such Unrestricted Note Certificates will be registered in such names as Euroclear and Clearstream, Luxembourg shall direct in writing and the Issuer or the Guarantors will procure that the Registrar and Transfer Agent notify the holders as soon as practicable after the occurrence of the events specified in (a) and (b).

In the event that the Restricted Global Notes are to be exchanged for Restricted Note Certificates or the Unrestricted Global Note is to be exchanged for Unrestricted Note Certificates (together "**Note Certificates**") the relevant Global Note shall be exchanged in full for the relevant Note Certificates and the Issuer or the Guarantors will, without charge to the holder or holders thereof, but against such indemnity as the Registrar and Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange, cause sufficient Note Certificates to be executed and delivered to the Registrar and Transfer Agent for completion, authentication and dispatch to the relevant Noteholders.

On exchange, a person having an interest in a Global Note must provide the Registrar and Transfer Agent with (i) a written order containing instructions and such other information as the Issuer, the Guarantors and the Registrar and Transfer Agent may require to complete, execute and deliver such Note Certificates and (ii) in the case of the Restricted Global Notes only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. Note Certificates issued in exchange for a beneficial interest in the Restricted Global Notes shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under "Transfer Restrictions" above. Restricted Note Certificates issued as described above will not be exchangeable for beneficial interests in the Unrestricted Global Note and Unrestricted Note Certificates issued as described above will not be exchangeable for beneficial interests in the Restricted Global Notes.

In addition to the requirements described under "Transfer Restrictions" above, the holder of a Note may transfer such Note only in accordance with the provisions of Condition 2 (*Transfer of Notes and Issue of Notes*) of the Notes.

Upon the transfer, exchange or replacement of a Restricted Note Certificate bearing the legend referred to under "*—Transfer Restrictions*" above, or upon specific request for removal of the legend on a Restricted Note Certificate, the Issuer will deliver only Restricted Note Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer, the Guarantors and the Registrar and Transfer Agent such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer or the Guarantors that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

The Registrar and Transfer Agent will not register the transfer of any Notes or exchange of interests in a Global Note for Note Certificates for a period of 15 calendar days ending on the due date of any payment of principal or interest in respect of such Notes.

5. Euroclear, Clearstream, Luxembourg and DTC Arrangements

So long as DTC or its nominee or Euroclear, Clearstream, Luxembourg or the nominee of their common depositary is the registered holder of a Global Note, DTC, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Agency Agreement, the Trust Deed and the Notes. Payments of principal, interest and Additional Amounts, if any, in respect of Global Notes will be made to DTC, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, as the registered holder thereof. None of the Issuer, the Guarantors, the Trustee, any Paying Agent or the Joint Bookrunners or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal and interest with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by Euroclear or Clearstream, Luxembourg from the Principal Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg customers in accordance with the relevant system's rules and procedures.

Holders of book-entry interests in the Notes through DTC will receive, to the extent received by DTC from the Principal Paying Agent, all distributions of principal and interest with respect to book-entry interests in the Notes from the Principal Paying Agent through DTC. Distributions in the United States will be subject to relevant U.S. tax laws and regulations.

The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Global Note to such persons will be limited. Because DTC, Euroclear and Clearstream, Luxembourg can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Note to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The holdings of book-entry interests in the Notes in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. As necessary, the Registrar and Transfer Agent will adjust the amounts of Notes on the Register for the accounts of a nominee for the common depository for Euroclear and Clearstream Banking and Cede & Co. to reflect the amounts of Notes held through Euroclear and Clearstream, Luxembourg on the one hand and DTC, on the other. Beneficial ownership in Notes will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

Interests in the Unrestricted Global Note and the Restricted Global Notes will be in uncertificated book-entry form.

Trading between Euroclear and/or Clearstream, Luxembourg Account Holders. Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants. Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same Day Funds Settlement System.

Trading between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser. When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in the Restricted Global Notes to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Unrestricted Global Note (subject to such certification procedures as are provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder. On the settlement date, the Custodian will instruct the Registrar and Transfer Agent to (a) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Notes and (b) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Unrestricted Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first Business Day following the settlement date. See above concerning the Record Date for payment of interest.

Trading between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser. When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in the Restricted Global Notes (subject to such certification procedures as are provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m. Brussels or Luxembourg time, one Business Day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar and Transfer Agent to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg account holder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the Custodian who will in turn deliver such book-entry interest in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar and Transfer Agent to (i) decrease the amount of Notes registered in the name of the nominee for the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Unrestricted Global Note and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Notes. See above concerning the Record Date for payment of interest.

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the Notes among participants of DTC, Clearstream, Luxembourg and Euroclear, none of Euroclear, Clearstream, Luxembourg or DTC is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Guarantors, the Trustee, any Paying Agent or any of the Joint Bookrunners or any affiliate of any of the above, or any person by whom any of the above is controlled for the purposes of the Securities Act, will have any responsibility for the performance by DTC, Euroclear and Clearstream, Luxembourg or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described above.

6. Prescription

Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by a Global Note will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 12 (*Taxation*) of the Notes).

7. Payments

So long as the Notes are represented by a Global Note, payments of principal and interest in respect of Notes represented by a Global Note shall be made to the person(s) shown as the Noteholder(s) in the Register at the close of business on the Clearing System Business Day before the due date for payment, where "Clearing System Business Day" means a day on which each clearing system for which the Global

Note is being held is open for business, and shall be made against presentation for endorsement and if no further payment falls to be made in respect of the Notes, surrender of the Global Note.

8. Meetings

At any meeting of Noteholders, the holder of a Global Note will have one vote in respect of each U.S.$1,000 in principal amount of Notes for which the Global Note may be exchanged.

9. Purchase and Cancellation

Cancellation of any Note required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the relevant Global Note.

10. Trustee's Powers

In considering the interests of Noteholders while a Global Note is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Note and may consider such interests as if such accountholders were the holder of the Global Note.

12. Put Option

The Noteholders' put option in Condition 10(e) (*Redemption at the option of the Noteholders*) of the Notes may be exercised by the holder of the relevant Global Note giving notice to the Principal Paying Agent of the principal amount of Notes in respect of which the option is exercised and presenting the Global Note for endorsement of exercise within the time limits specified in such Condition.

TAXATION

The following is a general summary of the Kazakhstan and United States tax consequences as at the date hereof in relation to payments made under the Notes in relation to the sale or transfer of Notes. It is not exhaustive and purchasers are urged to consult their professional advisors as to the tax consequences to them of holding or transferring Notes.

Kazakhstan Taxation

Payments of principal by the Issuer under the Notes are not subject to Kazakhstan taxes.

Interest

Payments of interest on the Notes issued by the Issuer to an individual who is a tax non-resident of Kazakhstan or to a legal entity that is neither established in accordance with the legislation of Kazakhstan, nor has its actual governing body (place of actual management) in, nor maintains a permanent establishment in, Kazakhstan or otherwise has no legal taxable presence in Kazakhstan (together, "**Non-Kazakhstan Holders**") will be subject to withholding tax of Kazakhstan at a rate of 15%, unless reduced by an applicable double taxation treaty. Payments of interest on the Notes to Non-Kazakhstan Holders registered in countries with a favourable tax regime which appear in a list published from time-to-time by the Kazakhstan Government (these countries currently include Liechtenstein, Nigeria, Malta, Aruba (being the island of the Netherlands) and others) (and to Non-Kazakhstan Holders who failed to submit to the Issuer proper documentary evidence of its tax residency in a country which is not included into such list of countries with a favourable tax regime) will be subject to withholding of Kazakhstan tax at a rate of 20%, unless reduced by an applicable double taxation treaty.

Non Kazakhstan holders who are resident in countries, such as the United States or the United Kingdom, with which Kazakhstan has bilateral taxation treaties may be entitled to a reduced rate of withholding tax if the recipient of the interest is the beneficial owner of such interest. The application of the treaty is subject to compliance with certain requirements, including timely submission to the Issuer of the duly issued and if applicable, legalized or apostilled tax residency certificate from such country of residence.

Payments of interest by the Issuer to residents of Kazakhstan or to tax non-residents who maintain a permanent establishment in Kazakhstan (together, "**Kazakhstan Holders**"), other than to individuals (who are exempt) and Kazakhstan investment funds and certain other entities, will be subject to Kazakhstan withholding tax at a rate of 15%.

The withholding tax on interest will not apply in either case if the Notes are, as at the date of accrual of interest, listed on the official list of a stock exchange operating in the territory of Kazakhstan (such as, the KASE).

Gains

Gains realised by Kazakhstan Holders as a result of the disposal, sale, exchange or transfer of the Notes will be included in the income of such Kazakhstan Holders. The net income of such Kazakhstan Holders will be subject to corporate income tax at a rate of 20% or individual income tax at a rate of 10%, as the case may be.

If on the date of sale, the Notes are listed on the official list of a stock exchange operating in the territory of Kazakhstan (such as the KASE) and are sold through open trades on such stock exchange, any gains realized by Kazakhstan Holders are not subject to withholding tax in Kazakhstan.

Gains realised by Non-Kazakhstan Holders derived as a result of the disposal, sale, exchange or transfer of the Notes will be subject to withholding tax at a rate of 15%, unless an applicable double taxation treaty provides for an exemption from capital gains tax. If the disposal of the Notes is made by a Non-Kazakhstan Holder registered in a country with a favourable tax regime, as referred to above, gains derived from such disposal are subject to withholding tax in Kazakhstan at the rate of 20%, unless exempt by an applicable double taxation treaty.

Non-Kazakhstan holders who are residents of countries, such as the United States or the United Kingdom, with which Kazakhstan has bilateral double taxation treaties may be entitled to an exemption from withholding tax, subject to compliance with certain administrative procedures.

Gains realised by Non-Kazakhstan Holders in relation to Notes which are listed as at the date of sale on the official list of a stock exchange operating in the territory of Kazakhstan (such as the KASE) or a foreign stock exchange and are sold through open trades on such stock exchanges, are not subject to withholding tax in Kazakhstan.

Gains made by a Kazakhstan or Non-Kazakhstan Holder on the sale of Notes otherwise than through open trades on the relevant such stock exchanges may be subject to Kazakhstan tax or withholding tax, respectively. In respect of the gains realised by Non-Kazakhstan Holders, a purchaser or the transferee of the Notes may be treated as a withholding agent and, therefore, required to withhold the capital gains tax from the seller and pay it in Kazakhstan. However, Kazakhstan tax legislation does not specify a mechanism for the collection of any such tax from the purchasers or transferees who are Non-Kazakhstan Holders or have no legal or taxable presence in Kazakhstan otherwise. Any prospective purchasers or transferees of the Notes from Non-Kazakhstan Holders should consult their own tax advisors on the tax consequences of such purchase.

Payments under the Guarantee

Payments to Non-Kazakhstan Holders under the Guarantee will be subject to withholding tax at a rate of 20% unless reduced by an applicable double taxation treaty.

Payments to Kazakhstan Holders, other than individuals, under the Guarantee will be subject to income tax at a rate of 20%. Payments to individual Kazakhstan Holders under the Guarantee will be subject to income tax at a rate of 10%.

Noteholders should consult with their own tax advisors on the applicability of tax deductions to the payments under the Guarantee.

The Guarantors will agree under the Guarantee in the Trust Deed to pay Additional Amounts (as defined in the Trust Deed) in respect of any such withholding, subject to certain exceptions set out in full in See "*Terms and Conditions of the Notes—10. Redemption, Purchase and Cancellation*".

U.S. Taxation

The following discussion is a summary of certain U.S. federal income tax consequences of the acquisition, ownership, disposition and retirement of the Notes by a U.S. holder (defined below), but does not purport to be a complete analysis of all potential U.S. federal income tax consequences that may be applicable to U.S. holders. Nor does this discussion address the U.S. federal income tax consequences that may be relevant to holders that also participate in the Tender Offer and Consent Solicitation by the Issuer that is occurring substantially concurrently with this offering of Notes. Any prospective purchasers of the Notes who also participate in the Tender Offer and Consent Solicitation should consult their own tax advisors on the tax consequences of such participation. This discussion applies only to U.S. holders that acquire Notes for cash at original issue and at their initial "issue price" (the first price at which a substantial part of the Notes are sold to the public for cash, excluding sales to bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers) and that hold the Notes as capital assets within the meaning of Section 1221 of the Code (generally, property held for investment). This discussion does not address all aspects of U.S. federal income taxation that may be relevant to members of a class of holders subject to special treatment under U.S. federal income tax laws, such as certain financial institutions, insurance companies, dealers or traders in securities or currencies, tax-exempt organisations, regulated investment companies, real estate investment trusts, grantor trusts, U.S. holders that will hold Notes through partnerships or other pass through entities, U.S. holders that have a functional currency other than the U.S. Dollar, certain expatriates or former long-term residents of the United States, and persons holding the Notes as part of a "straddle", "hedge", "conversion transaction" or other integrated transaction for U.S. federal income tax purposes. Moreover, this summary does not address state, local, foreign or other tax laws, nor does it address the U.S. federal estate and gift tax, the 3.8% U.S. federal Medicare tax on net investment income, or alternative minimum tax consequences of the acquisition, ownership, disposition or retirement of the Notes.

This summary is based upon the Code, existing, temporary and proposed U.S. Treasury Regulations issued thereunder, and judicial and administrative interpretations thereof, each as available and in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect or differing interpretations which could affect the tax consequences described herein.

For purposes of this discussion, a "**U.S. holder**" is a beneficial owner of a Note that is (i) an individual citizen or resident of the United States; (ii) a corporation or other entity taxable as a corporation for U.S. federal income tax purposes created or organised in or under the laws of the United States, any state or any political subdivision thereof, or the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or if a valid election is in place under applicable U.S. Treasury Regulations to treat the trust as a "United States person" for U.S. federal income tax purposes (a "**U.S. Person**").

If a partnership (or any other entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds the Notes, the tax treatment of the partnership and a partner in such partnership will generally depend upon the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax advisor as to its consequences.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCE TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Interest

Subject to the discussion below regarding Notes purchased at a premium, "qualified stated interest" paid on a Note (including any additional amounts with respect thereto as described under "*Terms and Conditions of the Notes* **-** *Taxation*") will be taxable to a U.S. holder as ordinary income at the time it is accrued or received in accordance with the U.S. holder's method of accounting for U.S. federal income tax purposes. The term "qualified stated interest" means stated interest that is unconditionally payable in cash or in property (other than debt instruments of the Issuer) at least annually at a single fixed rate or, subject to certain conditions, at a variable rate (including a rate based on one or more interest indices). Stated interest on the Notes will be treated as qualified stated interest.

Interest income earned by a U.S. holder with respect to a Note will constitute income from sources without the United States for U.S. federal income tax purposes, which may be relevant in calculating the U.S. holder's foreign tax credit limitation. Kazakh income taxes withheld from interest payments on a Note, if any, may be eligible for credit against the U.S. holder's U.S. federal income tax liability or, at the election of the U.S. holder, for deduction in computing the U.S. holder's taxable income. The U.S. federal income tax rules relating to foreign tax credits and limitations thereof are complex and may vary depending on the facts and circumstances of each U.S. holder. Accordingly, U.S. holders are urged to consult their own tax advisors regarding the availability of U.S. foreign tax credits for Kazakh tax withheld under in their particular circumstances.

The Notes may be issued at a "premium" for U.S. federal income tax purposes. A U.S. holder that purchases a Note for an amount in excess of the sum of all amounts payable on the Note after the purchase date other than qualified stated interest will be considered to have purchased the Note at a "premium." A U.S. holder generally may elect to amortize the premium over the remaining term of the Note on a constant yield method as an offset to qualified stated interest when includible in income under the U.S. holder's regular accounting method. A U.S. holder who elects to amortize bond premium must reduce such holder's tax basis in the Note by the amount of the premium used to offset qualified stated interest income. An election to amortize bond premium applies to all taxable debt obligations then owned and thereafter acquired by such holder and may be revoked only with the consent of the Internal Revenue Service ("**IRS**"). Premium on a Note held by a U.S. holder that does not make such an election will decrease the gain or increase the loss otherwise recognized on disposition of the Note.

Sale, exchange or retirement of Notes

Upon the sale, exchange or retirement of a Note, a U.S. holder generally will recognise taxable gain or loss equal to the difference, if any, between the amount realised on the sale, exchange or retirement and the U.S. holders' adjusted tax basis in the Note. A U.S. holder's adjusted tax basis in a Note generally will equal the acquisition cost of the Note, decreased by (i) the amount of any payment received from the Issuer on the Note other than a payment of qualified stated interest and (ii) the amount of any amortisable bond premium applied to reduce interest on the Note. The amount realised will not include any amount attributable to accrued but unpaid stated interest, which will be taxed as described above in "*—Interest*". Any gain or loss recognised on the sale, exchange or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the Note was held by the U.S. holder for more than one year at the time of the sale, exchange or retirement. The deductibility of capital losses is subject to limitations.

If Kazakh tax is withheld on the sale, exchange or retirement of a Note, the amount realized by a U.S. holder will include the gross amount of the proceeds of that sale, exchange or retirement before deduction of the Kazakh tax withheld. Gain or loss realized by a U.S. holder on the sale, exchange or retirement of the Notes generally will be treated as U.S. source for foreign tax credit purposes. Consequently, in the case of a gain from the disposition of a Note that is subject to Kazakh tax, the U.S. holder may not be able to benefit from the foreign tax credit for that Kazakh tax (i.e., because the gain from the disposition would be U.S. source), unless the U.S. holder can apply the credit against U.S. federal income tax payable on other income from sources without the United States. Alternatively, the U.S. Holder may take a deduction for the Kazakh tax, provided that the U.S. holder elects to deduct all foreign taxes paid or accrued for the taxable year. The rules relating to foreign tax credits or deducting foreign taxes are extremely complex, and U.S. holders are urged to consult their own tax advisors regarding the availability and advisability of claiming a foreign tax credit or deduction with respect to Kazakh taxes imposed upon the sale, exchange or retirement of Notes, if any.

Information reporting and backup withholding tax

In general, payments of principal, interest, and the proceeds of the sale, exchange or retirement of Notes payable to a U.S. holder by a U.S. paying agent or other U.S. related intermediary will be reported to the IRS and to the U.S. holder as may be required under applicable regulations. Backup withholding will apply to these payments if the U.S. holder fails to provide an accurate taxpayer identification number or certification of exempt status, or otherwise fails to comply with the applicable backup withholding requirements. Certain U.S. holders (including corporations) are generally not subject to information reporting and backup withholding.

Backup withholding is not an additional tax. The amount of any backup withholding imposed on a payment will be allowed as a credit against any U.S. federal income tax liability of a U.S. Holder and may entitle the U.S. Holder to a refund, provided the required information is timely furnished to the IRS. U.S. Holders should consult their own tax advisors regarding any filing and reporting obligations they may have as a result of their acquisition, ownership or disposition of the Notes.

Foreign financial asset reporting

Certain U.S. Persons that own "specified foreign financial assets," including securities issued by any foreign person, either directly or indirectly or through certain foreign financial institutions, with an aggregate value in excess of U.S.$50,000 on the last day of the taxable year or U.S.$75,000 at any time during the taxable year (and in some circumstances, a higher threshold), may be required to file an information report with respect to such assets with their U.S. federal income tax returns. The Notes may be treated as specified foreign financial assets, and U.S. holders may be subject to this information reporting regime. U.S. holders that fail to report required information could be subject to substantial penalties. U.S. holders should consult their own tax advisors regarding the possible implication of this legislation on their investment in the Notes

The Proposed Financial Transaction Tax

The European Commission has published a proposal for a Directive for a common Financial Transaction Tax ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate. The proposed FTT has a very broad scope and could, if introduced in its current form, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under current proposals the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

The above summary is not intended to constitute a complete analysis of all tax consequences relating to the ownership of Notes.

Prospective purchasers of the Notes should consult their own tax advisors concerning the tax consequences of holding Notes in light of their particular circumstances, including the application of the U.S. federal

income tax considerations discussed above, as well as the application of state, local, foreign or other tax laws.

CERTAIN ERISA CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**") imposes certain requirements on "employee benefit plans" (as defined in ERISA) subject to Title I of ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, "**ERISA Plans**") and on those persons who are fiduciaries with respect to ERISA Plans.

Section 406 of ERISA and Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), prohibit certain transactions involving the assets of an ERISA Plan (Section 4975 of the Code also imposes prohibitions for certain plans that are not subject to Title I of ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "**Plans**")) and certain persons (referred to as "parties in interest" or "disqualified persons") having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and Section 4975 of the Code. Accordingly, each original or subsequent purchaser or transferee of a Note that is or may become a Plan is responsible for determining that its purchase and holding of such Note will not constitute a prohibited transaction under ERISA or Section 4975 of the Code. Additionally, with respect to each original or subsequent purchaser or transferee of a Note that is or may become a Plan, the fiduciary making the decision to invest in the Notes on the purchaser or transferee's behalf will be required or deemed to represent and warrant that the purchase or transfer, and holding of such Notes by the Plan, shall not constitute a non-exempt prohibited transaction under ERISA and the Code.

With respect to each purchaser or transferee that is a Plan, then at any time when regulation 29 C.F.R. Section 2510.3-21, as modified, is applicable, the fiduciary making the decision to invest in the Notes on the purchaser or transferee's behalf will be required or deemed to represent and warrant that it (a) (i) is a bank, insurance company, registered investment adviser, or broker-dealer in each case as described in 29 C.F.R. Section 2510.3-21(c)(1)(i) or (ii) an independent fiduciary that holds, or has under its management or control, total assets of at least U.S. $50 million; (b) is an independent plan fiduciary within the meaning of 29 C.F.R. Section 2510.3-21; (c) is capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies; (d) is responsible for exercising independent judgment in evaluating the transaction and (e) is not paying any fee or other compensation to the Issuer, the Guarantor, Joint Bookrunners or Trustee for investment advice (as opposed to other services) in connection with the transaction. In addition, such fiduciary will be required or deemed to acknowledge and agree that it (i) has been informed (and it is hereby expressly confirmed) that none of the Issuer, the Guarantor, Joint Bookrunners or Trustee, or other persons that provide marketing services, nor any of their affiliates, has provided, and none of them will provide, impartial investment advice and they are not giving any advice in a fiduciary capacity, in connection with the investor's acquisition of Notes and (ii) has received and understands the disclosure of the existence and nature of the financial interests contained in this Offering Memorandum and related materials. Notwithstanding the foregoing, any Plan fiduciary which is an individual directing his or her own individual retirement account shall not be deemed to have made the representation in clause (a)(ii) above.

THE PRECEDING DISCUSSION IS ONLY A SUMMARY OF CERTAIN ERISA IMPLICATIONS OF AN INVESTMENT IN THE NOTES AND DOES NOT PURPORT TO BE COMPLETE. PROSPECTIVE INVESTORS SHOULD CONSULT WITH THEIR OWN LEGAL, TAX, FINANCIAL AND OTHER ADVISORS PRIOR TO INVESTING IN THE NOTES TO REVIEW THESE IMPLICATIONS IN LIGHT OF SUCH INVESTOR'S PARTICULAR CIRCUMSTANCES.

SUBSCRIPTION AND SALE

J.P. Morgan Securities plc, JSC Halyk Finance, MUFG Securities EMEA plc and Renaissance Securities (Cyprus) Limited (the "**Joint Bookrunners**") have, pursuant to a subscription agreement dated 15 November 2017 (the "**Subscription Agreement**"), severally and not jointly agreed with the Issuer and the Guarantors, subject to the satisfaction of certain conditions, to subscribe the Notes at 100.393% of their principal amount less a combined management and underwriting commission. In addition, the Issuer has agreed to reimburse the Joint Bookrunners for certain of their expenses in connection with the issue of the Notes and indemnify the Joint Bookrunners against certain liabilities incurred in connection with the issue of the Notes. The Subscription Agreement entitles the Joint Bookrunners to terminate it in certain circumstances prior to payment being made to the Issuer.

The Joint Bookrunners and their respective affiliates may provide various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non-public market financing for, and enter into derivative transactions with, the Company and its affiliates (including its shareholders) and for which they will receive customary fees. In particular, the Joint Bookrunners are acting as Dealer Managers in connection with the Tender Offer and Consent Solicitation.

Tender Offer and Priority Allocation

On 4 October 2010, Kazakhstan Temir Zholy Finance B.V. issued the Existing Notes. In 2014, the Company was substituted in place of Kazakhstan Temir Zholy Finance B.V. as issuer of the Existing Notes. On 27 October 2017, pursuant to the Tender Offer and Consent Solicitation Memorandum, the Issuer invited holders of the Existing Notes to: (i) tender any or all of the Existing Notes held by them for purchase by the Company for cash; and (ii) concurrently consent to amend by extraordinary resolution the terms and conditions of the Existing Notes to provide for the Mandatory Early Redemption, all on the terms and subject to the conditions set out in the Tender Offer and Consent Solicitation Memorandum. Holders of Existing Notes that wish to subscribe for Notes, in addition to participating in the Tender Offer and Consent Solicitation, may request to receive priority in the allocation of the Notes, subject to the completion of the Tender Offer and Consent Solicitation and the other terms and conditions set out in the Tender Offer and Consent Solicitation Memorandum. See "*—Allocation of the Notes*". The Group does not hold any of the Existing Notes.

Allocations of Notes

The Issuer will, in connection with the allocation of the Notes, consider among other factors, whether or not the relevant investor seeking an allocation of Notes has validly tendered Existing Notes held by it and/or voted in favour of the Mandatory Early Redemption, or indicated a firm intention to tender Existing Notes and/or vote in favour of the Mandatory Early Redemption, pursuant to the Tender Offer and Consent Solicitation, and, if so, the aggregate principal amount of such Existing Notes tendered and/or voted in favour, or intended to be tendered and/or voted in favour (as the case may be), by such investor. When considering allocations of Notes, the Issuer intends to look favourably upon those investors who have, pursuant to the Tender Offer and Consent Solicitation and prior to the allocation of Notes, tendered Existing Notes, voted in favour of the Mandatory Early Redemption, or indicated either such intention to the Issuer or the Dealer Managers; however, the Issuer is not obliged to allocate the Notes to any investor whether or not it has validly tendered Existing Notes and/or voted in favour of the Mandatory Early Redemption, or indicated a firm intention to tender Existing Notes or vote in favour of the Mandatory Early Redemption, pursuant to the Tender Offer and Consent Solicitation. Any allocations of Notes, while being considered by the Issuer as set out above, will be made in accordance with customary allocation processes and procedures.

Selling Restrictions

United States

The Notes have not been and will not be registered under the Securities Act and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or in a transaction not subject to the registration requirements of, the Securities Act.

Each Manager has severally agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date (the "**distribution compliance period**") within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons substantially to the following effect:

> "The Notes covered hereby have not been registered under the Securities Act of 1933 (the "**Securities Act**") and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, except in either case in accordance with Regulation S or Rule 144A under the Securities Act. Terms used above have the meanings given to them by Regulation S."

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration under the Securities Act.

Each Manager may directly or through its U.S. broker dealer affiliate arrange for the offer and resale of Notes within the United States only to qualified institutional buyers in reliance on Rule 144A.

Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

United Kingdom

Each Manager has severally represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantors; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Republic of Kazakhstan

Each Manager has severally represented, warranted and agreed that it will only offer for subscription or purchase or issue invitations to subscribe for or buy or sell Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in Kazakhstan in compliance with the laws of Kazakhstan.

General

No action has been or will be taken in any jurisdiction by the Issuer, the Guarantors or any Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Memorandum or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Memorandum comes are required by the Issuer, the Guarantors and the Joint Bookrunners to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Memorandum or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

Clearing Systems

The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Unrestricted Global Note has been accepted for clearance through Euroclear and Clearstream, Luxembourg under the Common Code No. 171347513 and the ISIN XS1713475132. The Restricted Global Note has been accepted for clearance through DTC. The CUSIP number for the Restricted Global Note is 48669DAA0, the Common Code No. is 111730954, and the ISIN is US48669DAA00.

Admission to Trading

Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on the Global Exchange Market. It is expected that admission of the Notes to trading will be granted on or before 17 November 2017. The estimated amount of total expenses related to the admission of the Notes to the Official List and to trading on the Global Exchange Market is approximately €6,540.

In addition, application has been made to list the Notes on the KASE. On 23 October 2017, the KASE granted its consent to include the Notes into the "bonds" category of the "debt securities" sector of the main list of the KASE. It is expected that the KASE consent will come into effect on or before 17 November 2017. The estimated amount of total expenses related to the admission of the Notes to the main list of the KASE and to trading on the KASE is approximately KZT 9,302,900.

Guarantor and Non-Guarantor Companies

The Financial Statements included in this Offering Memorandum include consolidated information for both the Guarantors and non-guarantor companies.

The below table reflects the monetary amounts and percentages of Group net assets and Group EBITDA for, respectively as more fully set out in the notes to the table, the Issuer, the Guarantors (on a combined basis) and the non-guarantor companies (on a combined basis) as at and for the year ended 31 December 2016:

	Net Assets (Total Assets -Total Liabilities)(1)(2)	Percentage of Group Net Assets	Group EBITDA(3)	Percentage of Group EBITDA
	(KZT thousands)	*%*	*(KZT thousands)*	*%*
Issuer(4)	1,529,511,183	130.92%	115,159,601	49.10%
Guarantors(5) ...	(170,207,815)	(14.57)%	91,212,070	38.89%
Non-Guarantors(6) ...	(191,039,790)	(16.35)%	28,154,804	12.00%

Notes:

(1) Calculated as total assets minus total liabilities. Net assets are equivalent to the "Total Equity" as presented in the relevant financial statements.

(2) Amounts of net assets set forth in the table do not sum to the Issuer's consolidated net assets in the 2016 Financial Statements due to non-material differences in the recognition of inter-company eliminations at the different consolidation levels.

(3) Calculated as profit from continuing operations before taxation, finance costs, finance income and depreciation and amortisation, but after taking into account any material devaluation of the Tenge (which is accounted for as an extraordinary item).The Group EBITDA figures presented in this table have been calculated using the same methodology as other calculations of Group EBITDA presented elsewhere in this Offering Memorandum.

(4) As presented in, or calculated based on, the Issuer's standalone (i.e., non-consolidated) financial statements as at and for the period ended 31 December 2016.

(5) As presented in, or calculated based on, the consolidated financial statements (i.e., including the results of subsidiaries of the relevant Guarantor) of Kaztemirtrans and KTZFT (respectively, as the case may be) as at and for the year ended 31 December 2016 and presented here on a combined basis.

(6) As presented in, or calculated based on, the consolidated financial statements (i.e., including the results of subsidiaries of the relevant company) of the relevant non-guarantor companies as at and for the year ended 31 December 2016 and presented here on a combined basis.

Authorisations

The Issuer and each of the Guarantors have obtained all necessary consents, approvals and authorisations in the Republic of Kazakhstan in connection with the issue and performance of the Notes and the Guarantee. The issue of the Notes was authorised by a resolution of the Management Board of the Issuer dated 22 September 2017 and a resolution of the Board of Directors of the Issuer dated 19 October 2017 and the giving of the Guarantee by the Guarantors was authorised by resolutions of the Board of Directors of Kaztemirtrans and KTZFT passed on 20 October 2017 and the resolution of the Management Board of the Issuer dated 26 October 2017, respectively. No Notes may be issued, placed or listed outside of the Republic of Kazakhstan without the obtaining the NBK Permissions. The NBK Permissions in respect of the Notes were obtained on 30 October 2017 and are not a recommendation or endorsement by the NBK of the Notes.

Yield

On the basis of the issue price of the Notes of 100.393% of their principal amount, the initial yield of the Notes is 4.800% on an annual basis. The initial yield is calculated on the Issue Date on the basis of the issue price. It is not an indication of future yield.

Significant Change

There has been no significant change in the financial or trading position of the Issuer or of the Guarantors or the Group since 30 June 2017 and no material adverse change in the financial position or prospects of the Issuer or of the Guarantors or of the Group since 31 December 2016.

Litigation

Neither the Issuer nor the Guarantors nor any of their respective subsidiaries is involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened) which may have, or have had during the 12 months preceding the date of this Offering Memorandum, a significant effect on the financial position or profitability of the Issuer, the Group or any Guarantor.

Listing Agent

Walkers Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission to the Official List or trading on the Global Exchange Market of the Irish Stock Exchange.

Documents on Display

For so long as any of the Notes are outstanding, copies of the following documents may be inspected in hard copy format at the specified offices of each of the Paying Agents during normal business hours:

(a) the constitutional documents of the Issuer and each of the Guarantors;

(b) the Annual Financial Statements, including the audit reports relating thereto;

(c) the Interim Financial Statements, including the review report relating thereto;

(d) the Trust Deed (including the Guarantee);

(e) the Agency Agreement; and

(f) this Offering Memorandum and any supplements thereto.

English translations of any of the documents listed above which are not in English are also available for inspection as described above.

Auditors

The Annual Financial Statements contained in this Offering Memorandum have been audited by Deloitte, LLP, independent auditors, in accordance with IFRS and Deloitte, LLP rendered unqualified audit reports in respect of the Annual Financial Statements.

Deloitte, LLP has no material interest in the Issuer.

Conflicts of Interest

There are no potential conflicts of interest between any duties of the members of the administrative, management or supervisory bodies of the Issuer towards the Issuer and their private interests and/or other duties.

There are no potential conflicts of interest between any duties of the members of the administrative, management or supervisory bodies of each of the Guarantors towards the respective Guarantor and their private interests and/or other duties.

Joint Bookrunners transacting with the Issuer and/or with the Guarantors

The Joint Bookrunners and their affiliates have engaged, and may in the future engage, in investment banking or commercial banking transactions with, and may perform services to the Issuer or the Guarantors in the ordinary course of business. In particular, the Joint Bookrunners are acting as Dealer Managers in connection with the Tender Offer and Consent Solicitation.

Foreign Language

The language of the Offering Memorandum is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

INDEX TO FINANCIAL STATEMENTS

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

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

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

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KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL FOR ISSUANCE OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THREE AND THE SIX MONHTS ENDED 30 JUNE 2017

Management of Kazakhstan Temir Zholy National Company JSC (the "Company") is responsible for the preparation of the condensed interim consolidated financial statements that present fairly the financial position of the Company and its subsidiaries (the "Group") as at 30 June 2017, and the results of its operations for three and six months then ended, and cash flows and changes in equity for six months then ended, in compliance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB").

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

- properly selecting and applying accounting policies;
- making reasonable estimates and judgments;
- complying with IAS 34, with material departures being disclosed and explained in the condensed interim consolidated financial statements;
- providing additional disclosures when compliance with the specific requirements in IAS 34 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the condensed interim consolidated financial statements of the Group comply with IAS 34;
- maintaining accounting records in compliance with legislation of the Republic of Kazakhstan and IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

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

On behalf of management of the Group:

A.T. Sultanov
Acting President

14 August 2017

N. Kh. Abilova
Chief Accountant

14 August 2017

Deloitte.

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REPORT ON REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

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

Scope of Review

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

Conclusion

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

DELOITTE, LLP

Deloitte LLP

14 August 2017

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

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

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

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017 (CONTINUED)

(in thousands of tenge)

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

On behalf of management of the Group:

A.T. Sultanov
Acting President
14 August 2017

N. Kh. Abilova
Chief Accountant
14 August 2017

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

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONDENSED INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 2017 (UNAUDITED)
(in thousands of tenge)

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

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

(in thousands of tenge)

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

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

(in thousands of tenge)

	Notes	Six months ended 30 June	
		2017	2016
Cash flows from investing activities:			
Purchase of property, plant and equipment, including advances paid		(126,028,783)	(81,354,059)
Purchase of intangible assets		(182,680)	(1,741,746)
Proceeds from sale of shares in joint ventures		19,396,755	8,139,400
Proceeds from sale of other non-current assets		541,049	4,918,408
Investments in other financial assets		(48,693,732)	(55,044,975)
Proceeds from return of other financial assets		29,586,267	67,124,394
Dividends received from joint ventures	7	1,663,776	1,659,754
Net cash inflows from disposal of subsidiaries and discontinued operations		425,051	274,864
Other		451,000	272,429
Net cash used in investing activities		(122,841,297)	(55,751,531)
Cash flows from financing activities			
Contributions to share capital	14	50,000,000	46,400,000
Proceeds from borrowings		131,973,166	128,668,996
Repayments of borrowings		(28,660,099)	(162,283,159)
Change in ownership share in subsidiaries without loss of control	14	23,096,457	9,000,000
Purchase of asset held for the benefit of the Shareholder		-	(2,127,584)
Other		(72,441)	(246,700)
Net cash flows from financing activities		176,337,083	19,411,553
Net change in cash and cash equivalents		92,554,167	1,921,263
Cash and cash equivalents at the beginning of the period	11	67,085,431	74,903,521
Effects of exchange rate changes on the balance of cash held in foreign currencies		(2,013,786)	(2,843,866)
Cash and cash equivalents at the end of the period	11	157,625,812	73,980,918

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2017

(in thousands of tenge)

	Share capital	Additional paid-in capital	Cash flow hedging reserve	Foreign currency translation reserve	Retained earnings	Equity attributable to the Shareholder	Non-controlling interests	Total equity
At 1 January 2016	865,393,896	-	(43,491,357)	4,601,406	142,411,682	968,915,627	(651,552)	968,264,075
Profit/(loss) for the period	-	-	-	-	5,206,158	5,206,158	(435,539)	4,770,619
Other comprehensive income/(loss) for the period	-	-	(703,022)	74,450	-	(628,572)	1,104	(627,468)
Total comprehensive income/(loss) for the period	-	-	(703,022)	74,450	5,206,158	4,577,586	(434,435)	4,143,151
Shares issue (Note 14)	36,543,584	10,000,000	-	-	-	46,543,584	-	46,543,584
Dividends	-	-	-	-	-	-	(6,411)	(6,411)
Other distributions (Note 14)	-	-	-	-	704,721	704,721	-	704,721
Change in ownership share in subsidiaries without loss of control	-	-	-	-	(2,425,063)	(2,425,063)	11,425,063	9,000,000
At 30 June 2016 (unaudited)	901,937,480	10,000,000	(44,194,379)	4,675,856	145,897,498	1,018,316,455	10,332,665	1,028,649,120
At 1 January 2017	993,460,480	-	(39,073,931)	4,110,006	198,501,308	1,156,997,863	11,035,349	1,168,033,212
Profit for the period	-	-	-	-	5,492,683	5,492,683	743,726	6,236,409
Other comprehensive loss for the period	-	-	(2,230,554)	(63,042)	-	(2,293,596)	-	(2,293,596)
Total comprehensive income/(loss) for the period	-	-	(2,230,554)	(63,042)	5,492,683	3,199,087	743,726	3,942,813
Shares issue (Note 14)	50,000,000	-	-	-	-	50,000,000	-	50,000,000
Dividends	-	-	-	-	-	-	(17,827)	(17,827)
Other distributions (Note 14)	-	-	-	-	(5,733,368)	(5,733,368)	-	(5,733,368)
Disposal of subsidiaries	-	-	-	(107,775)	-	(107,775)	(9,444)	(117,219)
At 30 June 2017 (unaudited)	1,043,460,480	-	(41,304,485)	3,939,189	198,260,623	1,204,355,807	11,751,804	1,216,107,611

On behalf of management of the Group:

A.T. Sultanov
Acting President
14 August 2017

N. Kh. Abilova
Chief Accountant
14 August 2017

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

1. GENERAL INFORMATION

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

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

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

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

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

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

Statement of compliance

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

Going concern basis

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

Basis of preparation

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

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

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

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

Amendments to IAS 7 Disclosure Initiative

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

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

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

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

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

Annual Improvements to IFRSs 2014-2016 Cycle.

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

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

New IFRSs in issue but not yet effective

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

IFRS 9 Financial Instruments

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

Classification and measurement

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

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

Hedge accounting

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

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

Impairment loss

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

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

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Control assessment

Control over KazAutoZhol National Company JSC

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

Control over Aktau International Sea Commercial Port National Company JSC

Aktau International Sea Commercial Port National Company JSC is recognized as a subsidiary of the Group, although the Group does not legally own shares in Aktau International Sea Commercial Port. The Group assessed whether it has control over Aktau International Sea Commercial Port, considering all relevant facts and circumstances arising from a trust management agreement concluded with Samruk-Kazyna National Welfare Fund JSC, the legal owner, in respect of its 100% ownership interest in Aktau International Sea Commercial Port. The Group concluded that it controls Aktau International Sea Commercial Port. In reaching this conclusion, management of the Group considered the broad power granted to the Group by the Shareholder, which gives the Group the practical ability to unilaterally direct the relevant activities of Aktau International Sea Commercial Port to affect its returns to the Group.

Control over airports

The Group and the Committee have entered into an agreement on the trust management of 100% state-owned shares of joint-stock companies Kokshetau Aircompany, Petropavlovsk International Airport, Astana International Airport, Kostanay International Airport and Shymkent Airport, which are owned by the Ministry for Investments and Development of the Republic of Kazakhstan, and shares of joint-stock companies Aktobe International Airport, Atyrau International Airport and Pavlodar Airport, which are accounted for on the balance of the Shareholder. The Group has not recognized the airports as subsidiaries as the Group acts as an agent exercising decision-making powers on behalf of the Committee and the Shareholder, without control over these airports. This agreement does not entitle the Group to any returns from the operating activities of the airports.

Control over Khorgos International Centre of Boundary Cooperation JSC

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

Control over Tulpar-Talgo, LLP

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

On 15 May 2015, the Group and Patentes Talgo S.L.U., sole founder of Talgo Kazajstan S.L., entered into a preliminary agreement on sale of 51% of the shares in Tulpar-Talgo LLP, under which the Group received an advance payment of 23,000 thousand euro (4,661,410 thousand tenge). The agreement provides for certain conditional clauses, including the requirement for the Shareholder's approval of the transaction by the stated date, the reimbursement of financial consequences that may result from changes in euro exchange rate against tenge, as well as the requirement for an increase in the purchase price of passenger coaches delivered in 2015 or later in the case of growth of the exchange rate of euro against tenge where it results in increased costs for the production of these passenger coaches. In October 2016, the State commission on modernization of economy of Kazakhstan approved the direct sale of shares in Tulpar-Talgo LLP to Talgo Kazajstan S.L. As at 30 June 2017, the Group received all approvals, signed agreements for an increase in purchase prices for passenger coaches. Management still considers the sale of shares in Tulpar Talgo LLP as highly probable. Accordingly, it classifies the subsidiary within disposal group classified as held for sale and discontinued operations.

Control over Kazakhstan Wagon Construction Company LLP

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

Control over Astana Diesel Service LLP

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

Loans at a rate below the market interest rate

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

Assets classified as held for sale

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

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, which are likely to result in material adjustments to the carrying amounts of assets and liabilities within the next financial year.

Impairment of tangible and intangible assets

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

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

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

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

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

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

4. CHANGES IN CLASSIFICATION AFFECTING COMPARATIVE INFORMATION

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

The Group recognized the results of operations of its subsidiary Transtelecom JSC, which represents a separate major line of business in discontinued operations and accordingly, comparative amounts for the three and the six months ended 30 June 2016 were restated.

(in thousands of tenge, unless otherwise indicated)

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

	As previously reported	Discontinued operations	As restated
Three months ended 30 June 2016 (unaudited)			
Other revenue	9,059,133	(2,593,229)	6,465,904
Total revenue	205,609,359	(2,593,229)	203,016,130
Cost of sales	(158,042,598)	1,347,767	(156,694,831)
Gross profit	47,566,761	(1,245,462)	46,321,299
General and administrative expenses	(19,422,368)	736,089	(18,686,279)
Other income and expenses	1,666,060	(7,133)	1,658,927
Finance income	1,672,790	(145,518)	1,527,272
Finance costs	(21,822,887)	1,590,021	(20,232,866)
Foreign exchange gain	15,221,448	54,746	15,276,194
Profit before income tax	26,585,681	982,743	27,568,424
Income tax expense	(3,502,896)	286,814	(3,216,082)
Profit for the year from continuing operations	23,082,785	1,269,557	24,352,342
Loss for the period from discontinued operations:	(1,154,461)	(1,269,557)	(2,424,018)
Profit for the period	21,928,324	-	21,928,324
Earnings per share from continuing and discontinued operations (in whole tenge)	47	3	50

	As previously reported	Discontinued operations	As restated
Six months ended 30 June 2016 (unaudited)			
Other revenue	19,621,710	(5,427,660)	14,194,050
Total revenue	388,907,381	(5,427,660)	383,479,721
Cost of sales	(314,982,595)	2,672,133	(312,310,462)
Gross profit	73,924,786	(2,755,527)	71,169,259
General and administrative expenses	(37,282,767)	1,319,848	(35,962,919)
Other income and expenses	2,120,618	(26,949)	2,093,669
Finance income	3,634,860	(301,737)	3,333,123
Finance costs	(42,947,508)	3,050,267	(39,897,241)
Foreign exchange gain	1,209,215	4,425	1,213,640
Profit before income tax	8,221,520	1,290,327	9,511,847
Income tax expense	(2,371,133)	651,887	(1,719,246)
Profit for the period from continuing operations	5,850,387	1,942,214	7,792,601
Loss for the period from discontinued operations:	(1,079,768)	(1,942,214)	(3,021,982)
Profit for the period	4,770,619	-	4,770,619
Earnings per share from continuing operations (in tenge)	13	4	17

5. SEGMENT INFORMATION

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

(in thousands of tenge, unless otherwise indicated)

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

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

(in thousands of tenge, unless otherwise indicated)

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

(in thousands of tenge, unless otherwise indicated)

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

(in thousands of tenge, unless otherwise indicated)

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

6. PROPERTY, PLANT AND EQUIPMENT

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

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

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

(in thousands of tenge, unless otherwise indicated)

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

7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

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

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

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

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

8. OTHER NON-CURRENT ASSETS

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

(in thousands of tenge, unless otherwise indicated)

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

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

9. INVENTORIES

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

10. OTHER FINANCIAL ASSETS

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

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

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

(in thousands of tenge, unless otherwise indicated)

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

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

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

Amounts in credit institutions:

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

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

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

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

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

11. CASH AND CASH EQUIVALENTS

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

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

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

(in thousands of tenge, unless otherwise indicated)

As at 30 June 2017, weighted average interest rate for cash in current bank accounts was 1.81% per annum in tenge, 0.27% per annum in US dollars and 3.22% per annum in other currencies (31 December 2016: 6.10%, 0.47% and 0.44%, respectively).

Short-term bank deposits in tenge and in foreign currency are placed for varying periods of up to three months, depending on the Group's cash needs. As at 30 June 2017, weighted average rate for short-term bank deposits was 7.99% per annum in tenge (31 December 2016: 10.63% in tenge; 7.06% in other currencies).

12. OTHER CURRENT ASSETS

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

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

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

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

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

As at 30 June 2017 and 31 December 2016, assets and liabilities of the subsidiaries, which meet the criteria of non-current assets held for sale, were classified as "disposal groups classified as held for sale" in the condensed interim consolidated statement of financial position.

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

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

Investments in joint ventures

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

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

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

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

Transtelecom JSC

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

Tulpar-Talgo LLP

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

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

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

	As at 30 June 2017 (unaudited)				As at 31 December 2016			
	Trans-telecom JSC	Tulpar-Talgo LLP	Other	Total	Trans-telecom JSC	Tulpar-Talgo LLP	Other	Total
Assets								
Property, plant and equipment	63,745,398	-	6,018	63,751,416	62,193,300	-	751,136	62,944,436
Intangible assets	3,685,745	-	-	3,685,745	3,556,450	-	2,044	3,558,494
Other non-current assets	1,318,812	-	399	1,319,211	1,250,748	-	399	1,251,147
Inventories	1,046,401	-	-	1,046,401	680,233	-	85,821	766,054
Trade accounts receivable	6,037,385	-	-	6,037,385	3,543,338	-	885,747	4,429,085
Other current assets	7,901,301	-	54,894	7,956,195	4,859,875	-	1,144,199	6,004,074
Cash and cash equivalents	3,250,295	-	57,030	3,307,325	13,201,627	-	405,463	13,607,090
Assets of newly acquired subsidiary	-	11,537,858	-	11,537,858	-	15,451,118	-	15,451,118
Total assets of disposal groups classified as held for sale	86,985,337	11,537,858	118,341	98,641,536	89,285,571	15,451,118	3,274,809	108,011,498
Transfer from investments in joint ventures	-	-	-	-	-	-	12,614,263	12,614,263
Total non-current assets classified as held for sale	-	-	-	-	-	-	12,614,263	12,614,263
Total non-current assets of disposal groups classified as held for sale	86,985,337	11,537,858	118,341	98,641,536	89,285,571	15,451,118	15,889,072	120,625,761
Liabilities								
Borrowings	51,808,798	-	-	51,808,798	53,560,485	-	-	53,560,485
Finance lease payables	1,774,264	-	-	1,774,264	1,839,073	-	136,052	1,975,125
Employee benefit obligations	418,391	-	-	418,391	418,391	-	36,834	455,225
Deferred tax liabilities	3,471,087	-	-	3,471,087	3,072,754	-	289,147	3,361,901
Trade accounts payable	8,050,052	-	188,194	8,238,246	8,561,108	-	767,679	9,328,787
Other taxes	601,357	-	-	601,357	450,065	-	232,428	682,493
Other current liabilities	7,057,191	-	2,415	7,059,606	7,898,517	-	247,506	8,146,023
Liabilities of newly acquired subsidiary	-	17,093,278	-	17,093,278	-	19,306,464	-	19,306,464
Total liabilities of disposal groups classified as held for sale	73,181,140	17,093,278	190,609	90,465,027	75,800,393	19,306,464	1,709,646	96,816,503
Net assets/(liabilities) of disposal group	13,804,197	(5,555,420)	(72,268)	8,176,509	13,485,178	(3,855,346)	-	-

(in thousands of tenge, unless otherwise indicated)

Discontinued operations

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

The results from discontinued operations comprise the following:

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

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

(in thousands of tenge, unless otherwise indicated)

The cash flows from discontinued operations comprise the following:

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

14. SHARE CAPITAL

Contributions

Share issuance

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

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

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

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

Cash flow hedging reserve

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

Dividends

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

Other distributions

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

(in thousands of tenge, unless otherwise indicated)

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

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

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

Change in ownership share in subsidiaries without loss of control

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

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

15. BORROWINGS

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

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

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

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

Loans received

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

HSBC France

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

Halyk Bank of Kazakhstan JSC

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

EBRD

In February 2017, the Group, as represented by the Company and its subsidiary, Kaztemirtrans JSC converted portion of the debt of 170,000,000 US dollars into tenge under the loans restructuring agreement with EBRD dated 22 December 2016 for the total amount of 180,913,719 US dollars. Due to a significant change in the terms of loan, the Group recognized the loan conversion transaction as derecognition of the initial financial liability and the recognition of a new financial liability. As a result, as at the date of conversion the new financial liability amounted to 54,983,100 thousand tenge and 10,913,719 US dollars. Interest is paid on a semi-annual basis at 6 months LIBOR + 4.35% per annum for US dollar tranche and all-in-cost[2] + 4.35% for tenge tranche.

CitiBank of Kazakhstan JSC

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

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

(in thousands of tenge, unless otherwise indicated)

Debt securities issued

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

Fair value of the borrowings is disclosed in Note 25.

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

Covenants and breach of loan agreements

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

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

EBRD and HSBC France loan agreements include certain financial covenants, such as debt to EBITDA, debt to equity and interest coverage ratio. These covenants are calculated quarterly under EBRD agreement and semi-annually and annually under HSBC France agreement.

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

16. TRADE ACCOUNTS PAYABLE

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

(in thousands of tenge, unless otherwise indicated)

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

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

17. OTHER LIABILITIES

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

18. COST OF SALES

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

(in thousands of tenge, unless otherwise indicated)

19. GENERAL AND ADMINISTRATIVE EXPENSES

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

20. FINANCE COSTS

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

21. INCOME TAX

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

(in thousands of tenge, unless otherwise indicated)

22. EARNINGS PER SHARE

Basic earnings per share are calculated based on the weighted average number of common shares outstanding during the period. Basic and diluted per share data are the same, as there are no dilutive instruments outstanding. As at 30 June 2017 and 31 December 2016, there were no dilutive instruments outstanding.

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

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

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

23. FINANCIAL AND CONTINGENT LIABILITIES

Capital commitments

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

Other contractual obligations

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

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

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

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

Contingent liabilities

Legal claims

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

Kazakhstan taxation contingencies

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

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

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

Due to the uncertainties inherent to the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, may be in excess of the amount expensed to date and accrued as at 30 June 2017. It is not practicable to determine the amount of any potential claims that may arise, if any, or the likelihood of any unfavorable outcome.

Insurance

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

(in thousands of tenge, unless otherwise indicated)

Guarantees

As at 30 June 2017, Guarantees comprised the following:

	Guarantee purpose	Guarantee issued date	Guarantee maturity	Guarantee amount, thousand tenge
Eurasian Development Bank	Execution of obligations of the joint venture Electrovoz Kurastyru Zauyty LLP on financing construction of the plant for production of locomotives	17 September 2012	till 2023	2,370,000
Development Bank of Kazakhstan JSC	Execution of obligations of the associate Aktobe Rail and Section Mill Plant LLP on financing construction of rail and section mill plant in Aktobe	4 July 2013	till 2023	24,148,807

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

Finance lease

In December 2016, the Group, as represented by the subsidiary, Passenger Transportation JSC, concluded finance lease agreement with DBK-Leasing JSC for rent of 43 wagons, produced by Tulpar-Talgo LLP, for total amount of 12,938,279 thousand tenge, for 20 years and interest rate 1.75% per annum. Grace period for principal repayment is 6 years. The Group will be a lessee in the arrangement. The inception of lease is expected in December 2017.

(in thousands of tenge, unless otherwise indicated)

24. RELATED PARTY TRANSACTIONS

The nature of related party relationships for those related parties with which the Group entered into significant transactions or had significant balances outstanding as at 30 June 2017 and 31 December 2016 are detailed below.

		Shareholder	Associates of the Group	Joint ventures where the Group is a participant	Companies in the Group of the Shareholder	Other related parties
Debt due from related parties for goods, services and non-current assets	2017	2,560	15,470,462	471,127	1,296,927	-
	2016	-	9,580,245	7,397,824	1,656,854	-
including allowance on doubtful debt	2017	-	*(12,136)*	*(24,941)*	*(36,246)*	-
	2016	-	*(16,763)*	*(191,312)*	(33,552)	-
Debt to related parties for goods, services and non-current assets	2017	-	4,065,804	2,397,540	4,018,525	118,188
	2016	-	1,619,534	4,299,385	3,816,564	-
Current accounts and contributions	2017	-	-	-	-	298
	2016	-	-	-	-	309
Restricted cash	2017	-	-	-	-	349,161
	2016	-	-	-	-	357,811
Loans issued	2017	-	-	-	-	-
	2016	-	-	99,428	-	-
including allowance for impairment provision	2017	-	-	-	-	-
	2016	-	-	*(590,075)*	-	-
Loans received	2017	154,067,939	-	-	-	39,664,103
	2016	152,960,581	-	-	-	43,813,136
Finance lease liabilities	2017	-	-	-	-	-
	2016	-	-	-	-	136,052
Dividends receivable	2017	-	-	-	-	-
	2016	-	-	1,663,776	-	-
Dividends payable	2017	16,424,670	-	-	-	-
	2016	16,424,670	-	-	-	-

(in thousands of tenge, unless otherwise indicated)

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

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

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

As at 30 June 2017, certain borrowings of the associates and joint ventures have been guaranteed by the Group (Note 23).

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

(in thousands of tenge, unless otherwise indicated)

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

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

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

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

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

Compensation of key management personnel

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

(in thousands of tenge, unless otherwise indicated)

25. FINANCIAL INSTRUMENTS FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Cash and cash equivalents

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

Financial assets and liabilities

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

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

Borrowings

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

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

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

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

(in thousands of tenge, unless otherwise indicated)

Fair value hierarchy as at 30 June 2017

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

Fair value hierarchy as at 31 December 2016

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

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

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

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

26. EVENTS AFTER THE REPORTING DATE

Change in ownership share in subsidiaries without loss of control

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

Financial lease

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

Borrowings

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

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

Approval of financial statements

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

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

Consolidated financial statements
for the year ended 31 December 2016

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

CONTENT

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

In preparing 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 authorized for issue by management on 13 March 2017, 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 management of the Group:

Kanat Alpysbayev **President** 13 March 2017	**Maxat Kabashev** **Vice-President of finance** 13 March 2017	**Nazira Abilova** **Chief accountant** 13 March 2017

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 and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and 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 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRSs").

Basis for opinion

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

Key audit matters

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

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Potential impairment of property, plant and equipment	
Property, plant and equipment of the Group, which are mainly represented by infrastructure and rolling stocks, comprise 56% of the Group's total assets. Due to the existence of impairment indicators, such as a continuing economic and market downturn, increase of market interest rates and decrease in freight turnover, the Group performed an impairment test of the property, plant and equipment. The recoverable amount was defined as value in use based on the Group's Development plan for 2017-2021. The impairment valuation is based on management judgements and includes modeling and projecting certain assumptions. As discussed in Note 4, the determination of the appropriate cash-generating unit is a critical management judgement and projected cash flows are dependent on certain key financial data and assumptions, and the calculated present (discounted) value is very sensitive to these assumptions. Accordingly, the potential impairment of property, plant and equipment is considered to be a key audit matter.	Our procedures focused on the critical evaluation of the key assumptions made by management, including the determination of the appropriate cash-generating unit. During our procedures, we engaged our internal valuation specialists. Our audit procedures included: > Evaluating whether the model used to calculate the value in use complies with the requirements of IAS 36 *Impairment of assets.* > Evaluation of the determination of the cash-generating unit. > Validating assumptions applied in the calculation of the discount rate and mathematical recalculation of the rate. > Running a range of sensitivity tests to confirm that no impairment was required if less optimistic assumptions were applied with respect to the discount rate, projected foreign exchange rates, freight turnover growth in transit transportation, the level of subsidies for passengers transportation and the volume of capital expenditures. > Comparing projected cash flows, including revenue and operating profit growth assumptions, to historical data and the Group's Development plan for 2017-2021. We analyzed the accuracy of management's forecasts, validity of the assumptions used in the forecasts, and consistency with the plans approved by the Board of Directors. > Assessing the completeness and correctness of the information disclosed in the financial statements. We found that the assumptions used by management are comparable to historical and current data and Group forecasts.
Liquidity and the going concern principle	
As at 31 December 2016, the current liabilities of the Group exceeded its current assets by 137,921,380 thousand tenge. In addition, as discussed in Note 17, the loans received from EBRD and HSBC France with a carrying value of 92,961,537 thousand tenge and 53,664,002 thousand tenge include certain financial covenants, whereby non-compliance with these covenants may result in the loans becoming payable on demand. Management forecasted the expected financial position and financial results for 2016 and concluded that the Group would not be able to meet certain financial covenants, so that, as at 31 December 2016, management had received waivers from its creditors regarding the financial covenants. Due to the above-mentioned matters, critical judgements are required by	Our procedures in respect to going concern were mainly focused on a critical evaluation of key assumptions made by management and their plans to settle current liabilities. Our audit procedures included: > Examining the classification of assets and liabilities as part of our audit procedures. > Analyzing events and conditions, including financial and operating, which could cast doubt on the ability to continue as a going concern. > Analyzing 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 forecasted cash flows, including consistency of input data to other tests, such as impairment, actuarial valuation and hedge effectiveness testing. > Analyzing possible scenarios with respect to forecasts, which affect the liquidity of the Group and its ability to settle obligations, including the ability of the Group to generate a sufficient level of cash flows

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
management in respect of the sufficiency of the liquid assets of the Group to meet its current obligations. Management's plans in respect of this matter are discussed in Notes 2 and 32. Given the importance of the going concern conclusion to the Group financial statements, accordingly, this is considered to be a key audit matter.	from operating activities to serve and settle its loans, as well as the impact of possible change in exchange rates on the amounts of liabilities and revenues. > Examining the documents supporting the availability of financing sources, including credit agreements, negotiations with financial institutions, and Board of Directors' minutes. > Where applicable, recalculating financial covenants for mathematical accuracy. > Examining the waivers received with respect to existing financial covenants prior to 31 December 2016. > Assessing the completeness and correctness of the 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.
Accounting for capital expenditures	
The Group invests significant amounts in infrastructure and the acquisition of rolling stocks from its own funds as well as through capital contributions received from the Group's parent company and borrowings. As disclosed in Note 7 to the consolidated financial statements, during 2016 the Group incurred capital expenditure of 320,089,998 thousand tenge. Due to the significance of the incurred costs for the acquisition, construction and maintenance of property, plant and equipment, the appropriate accounting of these costs is considered to be a key audit matter.	Our audit procedures included: > Examining, on a sample basis, capital expenditures and agreeing such expenditures to supporting documents and investment budgets and for compliance with recognition and measurement criteria as per IAS 16 *Property, plant and equipment*. > Examining the appropriateness of the capitalization of borrowing costs on a sample basis. > Examining the stage of completion of the constructions to budgets and physical inspection of the assets as part of annual property, plant and equipment counting and observation. We found that capital expenditures met the capitalization criteria and were supported by relevant documentation and calculations.
Privatization program of the Group companies	
As discussed in Notes 4 and 15 to the consolidated financial statements, in accordance with complex privatization plan for 2016-2020 approved by the Government on 30 December 2015, in April 2016 the Board of Directors approved a list of subsidiaries, joint ventures and associates that are subject to privatization. As at 31 December 2016, the Group classified certain entities as disposal groups classified as held for sale. Since the classification of the disposal groups as held for sale and/or discontinued operations require management judgement, it is considered to be a key audit matter.	Our audit procedures included: > Examining the disposal group of assets and liabilities for compliance with the criteria for classification as held for sale, including challenging management's judgement with respect to the probability of sale and the status of actions taken to sell. > Examining the correctness of recognition at the lower of carrying amount and fair value less costs to sell, including examination of the amounts per sales agreements as at reporting date, if any, or valuation reports of independent appraisers. > Comparing the carrying amounts of the subsidiaries that were disposed of during 2016 to their sales prices, and ensuring that the financial results recognized with respect to these subsidiaries was appropriate, including the classification as a discontinued operation.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
	> Assessing the completeness of disclosed information, including management judgements and estimates. We found that all disposal groups met the relevant classification criteria and were appropriately accounted for and measured with respect to the circumstances in existence.

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 thereon. 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 the 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 IFRSs, 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 skepticism 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 communicated to those charged with governance, we determine those matters that were of 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.0000015, 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 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016
(in thousands of tenge)

	Notes	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	7	2,521,329,368	2,395,441,635
Intangible assets		11,589,266	13,288,840
Asset held for the benefit of the Shareholder	31	-	41,268,374
Investments in joint ventures	8	11,720,150	22,104,613
Investments in associates	8	11,357,875	10,898,604
Deferred tax assets	19	8,632,019	-
Investment property		-	6,574,127
Other non-current financial assets	9	2,333,030	178,929
Long-term trade accounts receivable	10	117,217	137,599
Other non-current assets	11	91,920,382	99,847,392
Total non-current assets		2,658,999,307	2,589,740,113
Current assets			
Cash and cash equivalents	12	48,978,173	67,838,129
VAT recoverable		57,252,499	53,353,425
Other current financial assets	9	16,186,691	41,466,840
Inventories	13	28,846,944	29,315,295
Trade accounts receivable	10	15,416,517	9,616,182
Prepaid income tax		1,903,220	2,224,060
Asset held for the benefit of the Shareholder	31	48,067,799	30,158,259
Other current assets	14	39,174,885	25,511,265
		255,826,728	259,483,455
Assets and disposal groups classified as held for sale	15	120,625,761	34,750,812
Total current assets		376,452,489	294,234,267
Total assets		3,035,451,796	2,883,974,380
EQUITY AND LIABILITIES			
Equity			
Share capital	16	993,460,480	865,393,896
Cash flow hedging reserve	16	(39,073,931)	(43,491,357)
Foreign currency translation reserve	16	4,110,006	4,601,406
Retained earnings		198,501,308	142,411,682
Equity attributable to the Shareholder		1,156,997,863	968,915,627
Non-controlling interests	16	11,035,349	(651,552)
Total equity		1,168,033,212	968,264,075

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016 (CONTINUED)

(in thousands of tenge)

	Notes	31 December 2016	31 December 2015
Non-current liabilities			
Borrowings	17	1,098,117,957	1,174,883,855
Deferred tax liability	19	224,357,530	229,520,855
Constructive obligation for the benefit of Shareholder	31	-	48,601,265
Employee benefit obligation	18	26,169,983	28,429,598
Finance lease liabilities		-	2,183,849
Other non-current liabilities	21	4,399,245	-
Total non-current liabilities		1,353,044,715	1,483,619,422
Current liabilities			
Borrowings	17	141,561,817	199,754,238
Trade accounts payable	20	124,453,799	97,281,627
Other taxes payable		8,128,214	6,629,531
Employee benefit obligation	18	2,960,557	3,254,055
Income tax payable		117,552	1,579,639
Finance lease liabilities		-	499,023
Constructive obligation for the benefit of Shareholder	31	48,067,799	30,188,574
Other current liabilities	21	92,267,628	88,450,436
		417,557,366	427,637,123
Liabilities directly associated with disposal groups classified as held for sale	15	96,816,503	4,453,760
Total current liabilities		514,373,869	432,090,883
Total liabilities		1,867,418,584	1,915,710,305
Total equity and liabilities		3,035,451,796	2,883,974,380

Kanat Alpysbayev	**Maxat Kabashev**	**Nazira Abilova**
President	**Vice-President of finance**	**Chief accountant**
13 March 2017	13 March 2017	13 March 2017

The notes below form an integral part of the 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 2016
(in thousands of tenge)

	Notes	2016	2015
Continuing operations			
Revenue			
Freight transportation		688,204,339	629,049,742
Passenger transportation		80,133,552	71,787,391
Government grants		22,528,832	21,721,705
Other revenue	22	32,244,835	29,946,430
Total revenue		823,111,558	752,505,268
Cost of sales	23	(658,852,600)	(616,768,734)
Gross profit		164,258,958	135,736,534
General and administrative expenses	24	(76,443,963)	(75,922,529)
Impairment of assets	7, 9, 11, 13	(2,168,347)	(4,960,728)
Other profit and loss		3,585,503	814,768
Finance income	25	6,325,198	5,581,810
Finance costs	26	(85,417,894)	(60,884,278)
Foreign exchange gain/(loss)		20,863,279	(450,997,658)
Share of profit/(loss) of associates and joint ventures	8	670,248	(12,187,711)
Gain from disposal of shares in joint ventures	8	7,253,741	-
Gain from disposal of subsidiaries not qualifying as discontinued operations	27	2,494,373	1,512,011
Profit/(loss) before tax		41,421,096	(461,307,781)
Income tax benefit	19	4,763,234	9,001,175
Profit/(loss) for the year from continuing operations		46,184,330	(452,306,606)
Discontinued operations			
Loss for the year from discontinued operations	15	(4,907,711)	(7,675,103)
Profit/(loss) for the year		41,276,619	(459,981,709)
Other comprehensive income/(loss) net of tax:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of employee benefit obligations		4,106,607	174,318
Items that may be reclassified subsequently to profit or loss:			
Net fair value gain/(loss) on hedging instruments entered into for cash flow hedges	16	4,417,426	(43,491,357)
Exchange differences on translating foreign operations		(486,819)	5,391,426
Other comprehensive income/(loss) for the year		8,037,214	(37,925,613)
Total comprehensive income/(loss) for the year		49,313,833	(497,907,322)
Profit/(loss) for the year attributable to:			
Shareholder		40,979,582	(460,875,531)
Non-controlling interests		297,037	893,822
		41,276,619	(459,981,709)
Total comprehensive income/(loss) for the year attributable to:			
Shareholder		49,012,215	(498,808,660)
Non-controlling interests		301,618	901,338
		49,313,833	(497,907,322)
Earnings/(loss) per share from continuing and discontinued operations (in whole tenge)	28	83	(937)
Earnings/(loss) per share from continuing operations (in whole tenge)	28	93	(921)

Kanat Alpysbayev President 13 March 2017	Maxat Kabashev Vice-President of finance 13 March 2017	Nazira Abilova Chief accountant 13 March 2017

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousands of tenge)

	Notes	2016	2015
Cash flows from operating activities:			
Profit/(loss) for the year		41,276,619	(459,981,709)
Income tax benefit recognized in profit or loss including discontinued operations	15, 19	(3,622,748)	(6,881,118)
Adjustments for:			
Depreciation and amortization		115,383,866	107,519,344
Finance costs	15, 26	91,603,653	66,506,639
Impairment of assets		2,068,496	4,940,387
Finance income	15, 25	(7,174,522)	(6,077,255)
Defined benefit plan costs		4,688,159	4,605,250
Share of (profit)/loss of associates and joint ventures	8	(670,248)	12,187,711
Allowance for doubtful debts		244,235	10,638,658
Foreign exchange (gain)/loss		(19,756,929)	449,570,560
Gain from disposal of subsidiaries not qualifying as discontinued operations	27	(2,494,373)	(1,512,011)
Gain from disposal of discontinued operations	15	-	(1,096,611)
Gain from disposal of shares in joint ventures	8	(7,253,741)	-
Other		4,031,207	3,121,682
Operating income before changes in working capital and other balances		218,323,674	183,541,527
Change in trade accounts receivable		(657,908)	(66,756)
Changes in inventories		680,674	3,464,520
Change in other current and non-current assets (including non-current VAT recoverable)		(8,038,819)	(7,037,335)
Changes in trade accounts payable		7,666,138	(20,800,383)
Changes in other taxes payable		(17,804,812)	18,657,442
Change in other current liabilities		25,254,806	(14,721,747)
Change in employee benefit obligations		(2,506,445)	(2,955,062)
Change in other non-current liabilities		(283)	1,352,587
Cash generated from operations		222,917,025	161,434,793
Interest paid		(75,615,767)	(59,115,772)
Interest received		5,741,089	5,471,074
Income tax paid		(3,597,022)	(4,766,768)
Net cash flows from operating activities		149,445,325	103,023,327
Cash flows from investing activities:			
Purchase of property, plant and equipment, including advances paid		(269,421,794)	(209,055,211)
Purchase of intangible assets		(2,283,525)	(1,395,471)
Proceeds from sale of shares in joint ventures		8,294,044	-
Proceeds from sale of other non-current assets		15,528,122	8,607,778
Investments in associates	8	(2,465,230)	(3,645,194)
Investments in other financial assets		(82,842,991)	(79,035,388)
Proceeds from return of other financial assets		102,711,572	86,986,193
Dividends received from joint ventures		1,659,754	1,358,688
Net cash inflows from disposal of subsidiaries and discontinued operations		1,160,952	17,947,051
Other		1,719,743	644,520
Net cash flows used in investing activities		(225,939,353)	(177,587,034)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)
(in thousands of tenge)

	Notes	2016	2015
Cash flows from financing activities:			
Contributions to share capital	16	127,923,000	68,338,937
Proceeds from borrowings		178,830,508	81,879,893
Repayments of borrowings		(235,886,216)	(77,708,027)
Proceeds from sale of derivative financial instrument		-	327,008
Proceeds from sale of non-controlling shares in subsidiary	16	9,000,000	-
Dividends and distributions paid		(39,682)	(306,471)
Purchase of asset held for the benefit of the Shareholder		(7,172,307)	(18,069,308)
Other		(716,247)	(602,523)
Net cash flows from financing activities		71,939,056	53,859,509
Net decrease in cash and cash equivalents		(4,554,972)	(20,704,198)
Cash and cash equivalents at the beginning of the year	12	74,903,521	89,964,767
Effects of exchange rate changes on the balance of cash held in foreign currencies		(3,263,118)	5,642,952
Cash and cash equivalents at the end of the year	12	67,085,431	74,903,521
Non-cash transactions:			
Trade accounts payable and receivable arising from disposal of subsidiaries		1,408,339	23,539,128
Additions to construction-in-progress arising from disposal of subsidiaries		-	12,562,464
Advances paid and received arising from disposal of subsidiaries		-	8,978,155
Additions of property, plant and equipment for the borrowing funds directly transferred by bank to supplier		21,613,436	4,971,503
Settlement of loans given by non-current assets		2,093,503	3,671,032
Railway administrations receivables and payables offset		8,507,263	3,505,050
Offset of borrowings with non-current assets	17	47,832,538	-
Recognized fair value of financial guarantees given to associates	21	4,399,245	-

Kanat Alpysbayev **President**	**Maxat Kabashev** **Vice-President of finance**	**Nazira Abilova** **Chief accountant**
13 March 2017	13 March 2017	13 March 2017

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

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousands of tenge)

	Share capital	Cash flow hedging reserve	Foreign currency translation reserve	Retained earnings	Equity attributable to the Shareholder	Non-controlling interests	Total equity
At 1 January 2015	793,329,985	-	(782,574)	600,970,019	1,393,517,430	16,056,277	1,409,573,707
(Loss)/profit for the year	-	-	-	(460,875,531)	(460,875,531)	893,822	(459,981,709)
Other comprehensive (loss)/income for the year	-	(43,491,357)	5,383,980	174,248	(37,933,129)	7,516	(37,925,613)
Total comprehensive (loss)/income for the year	-	(43,491,357)	5,383,980	(460,701,283)	(498,808,660)	901,338	(497,907,322)
Shares issue (Note 16)	72,063,911	-	-	-	72,063,911	-	72,063,911
Dividends declared (Note 16)	-	-	-	(4,559,619)	(4,559,619)	(6,471)	(4,566,090)
Other distributions (Note 16)	-	-	-	(952,660)	(952,660)	-	(952,660)
Other contributions (Note 16)	-	-	-	7,167,201	7,167,201	-	7,167,201
Disposal of subsidiaries (Note 15)	-	-	-	-	-	(13,389,698)	(13,389,698)
Change in ownership share in subsidiaries without loss of control	-	-	-	488,024	488,024	(4,212,998)	(3,724,974)
At 31 December 2015	865,393,896	(43,491,357)	4,601,406	142,411,682	968,915,627	(651,552)	968,264,075
At 1 January 2016	865,393,896	(43,491,357)	4,601,406	142,411,682	968,915,627	(651,552)	968,264,075
Profit 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 16)	128,066,584	-	-	-	128,066,584	-	128,066,584
Dividends declared	-	-	-	-	-	(39,682)	(39,682)
Other distributions (Note 16)	-	-	-	657,924	657,924	-	657,924
Other contributions (Note 16)	-	-	-	12,770,576	12,770,576	-	12,770,576
Disposal of subsidiaries (Note 27)	-	-	-	-	-	(98)	(98)
Change in ownership share in subsidiaries without loss of control (Note 16)	-	-	-	(2,425,063)	(2,425,063)	11,425,063	9,000,000
At 31 December 2016	993,460,480	(39,073,931)	4,110,006	198,501,308	1,156,997,863	11,035,349	1,168,033,212

Kanat Alpysbayev
President
13 March 2017

Maxat Kabashev
Vice-President of finance
13 March 2017

Nazira Abilova
Chief accountant
13 March 2017

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

1. GENERAL INFORMATION

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

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

The Group operates a Government regulated nationwide railway system providing freight transportation, passenger transportation and maintenance of railway infrastructures within the Republic of Kazakhstan. As part of the regulation of the rail industry in Kazakhstan, the Government sets the tariffs, which the Group charges its freight and passenger customers, as well as partially subsidizes certain passenger transportation activities through government grants. These regulated tariffs differ based on the type of transportation provided. The tariff for freight transportation in international transit direction is not regulated by the Government.

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

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

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

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2016, the oil price decreased significantly, which led to significant decrease in national export revenue. On 20 August 2015, the Government and the National Bank of Kazakhstan announced a transition to a new monetary policy based on a free-floating tenge exchange rate, and cancelled the currency corridor. In 2015, the tenge depreciated significantly against major foreign currencies.

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

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

2. BASIS OF PREPARATION OF THE 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 consolidated financial statements have been prepared on a going concern basis. This assumes the sale of assets and settlement of liabilities in the normal course of business in the foreseeable future. As at 31 December 2016, current liabilities of the Group exceeded its current assets by 137,921,380 thousand tenge. The Group historically financed large investment projects through the capital contributions received from the Government, and external borrowings, in addition to cash flows from operating activities. As at 31 December 2016, the Group's borrowings of 141,561,817 thousand tenge are payable within twelve months of the reporting date, including borrowings from the Shareholder of 75,000,000 thousand tenge payable in September 2017. The Group has assessed its needs for cash, including its scheduled debt repayments and its development plans. In assessing its going concern basis, management have also considered the Group's financial position, expected future performance and cash flows from operations, its borrowings, available credit facilities, its capital expenditure commitments, considerations of tariffs, currency exchange rates and other risks facing the Group. After making appropriate enquiries, management concluded that the Group has adequate resources to continue in operational existence and settle its liabilities (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 at the end of each reporting period.

Basis of consolidation

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

Functional and presentation currency

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

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

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

(in thousands of tenge unless otherwise is stated)

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

	31 December 2016	**31 December 2015**
US Dollar	333.29	340.01
Euro	352.42	371.46
Swiss Franc	328.14	343.48
Russian Ruble	5.43	4.61

3. SIGNIFICANT ACCOUNTING POLICIES

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

Adoption of new and revised standards

In 2015, the Group early adopted the amendments to IAS 1 Presentation of Financial Statements, which are effective for annual periods beginning on and after 1 January 2016.

Other amendments, effective from 1 January 2016:

- Amendments to IAS 16 and IAS 38 – *Clarification of Acceptable Methods of Depreciation and Amortization*;
- Amendments to IAS 27 – *Equity Method in Separate Financial Statements*;
- Annual Improvements to IFRSs 2012-2014 Cycle.

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarized below.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The application of these amendments has had no material effect on the Group’s consolidated financial statements.

New and revised IFRSs in issue but not yet effective

The Group has not applied the new and revised IFRSs that have been issued but are not yet effective.

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 recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized 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 amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved by both 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 recognized by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognized 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 recognized.
- 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.

Management of the Group anticipates that the application of IFRS 9 in the future may have an impact on amounts reported in respect of the Group's financial assets and financial liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize 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: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes 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.

Management of the Group also anticipates that the application of IFRS 15 in the future may have an impact on amount and timing of revenue recognition.

IFRS 16 Leases

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

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. 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 recognized 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. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion, which will be presented as financing and operating cash flows respectively.

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

Furthermore, extensive disclosures are required by IFRS 16.

Management of the Group 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 all leases for contracts where the Group is a lessee.

Management is still in the process of assessing the full impact of the application of IFRS 9, IFRS 15 and IFRS 16 on the Group's consolidated financial statements and it is not practicable to provide a reasonable financial estimate of the effect until the management completes the detailed review. Management expects to be able to provide more precise information in the interim financial statements for the six months ended 30 June 2017.

For other Standards, amendments and Interpretations effective starting on and after 1 January 2017, management anticipates that application of those Standards, amendments and Interpretations will not have a material effect of the consolidated financial statements in the periods of their application.

Property, plant and equipment

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

Subsequent expenditure

Maintenance expenses incurred during the useful life of the asset (regular maintenance activities to maintain the asset in a good condition) and repair expenses (technical inspections, maintenance contracts, etc.) are recorded as operating expenses.

Only those costs are capitalized which qualify for recognition as assets in accordance with provisions of IAS 16 Property, Plant and Equipment.

Construction-in-progress

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

Borrowing costs

The Group capitalizes 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 capitalizes the borrowing costs on generally used borrowings to the extent that it uses them for the purpose of obtaining a qualifying asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period and used for construction and production of a qualifying asset, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Borrowing costs also include the exchange differences arising from loans in foreign currencies to the extent to which they are considered to be an interest expense adjustment. The exchange difference amount capitalized as an interest expense adjustment must not exceed the interest expense amount, which would be capitalized by the Group if the loan were received in the local currency. Any excess of exchange difference is recognized in profit or loss.

All other borrowing costs, including any excess exchange differences, are recognized in profit or loss in the period in which they are incurred.

Inventories

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

Equity

Share capital

Common shares are classified as equity. Costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. 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 recognized as additional paid-in capital until the common shares are registered, when such proceeds are transferred to share capital.

Other contributions

The Group enters into equity transactions with the Shareholder, such as transfer of assets, benefits from below market interest loans and others that would not relate to acquisition of additional equity interest in the Group. The Group recognizes such transactions in retained earnings.

Other distributions

Distributions are recognized 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 recognized 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 recognized 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 the financial instruments have been classified. Accounts receivable and investments, classified as loans and receivables, are measured at amortized cost, using the effective interest method. Certain equity investments, classified as available for sale, are recognized 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 amortized 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 the hedge relationship, the 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 recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the ‘finance costs' line item.

Amounts previously recognized 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 recognized hedged item.

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

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

Recognition of revenue

Revenue is recognized to the extent that it is probable that the 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 recognized 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 volume, provided as at the reporting date to the total services volume according to information on the dates of cargo departure and arrival (intersection of joint station).

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

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

In respect to the sale of goods, revenue is recognized when the goods are delivered and titles have passed, at which time all of the following conditions are satisfied:

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

Government grants

The Group is eligible to receive a subsidy, in the form of a Government grant, for a portion of the costs of transporting passengers on socially important routes within the Republic of Kazakhstan, as defined by the Government. The Group, along with other railway companies in the Republic of Kazakhstan, submits an application for these grants to the Government on an annual basis. If awarded the contract, the Group is eligible for a subsidy of the costs to transport passengers on the socially important routes within the Republic of Kazakhstan up to a pre-budgeted amount, which is determined by the Government.

Government grants are recognized in profit or loss in the period in which the transportation is provided to the passengers at the reduced tariffs set by the Government when there is reasonable assurance that the Group will comply with the conditions attaching to the grants and the collection of the grant funds can be reasonably assured.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Critical judgements in applying accounting policies

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

Control assessment

Control over KazAutoZhol National Company JSC

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

Control over Aktau International Sea Commercial Port National Company JSC

Aktau International Sea Commercial Port National Company JSC is recognized as a subsidiary of the Group (Note 30), although the Group does not legally own shares in Aktau International Sea Commercial Port. The Group assessed whether it has control over Aktau International Sea Commercial Port, considering all relevant facts and circumstances arising from a trust management agreement concluded with Samruk-Kazyna National Welfare Fund JSC, the legal owner, in respect of its 100% ownership interest in Aktau International Sea Commercial Port. The Group concluded that it controls Aktau International Sea Commercial Port. In reaching this judgment, management of the Group considered the broad power granted to the Group by the Shareholder, which gives the Group the practical ability to unilaterally direct the relevant activities of Aktau International Sea Commercial Port to affect its returns to the Group.

Control over airports

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

Control over Khorgos International Centre of Boundary Cooperation JSC

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

Control over Tulpar-Talgo LLP

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

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

Control over Kazakhstan Wagon Construction Company LLP

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

Loans at a rate below the market interest rate

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

Assets classified as held for sale

In December 2015, the Government of Kazakhstan approved the 'Complex Plan of Privatization for 2016-2020', under which management of the Group approved the list of subsidiaries, associates and joint ventures subject to sale. IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* requires management to apply judgements regarding high probability of sale of the asset. As at reporting date, management of the Group assessed the status of execution of the Complex Plan of Privatization and classified certain assets / liabilities as disposal groups held for sale, relating to those, which meet the criteria of IFRS 5 (Note 15).

Key sources of estimation uncertainty

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

Impairment of tangible and intangible assets

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

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

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

Due to existing indicators, the Group performed an impairment test as at 31 December 2016.

Management of the Group considered all segments as a single cash-generating unit (CGU) for the purposes of the impairment testing as under the current operating model of the Group the cash flows for each segment are not considered to be sufficiently independent. The 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 specifics of tariff regulation for freight transportation and the need to cross-subsidize passenger transportation, railway infrastructure can not generate independent cash flows. Accordingly, the Group is treated as one cash-generating unit in the impairment testing performed.

The Government of Kazakhstan as Ultimate Shareholder of the Company has approved a privatization plan of certain entities of the Group, which, if realized, would result in a new scheme of interaction among the various business units within the group, and would include development of the new tariff system. Due to absence of approved detailed plans, these possible developments have not been taken into account for the purposes of the current year impairment testing. Subsequent changes in identification of the cash generating units may affect the carrying value of the Group's assets.

Additionally, there are a number of subjective factors both operational and financial, using the best evidence available.

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

The financial assumptions include significant estimates associated with forecasted level and growth rate of tariffs, discounts, as well as forecasted tenge to US Dollar and Swiss Franc exchange rates. The key long-term assumptions used in calculation were the annual growth in tariffs of 4%, the exchange rate of 360 tenge per 1 USD and the discount rate of 12.74%. These assumptions related to cash flow projections in real terms.

As at 31 December 2016, no impairment has been identified based on the estimate of the value in use of the Group's property, plant and equipment. However, the value in use estimate is sensitive to the following assumptions:

- discount rate;
- volume of transit freight transportation;
- exchange rate to foreign currencies, including to Swiss Franc and US Dollar; and
- volume of capital investments to maintain the assets and continue operations.

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

(in thousands of tenge unless otherwise is stated)

Recoverability of VAT

At each reporting date, the Group assesses the recoverability of VAT arising on sales to customers on international transportation. The Group cannot charge VAT onwards to these customers, and accordingly can only receive these amounts through a collection from the tax authorities. In assessing the recoverability of the VAT recoverable, the Group considers information from its internal tax department regarding projected collection of VAT, 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 amortization of intangible assets

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

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

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

Taxation

Kazakhstan legislative acts and regulations are not always clearly written. Instances of inconsistent opinions between local, regional and national tax authorities are possible. Where additional taxes are imposed by the tax authorities, penalties and interest applied are significant; penalties are generally assessed at 50% of the additional taxes accrued, and interest is assessed at 13.75% 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 2016. Any difference between the estimated amount and the actual amount paid, if any, could have a significant impact on future operating results.

5. CHANGES IN CLASSIFICATION AFFECTING COMPARATIVE INFORMATION

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

The Group recognized the results of operations of its subsidiary Transtelecom JSC, which represents a separate major line of business in discontinued operations and accordingly, comparative amounts for the year ended 31 December 2015 were restated.

(in thousands of tenge unless otherwise is stated)

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

	As previously reported	**Discontinued operations**	**As restated**
2015			
Other revenue	37,950,983	(8,004,553)	29,946,430
Total revenue	760,509,821	(8,004,553)	752,505,268
Cost of sales	(622,968,439)	6,199,705	(616,768,734)
Gross profit	137,541,382	(1,804,848)	135,736,534
General and administrative expenses	(78,452,245)	2,529,716	(75,922,529)
Finance income	6,000,871	(419,061)	5,581,810
Finance costs	(66,170,599)	5,286,321	(60,884,278)
Foreign exchange loss	(449,940,248)	(1,057,410)	(450,997,658)
Other profit and loss	885,734	(70,966)	814,768
Loss before tax	(465,771,533)	4,463,752	(461,307,781)
Income tax benefit	7,955,960	1,045,215	9,001,175
Loss from continuing operations	(457,815,573)	5,508,967	(452,306,606)
Loss from discontinued operations	(2,166,136)	(5,508,967)	(7,675,103)
Loss for the year	(459,981,709)	-	(459,981,709)
Loss per share from continuing and discontinued operations (in whole tenge)	(932)	(11)	(921)

6. SEGMENT INFORMATION

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

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

The Group does not have a specified pricing policy for inter-segmental sales, however in general intersegment transactions are charged at prevailing market prices.

(in thousands of tenge unless otherwise is stated)

	For the year ended 31 December 2016				
	Freight transportation	**Passenger transportation**	**Total reportable segments**	**Other**	**Total**
Key operating measures					
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)
Reversal of impairment/ (impairment) of assets	819,577	(2,965,490)	(2,145,913)	(22,434)	(2,168,347)
Other profit and loss	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 gain/ (loss)	21,153,440	(66,094)	21,087,346	(224,067)	20,863,279
Share of profit/(loss) of associates and joint ventures	4,564,036	-	4,564,036	(3,893,788)	670,248
Gain from disposal of share 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
Profit before tax	37,276,911	3,400,229	40,677,140	743,956	41,421,096
Income tax benefit/(expenses)	5,731,387	(883,694)	4,847,693	(84,459)	4,763,234
Profit for the year from continuing operations	43,008,298	2,516,535	45,524,833	659,497	46,184,330
Other key segment information					
Additions to 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

(in thousands of tenge unless otherwise is stated)

	For the year ended 31 December 2015				
	Freight transportation	**Passenger transportation**	**Total reportable segments**	**Other**	**Total**
Key operating measures					
Revenue					
Transportation	656,811,366	73,755,616	730,566,982	-	730,566,982
Government grants	-	21,721,705	21,721,705	-	21,721,705
Other revenue	17,142,194	3,945,284	21,087,478	40,669,277	61,756,755
Intersegment revenue	(29,405,609)	(2,446,681)	(31,852,290)	(29,687,884)	(61,540,174)
Revenue	644,547,951	96,975,924	741,523,875	10,981,393	752,505,268
Cost of sales	(527,614,931)	(91,185,150)	(618,800,081)	2,031,347	(616,768,734)
General and administrative expenses	(67,369,185)	(4,865,439)	(72,234,624)	(3,687,905)	(75,922,529)
Impairment of assets	(3,088,728)	(1,872,000)	(4,960,728)	-	(4,960,728)
Other profit and loss	(274,483)	924,963	650,480	164,288	814,768
Finance income	4,355,188	503,864	4,859,052	722,758	5,581,810
Finance costs	(58,330,928)	(1,500,780)	(59,831,708)	(1,052,570)	(60,884,278)
Foreign exchange loss	(450,383,148)	(129,861)	(450,513,009)	(484,649)	(450,997,658)
Share of loss of associates and joint ventures	(5,818,460)	-	(5,818,460)	(6,369,251)	(12,187,711)
Gain on disposal of subsidiaries	1,215,814	-	1,215,814	296,197	1,512,011
(Loss)/profit before tax	(462,760,910)	(1,148,479)	(463,909,389)	2,601,608	(461,307,781)
Income tax benefit/(expenses)	9,091,984	(903,429)	8,188,555	812,620	9,001,175
(Loss)/profit for the year from continuing operations	(453,668,926)	(2,051,908)	(455,720,834)	3,414,228	(452,306,606)
Other key segment information					
Additions to property, plant and equipment	238,693,032	24,146,718	262,839,750	26,318,850	289,158,600
Depreciation of property, plant and equipment	90,135,335	7,504,226	97,639,561	7,957,740	105,597,301

Geographical information for the Group

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

Customer country of domicile	**2016**	**2015**
Kazakhstan	815,752,533	741,539,465
Russia	4,722,506	8,381,189
Other	2,636,519	2,584,614
	823,111,558	752,505,268

Substantially all of the Group's non-current assets are in Kazakhstan.

(in thousands of tenge unless otherwise is stated)

7. PROPERTY, PLANT AND EQUIPMENT

	Railway infrastructure	Buildings and construction	Machinery and equipment	Transport	Land	Other	Capital construction in progress	Total
Carrying value at 1 January 2015	630,972,166	136,772,940	210,603,867	789,606,132	3,975,088	15,418,897	441,593,040	2,228,942,130
Additions	30,419	14,821	1,577,316	65,173,653	58,568	111,828	216,657,349	283,623,954
Disposals	(97,918)	(347,754)	(1,674,664)	(3,604,480)	(51,410)	(482,889)	-	(6,259,115)
Depreciation charge	(23,301,032)	(6,918,496)	(26,263,509)	(47,255,961)	-	(1,858,303)	-	(105,597,301)
Depreciation on disposal	78,377	208,357	1,623,946	3,131,919	-	387,164	-	5,429,763
(Impairment)/reversal of impairment	511,216	(1,467,711)	(184,109)	(45,773)	-	(8,325)	(795,619)	(1,990,321)
Transfer from assets of disposal groups classified as held for sale	-	3,480,070	3,047,313	21,783	7,917	54,567	-	6,611,650
Transfer to non-current assets and assets of disposal groups classified as held for sale	-	(15,001,695)	(2,583)	(168,698)	(93,757)	(2,948)	-	(15,269,681)
Other movements	(1,741,182)	16,741	3,372,039	167,759	-	1,898,269	(3,763,070)	(49,444)
Other transfers and regroupping	297,623,524	8,404,158	44,700,010	2,015,995	-	(21,137)	(352,722,550)	-
Carrying value at 31 December 2015	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
Cost	1,048,883,901	156,822,649	362,903,067	1,108,852,072	3,896,406	23,839,402	307,132,911	3,012,330,408
Accumulated depreciation and impairment	(144,808,331)	(31,661,218)	(126,103,441)	(299,809,743)	-	(8,342,279)	(6,163,761)	(616,888,773)
Carrying value at 1 January 2016	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)/reversal of impairment	(30,688)	(145,540)	(2,330,476)	16,890	-	(77,096)	(2,428,672)	(4,995,582)
Transfer from assets of disposal groups and other assets classified as held for sale, including to the Government	-	2,438,230	1,545	251	2,696	491	-	2,443,213
Transfer to non-current assets and assets of disposal groups 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	(841,598)	(1,913,842)	(971,356)	137,694	(78,398)	187,215	(3,292,789)	(6,773,074)
Other transfers and regroupping	80,785,214	59,344,877	99,698,721	2,460,558	-	(1,044,533)	(241,244,837)	-
Carrying value at 31 December 2016	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
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)

In 2016, the Group received property, plant and equipment of 143,584 thousand tenge from the Ultimate Shareholder/Shareholder (2015: 50,816 thousand tenge) and recognized them in the consolidated statement of changes in equity as a contribution to share capital and other contributions (Note 16).

As at 31 December 2016, capital construction in progress primarily comprises project costs for the construction of railway lines Zhezkazgan-Beineu and Arkalyk-Shubarkol of 42,184,635 thousand tenge (31 December 2015: 142,091,568 thousand tenge), the development of a railway junction at Astana station, including construction of a railway station of 125,070,257 thousand tenge (31 December 2015: 54,124,453 thousand tenge), and construction of dry port and infrastructure of special economic zone "Khorgos-Eastern Gates" of 328,304 thousand tenge (2015: 49,345,478 thousand tenge).

As at 31 December 2016 and 2015, property, plant and equipment of the Group with a carrying value of 143,316,485 thousand tenge and 149,720,567 thousand tenge, respectively, were pledged as collateral for a portion of the Group's borrowings.

For the years ended 31 December 2016 and 2015, capitalized borrowing costs amounted to 3,636,255 thousand tenge and 5,411,762 thousand tenge, respectively. The average capitalization rate varied from 2.59% to 8.63% (2015: 2.59% to 10%).

As at 31 December 2016 and 2015, the cost of fully depreciated property, plant and equipment which was still in use amounted to 235,839,055 thousand tenge and 235,488,259 thousand tenge, respectively.

(in thousands of tenge unless otherwise is stated)

8. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Name	Principal activity	Place of incorporation and principal place of business	2016 Carrying value	2016 Share	2015 Carrying value	2015 Share
Associates:						
China-Kazakhstan International Logistics Company in Lianyungang	International multimodal transportation	China	9,906,269	49%	10,792,218	49%
Aktobe Rail and Section Mill Plant LLP	Production and sales of metal roll	Kazakhstan	-	30%	-	30%
Continental Logistics LLP	Construction and exploitation of transportation and logistics centers	Kazakhstan	-	30%	-	30%
Aktau Sea North Terminal LLP	Construction and exploitation of logistics, industrial and infrastructural constructions	Kazakhstan	1,284,568	40%	-	40%
Electrovoz kurastyru zauyty LLP	Cargo and passenger electric locomotives production	Kazakhstan	-	25%	-	-
Other			167,038	25-49%	106,386	25-49%
Total investments in associates			11,357,875		10,898,604	
Joint ventures:						
Logistic System Management B.V.	Forwarding services, handling rolling stock, terminal service	Kazakhstan (incorporated in Netherlands)	11,720,150	50%	9,887,179	50%
Locomotive Kurastyru Zauyty JSC	Assembly of locomotives	Kazakhstan	-	-	8,378,678	50%
Astyk Trans LLP	Forwarding services for grain transportation and other agricultural products by railway	Kazakhstan	-	-	3,464,364	50%
Electrovoz kurastyru zauyty LLP[1]	Cargo and passenger electric locomotives production	Kazakhstan	-	-	374,392	25%
Total investments in joint ventures			11,720,150		22,104,613	

[1] As at 31 December 2015, the Group owned 50% interest in joint venture, where 25% were classified as held for sale in accordance with the Group's decision to sell this ownership share (Note 15). As at 31 December 2016, 25% interest is accounted for as investments in associates.

(in thousands of tenge unless otherwise is stated)

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

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

	2016	**2015**
Associates		
At 1 January	10,898,604	16,299,164
Effect of foreign currency exchange differences	(896,087)	4,725,013
Contributions to charter capital without change in ownership share	2,465,230	3,645,194
Share of loss	(4,891,472)	(13,770,767)
Fair value of financial guarantees given	3,519,396	-
Transfer from joint ventures	262,204	-
At 31 December	11,357,875	10,898,604
Joint ventures		
At 1 January	22,104,613	21,086,452
Share of profit	5,561,720	1,583,056
Contributions to charter capital without change in ownership share	-	793,793
Fair value adjustment on loans given at below market rate	58,425	-
Transfer to associates	(262,204)	-
Dividends	(3,128,141)	(1,358,688)
Transfer to disposal groups classified as held for sale (Note 15)	(12,614,263)	-
At 31 December	11,720,150	22,104,613

As at 31 December 2016, the joint venture investments in Locomotive Kurastyru Zauyty JSC and Astyk Trans LLP with a total carrying value of 12,614,263 thousand tenge were classified as held for sale (Note 15).

In February 2016, the Group, represented by its subsidiary, Remlocomotive JSC, sold to a third party a 25% interest in the joint venture Electrovoz kurastyru zauyty LLP. The gain from the disposal amounted to 7,099,097 thousand tenge. As a result of the sale, the Group lost joint control over Electrovoz kurastyru zauyty LLP, retaining a 25% interest and significant influence. Accordingly, the Group classified Electrovoz kurastyru zauyty LLP as an associate.

In November 2016, the Group, represented by Kamkor Repair Corporation LLP, sold its 50% interest in joint venture KazElectroPrivod JV LLP to a third party. The gain from the disposal of amounted to 154,644 thousand tenge. As a result of sale, the Group lost joint control over KazElectroPrivod JV LLP.

As at 31 December 2016, the Group's unrecognized share of losses with respect to significant associates, Aktobe Rail and Section Mill Plant LLP, Continental Logistics LLP and Electrovoz kurastyru zauyty LLP, amounted to 6,716,574 thousand tenge (2015: 6,479,905 thousand tenge).

During 2016, the Group, represented by KTZ Express JSC and Aktau International Sea Commercial Port National Company JSC, made an additional cash contribution without change in ownership share of 1,662,260 thousand tenge and 554,087 thousand tenge, respectively, to the associate Aktau Sea North Terminal LLP (2015: 1,643,400 thousand tenge and 547,800 thousand tenge).

During 2015, the Group, represented by its subsidiary Remlocomotive JSC, made an additional cash contribution without change in ownership share of 1,453,994 thousand tenge to Aktobe Rail and Section Mill Plant LLP.

During 2015, the Group, represented by its subsidiary Kaztemirtrans JSC, made an additional contribution without change in ownership share by non-current assets to Astyk Trans LLP of 708,288 thousand tenge with the other joint venture party contributing non-current assets of the same value.

(in thousands of tenge unless otherwise is stated)

Summary financial information for the Group's material investments in associates as at 31 December and for the years then ended was as follows:

	2016					2015			
	China-Kazakhstan International Logistics Company in Lianyungang	**Aktobe Rail and Section Mill Plant LLP**	**Continental Logistics LLP**	**Aktau Sea North Terminal LLP**	**Electrovoz kurastyru zauyty LLP**	**China-Kazakhstan International Logistics Company in Lianyungang**	**Aktobe Rail and Section Mill Plant LLP**	**Continental Logistics LLP**	**Aktau Sea North Terminal LLP**
Current assets	2,370,433	13,346,834	5,903,523	6,839,215	33,806,498	3,616,003	8,608,842	1,747,331	12,351,231
Non-current assets	20,977,803	75,654,249	29,154,188	40,728,440	21,775,211	18,718,986	74,672,980	31,239,237	22,763,567
Total assets	23,348,236	89,001,083	35,057,711	47,567,655	55,581,709	22,334,989	83,281,822	32,986,568	35,114,798
Current liabilities	3,131,361	23,693,304	13,284,123	3,475,033	48,584,202	310,054	13,516,573	11,703,912	3,642,958
Non-current liabilities	-	80,379,160	23,454,603	40,881,201	13,760,929	-	90,419,983	22,227,605	33,301,562
Total liabilities	3,131,361	104,072,464	36,738,726	44,356,234	62,345,131	310,054	103,936,556	33,931,517	36,944,520
Net assets	20,216,875	(15,071,381)	(1,681,015)	3,211,421	(6,763,422)	22,024,935	(20,654,734)	(944,949)	(1,829,722)
Group's ownership interest	49%	30%	30%	40%	25%	49%	30%	30%	40%
Group's share of net assets	9,906,269	(4,521,414)	(504,305)	1,284,568	(1,690,855)	10,792,218	(6,196,420)	(283,485)	(731,889)
Carrying amount of investments	9,906,269	-	-	1,284,568	-	10,792,218	-	-	-
Revenue	1,622,074	14,721,285	3,876,209	295,121	39,928,906	811,478	674,032	944,524	-
Profit/(loss) for the year and total comprehensive income/(loss)	20,690	(5,589,497)	(1,565,675)	(499,724)	(8,482,398)	7,743	(39,665,863)	(12,739,277)	(13,006,193)
Group's recognized share of total comprehensive income/(loss) of associate	10,138	(3,351,855)	(248,883)	(931,779)	(429,745)	3,794	(5,703,339)	(3,538,298)	(4,470,588)

(in thousands of tenge unless otherwise is stated)

Summary financial information for the Group's material investments in joint ventures as at 31 December and for the years then ended was as follows:

	2016				2015			
	Logistic System Management B.V.	**Locomotive Kurastyru Zauyty JSC**	**Astyk Trans LLP**	**Electrovoz kurastyru zauyty LLP**	**Logistic System Management B.V.**	**Locomotive Kurastyru Zauyty JSC**	**Astyk Trans LLP**	**Electrovoz kurastyru zauyty LLP**
Current assets, including	14,075,091	-	-	-	11,028,571	15,528,088	8,749,928	48,265,560
Cash and cash equivalents	*2,890,747*	-	-	-	*4,037,034*	*219,368*	*1,267,603*	*127,326*
Non-current assets	12,804,334	-	-	-	10,831,288	15,939,512	1,225,593	17,476,854
Total assets	26,879,425	-	-	-	21,859,859	31,467,600	9,975,521	65,742,414
Current liabilities, including	5,817,155	-	-		4,590,978	11,166,252	2,948,695	57,986,857
Current financial liabilities (excluding trade and other payables and provisions)	*112,593*	-	-	-	*112,593*	*6,049,971*	-	*8,838,498*
Non-current liabilities, including	969,639	-	-	-	842,192	1,275,619	98,098	6,257,990
Non-current financial liabilities (excluding trade and other payables and provisions)	*337,777*	-	-	-	*450,370*	-	-	-
Total liabilities	6,786,794	-	-	-	5,433,170	12,441,871	3,046,793	64,244,847
Net assets	20,092,631	-	-	-	16,426,689	19,025,729	6,928,728	1,497,567
Group's ownership interest at year end	50%	50%	50%	25%	50%	50%	50%	25%
Group's share of net assets of joint ventures	10,046,316	-	-	-	8,213,345	9,512,865	3,464,364	374,392
Goodwill	1,673,834	-	-	-	1,673,834	-	-	-
Fair value adjustment of the remaining interest	-	-	-	-	-	(1,134,187)	-	-
Carrying amount of investments	11,720,150	-	-	-	9,887,179	8,378,678	3,464,364	374,392
Revenue	50,222,725	6,458,127	19,671,787	1,635,332	41,446,291	20,712,393	16,596,757	16,988,700
Depreciation and amortization	(887,468)	(1,160,701)	(1,062,309)	(67,738)	(911,985)	(1,224,722)	(2,371,493)	(804,331)
Finance income	232,095	200,126	677,505	173	44,927	78,896	430,815	35,202
Finance costs	(58,828)	(233,922)	-	(60,050)	(91,112)	(201,050)	-	(800,504)
Income tax expenses	(2,103,863)	(81,678)	-	-	(1,466,935)	(464,543)	(401,004)	-
Profit/(Loss) for the year and total comprehensive income/(loss)	8,504,787	605,523	2,237,503	(448,752)	5,213,931	(2,466,409)	2,181,365	(2,663,647)
Group's recognized share of total comprehensive income/(loss) of joint ventures	4,252,394	302,762	1,118,752	(112,188)	2,606,966	(1,233,205)	1,090,683	(665,912)

(in thousands of tenge unless otherwise is stated)

9. OTHER FINANCIAL ASSETS

	31 December 2016	31 December 2015
Amounts in credit institutions (short-term financial investments)	17,549,976	39,705,096
Loans given	1,885,605	2,502,804
Less: allowance on loans given	(915,860)	(562,131)
	18,519,721	41,645,769
Current portion of other financial assets	16,186,691	41,466,840
Non-current portion of other financial assets	2,333,030	178,929
	18,519,721	41,645,769

As at 31 December 2016 and 2015, loans given are mainly represented by loans in tenge given to joint venture, Locomotive Kurastyru Zauyty JSC.

Amounts in credit institutions:

	31 December 2016	31 December 2015
Ratings from BBB-(Baa3) to BB-(Ba3)	313,100	349,592
Ratings from B+(B1) to B-(B3)	17,236,876	39,355,504
	17,549,976	39,705,096

As at 31 December 2016, weighted average interest rate on amounts in credit institutions comprised 4.54% in US Dollars and 13.08% in tenge (2015: 5.32% in US Dollars and 13.99% in tenge).

As at 31 December 2016, weighted average interest rate on amounts in credit institutions pledged as a collateral comprised 4.00% in US Dollars (2015: nil).

Amounts in credit institutions as at 31 December were denominated in the following currencies:

	31 December 2016	31 December 2015
US Dollars	17,202,382	39,593,209
Tenge	347,594	111,887
	17,549,976	39,705,096

10. TRADE ACCOUNTS RECEIVABLE

	31 December 2016	31 December 2015
Trade accounts receivable	23,628,423	21,017,888
Less: allowance for doubtful debts	(8,094,689)	(11,264,107)
	15,533,734	9,753,781
Current portion of trade accounts receivable	15,416,517	9,616,182
Non-current portion of trade accounts receivable	117,217	137,599
	15,533,734	9,753,781

(in thousands of tenge unless otherwise is stated)

The movements in the allowance for doubtful debts for the years ended 31 December were as follows:

	2016	**2015**
Allowance for doubtful debts at the beginning of the year	(11,264,107)	(5,232,322)
Foreign currency translation	1,331	-
Reversed/(provided for) during the year	2,131,352	(6,174,680)
Written-off during the year against previously created allowance	874,803	142,895
Transfer to disposal groups classified as held for sale	161,932	-
Allowance for doubtful debts at the end of the year	(8,094,689)	(11,264,107)

As at 31 December, ageing analysis of trade accounts receivables that are past due but not impaired were as follows:

	Total	**Not past due and not impaired**	**Past due but not impaired**		
			Less than 90 days	**From 90 to 120 days**	**More than 120 days**
2016	15,533,734	15,430,606	-	103,128	-
2015	9,753,781	9,657,932	-	4,811	91,038

11. OTHER NON-CURRENT ASSETS

	31 December 2016	**31 December 2015**
Advances to suppliers for property, plant and equipment	65,111,134	67,150,813
VAT recoverable	34,141,032	27,178,359
Assets for sale to the Government	-	12,977,064
Loans given to employees	6,400,774	7,205,444
Prepaid expenses	1,488,627	4,323,531
Residential properties	439,954	1,766,689
Other	1,391,967	1,897,449
	108,973,488	122,499,349
Less: allowance for advances to suppliers for property, plant and equipment	(2,068,719)	(2,452,512)
Less: allowance for non-recoverable VAT	(14,984,387)	(20,199,445)
	91,920,382	99,847,392

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

	31 December 2016	**31 December 2015**
Construction of a railway station in Astana	20,278,582	-
Construction of ferry in sea port Kuryk and utilization of freight and passengers ferry	9,020,197	1,630,615
Supply of passenger coaches components	8,317,108	19,085,136
Supply of locomotives	7,344,090	12,864,944
Construction of dry port and infrastructure at Khorgos-Eastern Gates Special Economic Zone	-	4,154,798
Supply of sea-crafts	3,139,592	-
Construction of Zhezkazgan-Beineu and Arkalyk-Shubarkol railway lines	2,401,224	14,686,212
Supply of railroad portal cranes	2,279,533	
Other	12,330,808	14,729,108
	65,111,134	67,150,813

(in thousands of tenge unless otherwise is stated)

In December 2016, in accordance with the decision of the Ultimate Shareholder, the assets constructed within railway lines construction projects and accounted for as Assets for sale to the Government of 10,536,209 thousand tenge were transferred to the state as an offset against borrowings received from the Shareholder (Note 16). The remaining assets with a carrying value of 2,440,855 thousand tenge were transferred to property, plant and equipment.

As at 31 December 2016 and 2015, non-current VAT recoverable represents amounts that arose from the purchases of goods, services, and property, plant and equipment and are expected to be recovered in more than one year.

During 2016, the Group reversed an allowance for non-recoverable VAT of 8,070,058 thousand tenge, since management believes that the amount will be offset in subsequent periods.

12. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash in current accounts in tenge	15,436,352	35,443,413
Cash in current accounts in US Dollars	5,659,164	7,394,554
Cash in current accounts in other currencies	1,565,122	2,070,226
Short-term bank deposits in tenge	26,218,883	20,254,433
Short-term bank deposits in US Dollars	-	2,663,862
Short-term bank deposits in other currencies	84,165	-
Petty cash	14,487	11,641
	48,978,173	67,838,129
Cash included in disposal groups classified as held for sale (Note 15)[2]	18,107,258	7,065,392
	67,085,431	74,903,521

As at 31 December 2016, the weighted average interest rate on cash on current accounts was 6.10% in tenge, 0.47% in US Dollars and 0.44% in other currencies (31 December 2015: 7.12%, 0.37% and 1.97%, respectively).

Short-term bank deposits in tenge and in foreign currency are placed for varying periods of up to three months depending on the Group's immediate cash requirements. As at 31 December 2016, the weighted average interest rate on short-term bank deposits was 10.63% in tenge and 7.06% in other currencies (31 December 2015: 37.34% in tenge and 5.21% in US Dollars).

13. INVENTORIES

	31 December 2016	31 December 2015
Materials and supplies	10,247,492	10,764,000
Spare parts	7,729,888	7,056,514
Fuel	5,287,640	6,512,774
Upper railway components	3,373,485	2,946,970
Construction materials	776,322	869,095
Finished goods	420,866	485,040
Work in process	267,601	307,422
Other	977,286	782,127
	29,080,580	29,723,942
Less: allowance for obsolete and slow-moving inventories	(233,636)	(408,647)
	28,846,944	29,315,295

[2] Amounts include 4,500,168 thousand tenge (2015: 6,940,920 thousand tenge) of cash and cash equivalents held by Tulpar-Talgo LLP that were included "Assets of newly acquired subsidiary" in Note 15.

(in thousands of tenge unless otherwise is stated)

14. OTHER CURRENT ASSETS

	31 December 2016	31 December 2015
Other taxes prepaid	15,536,701	8,874,213
Advances paid	9,217,302	4,644,594
Claims, fines and penalties	7,330,878	7,667,593
Prepaid expenses	4,257,444	4,028,963
Receivables from sales of subsidiaries	3,525,000	-
Dividends receivable	1,663,776	-
Restricted cash	1,782,029	2,393,520
Receivables from employees	1,560,333	1,448,224
Other	5,093,177	6,595,196
	49,966,640	35,652,303
Less: allowance for doubtful debts	(10,791,755)	(10,141,038)
	39,174,885	25,511,265

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

	2016	2015
Allowance for doubtful debts at the beginning of the year	(10,141,038)	(6,807,166)
Foreign currency translation	17,995	-
Provided for the year	(2,259,563)	(3,605,099)
Written off during the year against previously created allowance	1,061,792	274,679
Transfer to disposal groups classified as held for sale	529,059	(3,452)
Allowance for doubtful debts at the end of the year	(10,791,755)	(10,141,038)

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

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

As at 31 December 2016 and 2015, assets and liabilities of the subsidiaries satisfying criteria of non-current assets held for sale were classified as "disposal groups classified as held for sale" in the consolidated statement of financial position.

As per Note 16, in June 2016, the Group sold 49% of its share in Transtelecom JSC to a third party. As at 31 December 2016, Transtelecom JSC (the remaining 51% subsidiary owned by the Group) was classified as a disposal group, as the Group initiated a selling process of 26% less 1 share, which is expected to be completed during 2017. Thus, on 30 December 2016, the first stage of the selling process was completed.

During 2016, shares in Transport Services Center JSC, Rauan Burabai LLP, Regional Forward Logistics LLC, Temir Zhol Electrification LLP, Bas Balkhash LLP, Mak-Ekibastuz LLP, and Astyk-trans JSC were sold on auction. As at 31 December 2016, the transactions have not been completed and ownership rights have not been transferred, therefore these assets were classified as disposal groups classified as held for sale (Note 33).

In December 2016, the Group entered into a sale contract relating to the 50% of shares held in Locomotive Kurastyru Zauyty JSC (Note 8). The ownership rights will be transferred to the third party after meeting certain conditional administrative clauses provided in the contract. Management expects that these conditional administrative clauses will be met within 12 months after the reporting date and therefore the asset was classified as held for sale.

Tulpar-Talgo LLP

In May 2015, the Group, represented by its subsidiary Remlocomotive JSC, entered into a preliminary agreement for the sale of 51% of the shares in Tulpar-Talgo LLP with Patentes Talgo S.L.U., the sole shareholder of Talgo Kazajstan S.L., under which the Group received an advance of 23,000 thousand euro (4,661,410 thousand tenge). The agreement provides certain conditional clauses, including the Shareholder's approval of the transaction by the stated date, reimbursement of financial consequences relating to changes in the euro exchange rate against tenge, as well as an increase in the purchase price of passenger coaches delivered in 2016 or later in the case of growth of the exchange rate of euro against tenge, which resulted in increased costs for the production of these passenger coaches.

As at 31 December 2016, the conditions have partially been met and the management believes that the transaction will be completed within the 12 months period. As such, the subsidiary continue to be held as a subsidiary held for sale.

The assets and liabilities relating to Transport Services Center JSC, Rauan Burabai LLP, Regional Forward Logistics LLC, Temir Zhol Electrification LLP, Bas Balkhash LLP, Mak-Ekibastuz LLP, and investments in joint ventures Astyk-trans JSC and Locomotive Kurastyru Zauyty JSC are presented in the column marked "other" on the following pages.

(in thousands of tenge unless otherwise is stated)

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

	At 31 December 2016				At 31 December 2015		
	Transtelecom JSC	**Tulpar-Talgo LLP**	**Other**	**Total**	**Tulpar-Talgo LLP**	**Other**	**Total**
Assets							
Property, plant and equipment	62,193,300	-	751,136	62,944,436	-	357,185	357,185
Intangible assets	3,556,450	-	2,044	3,558,494	-	1,049	1,049
Other non-current assets	1,250,748	-	399	1,251,147	-	-	-
Inventories	680,233	-	85,821	766,054	-	40,767	40,767
Trade accounts receivable	3,543,338	-	885,747	4,429,085	-	34,049	34,049
Other current assets	4,859,875	-	1,144,199	6,004,074	-	15,648	15,648
Cash and cash equivalents	13,201,627	-	405,463	13,607,090	-	124,472	124,472
Assets of newly acquired subsidiary	-	15,451,118	-	15,451,118	18,074,855	-	18,074,855
Total assets of disposal groups classified as held for sale	89,285,571	15,451,118	3,274,809	108,011,498	18,074,855	573,170	18,648,025
Transfer from investments in joint ventures	-	-	12,614,263	12,614,263	-	1,040,303	1,040,303
Administrative building 'Emerald Quarter'	-	-	-	-	-	15,062,484	15,062,484
Total non-current assets classified as held for sale	-	-	12,614,263	12,614,263	-	16,102,787	16,102,787
Total non-current assets and assets of disposal groups classified as held for sale	89,285,571	15,451,118	15,889,072	120,625,761	18,074,855	16,675,957	34,750,812
Liabilities							
Loans	53,560,485	-	-	53,560,485	-	-	-
Finance lease obligation	1,839,073	-	136,052	1,975,125			
Employee benefit obligations	418,391	-	36,834	455,225	-	20,183	20,183
Deferred tax liabilities	3,072,754	-	289,147	3,361,901	-	13,720	13,720
Trade accounts payables	8,561,108	-	767,679	9,328,787	-	19,668	19,668
Other taxes	450,065	-	232,428	682,493	-	21,208	21,208
Other current liabilities	7,898,517	-	247,506	8,146,023	-	34,703	34,703
Liabilities of newly acquired subsidiary	-	19,306,464	-	19,306,464	4,344,278	-	4,344,278
Total liabilities of disposal groups classified as held for sale	75,800,393	19,306,464	1,709,646	96,816,503	4,344,278	109,482	4,453,760
Net assets\(liabilities) of disposal group	13,485,178	(3,855,346)	-	-	13,730,577	-	-

(in thousands of tenge unless otherwise is stated)

Discontinued operations

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

On 4 May 2015, the Group sold its share in subsidiaries of Kamkor Repair Corporation LLP to a third party, based on the sale and purchase agreement of the ownership interest in subsidiaries dated 31 December 2014.

The assets and liabilities of disposed subsidiaries of Kamkor Repair Corporation LLP are presented as follows at the date of disposal:

	At 4 May 2015
Assets	
Property, plant and equipment	30,096,095
Intangible assets	374,472
Other non-current assets	20,520
Inventories	13,317,926
Trade accounts receivable	22,074,751
Other current assets	10,737,214
Cash and cash equivalents	4,218,292
Total assets of disposal groups classified as held for sale	80,839,270
Liabilities	
Loans	4,083,755
Employee benefit obligations	1,412,695
Deferred tax liabilities	2,365,327
Trade accounts payables	18,332,427
Other taxes	1,586,450
Other non-current liabilities	94,147
Other current liabilities	24,642,312
Total liabilities of disposal groups classified as held for sale	52,517,113
Net assets of disposal group	28,322,157

Net cash inflows relating to the disposal of subsidiaries of Kamkor Repair Corporation LLP are as follows:

	2015
Consideration received	16,029,070
Less cash and cash equivalents disposed of	(4,218,292)
Net cash inflow	11,810,778

(in thousands of tenge unless otherwise is stated)

The results of the discontinued operations in 2016 and 2015 were as follows:

	2016		
	Transtelecom JSC	**Tulpar-Talgo LLP**	**Total**
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 income and expenses	17,989	35,619	53,608
Finance income	817,240	32,084	849,324
Finance cost	(6,035,743)	(150,016)	(6,185,759)
Foreign exchange loss	(91,746)	(1,014,604)	(1,106,350)
Loss before tax	(1,700,373)	(2,066,852)	(3,767,225)
Income tax expenses	(1,140,486)	-	(1,140,486)
Loss from discontinued operations for the year	(2,840,859)	(2,066,852)	(4,907,711)
Basic loss per share (in tenge)	(6)	(4)	(10)

	2015			
	Transtelecom JSC	**Subsidiaries of Kamkor Repair Corporation LLP**	**Tulpar-Talgo LLP**	**Total**
Revenue	8,004,553	1,410,052	-	9,414,605
Cost of sales	(6,199,705)	(454,820)	-	(6,654,525)
General and administrative expenses	(2,529,716)	(1,514,943)	(1,681,547)	(5,726,206)
Other income and expenses	70,966	34,906	(91,585)	14,287
Finance income	419,061	41,442	34,942	495,445
Finance cost	(5,286,321)	(97,911)	(238,129)	(5,622,361)
Foreign exchange gain	1,057,410	42,433	327,255	1,427,098
Loss before tax	(4,463,752)	(538,841)	(1,649,064)	(6,651,657)
Income tax expenses	(1,045,215)	(750,700)	(324,142)	(2,120,057)
Loss from discontinued operations for the period	(5,508,967)	(1,289,541)	(1,973,206)	(8,771,714)
Amount of consideration for the disposed subsidiaries	-	16,029,070	-	16,029,070
Net assets disposed	-	(28,322,157)	-	(28,322,157)
Disposed non-controlling interests	-	13,389,698	-	13,389,698
Gain on disposal of subsidiaries	-	1,096,611	-	1,096,611
Loss from discontinued operations for the period	(5,508,967)	(192,930)	(1,973,206)	(7,675,103)
Basic loss per share (in tenge)	(11)	(2)	(3)	(16)

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

	2016	**2015**
Net cash inflows from operating activities	16,856,436	9,035,574
Net cash outflows from investing activities	(6,649,162)	(17,383,946)
Net cash (outflows)/inflows from financing activities	(4,485,219)	12,978,087
Net cash inflows	5,722,055	4,629,715

16. EQUITY

Share capital as at 31 December 2016 and 2015 comprised the following:

	Number of shares authorized	Number of shares issued and paid	Share capital, in thousands of tenge
At 1 January 2015	502,040,458	491,628,019	793,329,985
New shares issued	-	3,070,025	72,063,911
At 31 December 2015	502,040,458	494,698,044	865,393,896
New shares issued	-	1,365,676	128,066,584
At 31 December 2016	502,040,458	496,063,720	993,460,480

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

Contributions

Contributions to share capital

During 2016, additions to share capital were as follows:

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

During 2015, additions to share capital were as follows:

(a) an issue of 361,907 shares for which cash of 36,190,700 thousand tenge was received. This capital was received to finance construction of Zhezkazgan-Beineu and Arkalyk-Shubarkol railway lines;
(b) an issue of 67,000 shares for which cash of 6,700,000 thousand tenge was received. This capital was received for completion of the project "Completion of construction Borzhakty-Yersai railway lines";
(c) an issue of 48,000 shares for which cash of 4,800,000 thousand tenge was received. This capital was received for completion of the project "Construction of ferry in sea port Kuryk";
(d) an issue of 83,000 shares for which cash of 8,300,000 thousand tenge was received. This capital was received for completion of the project "Construction of second railway lines on sector Almaty 1 - Shu";
(e) an issue of 2,472,492 shares for which cash of 12,348,237 thousand tenge was received. This capital was received for completion of the project "Construction of second railway lines on sector Almaty 1 - Shu" и "Creation and complex development of special economic zone "Khorgos-Eastern Gates";
(f) an issue of 37,626 shares for which 35% of shares in subsidiary Kazakh Academy of Transport and Communications named after M.Tynyshpaev JSC for the total amount of 3,724,974 thousand tenge were received.

(in thousands of tenge unless otherwise is stated)

Other contributions

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

	2016	**2015**
Property, plant and equipment received by the Company	-	50,816
Fair value adjustment of loans received at below market interest rate	3,189,571	7,116,385
Early extinguishment of debt, received from the Shareholder	9,581,005	-
	12,770,576	7,167,201

During 2016, there was a fair value adjustment with respect to loans received at below market interest rate of 3,986,964 thousand tenge (2015: 8,895,481 thousand tenge) less deferred tax effect of 797,393 thousand tenge (1,779,096 thousand tenge) (Note 17).

In December 2016, in accordance with the decision of the Ultimate Shareholder, the Group made early repayment of principal amount of loans that were received from the Sole Shareholder of 47,832,538 thousand tenge by transferring of non-core assets including administrative-technological complex "Transport Tower", complex of assets of Rehabilitation Center, teleradio complex equipment, that has been recognized as Asset held for the benefit of the Shareholder (Note 31), and assets, constructed within the projects of railway lines construction, that has been recognized as Assets for the sale to the Government (Note 11). The impact of the extinguishment was treated as an equity transaction on the basis that it involved various transactions with the Ultimate Shareholder and was part of a separate negotiation process, rather than being an early repayment as part of the existing loan terms.

During 2015, the Company received property, plant and equipment valued at 50,816 thousand tenge for which no shares were issued in exchange.

These contributions were recognized in the Group's retained earnings.

Foreign currency translation reserve

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

Cash flow hedging reserve

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

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

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

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

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

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

For the year ended 31 December 2016, the effective part of 4,417,426 thousand tenge was recorded in other comprehensive income in the cash flow hedging reserve (2015: 43,491,357 thousand tenge). Ineffective part of 45,526 thousand tenge was recorded in finance costs (2015: 16,743 thousand tenge).

Dividends

During 2015, the Company declared dividends of 4,559,619 thousand tenge in respect of 2014 results.

As at 31 December 2016, the amount of dividends payable to the Shareholder was to 16,424,670 thousand tenge (31 December 2015: 16,424,670 thousand tenge) (Notes 21 and 31).

Other distributions

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

In 2016, the Group recognized an additional irrevocable commitment and the distribution of 195,587 thousand tenge, which represented the amount of VAT arising as a result of the transfer of the Kindergarten to local authorities and recognized a decrease in the irrevocable commitment and a reversal of the distribution of 30,315 thousand tenge due to a decrease in the costs of construction (2015: additional distribution of 952,660 thousand tenge).

In 2016, due to a decrease in the expected costs of construction of the Ice Palace, the Group recognized a decrease in the irrevocable commitment and a reversal of the distribution of 823,196 thousand tenge.

Change of share in subsidiaries, resulting in no loss of control

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

(in thousands of tenge unless otherwise is stated)

17. BORROWINGS

Borrowings, including accrued interest, as at 31 December comprised the following:

	31 December 2016		31 December 2015	
	Amount	**Weighted average interest rate (%)**	**Amount**	**Weighted average interest rate (%)**
Borrowings with fixed interest rate				
Loans	382,813,330	8.20	467,861,572	8.42
Debt securities	715,583,589	6.26	852,871,232	6.36
Borrowings with floating interest rate				
Loans	85,525,355	5.88	53,905,289	3.78
Debt securities	55,757,500	16.92	-	-
	1,239,679,774		1,374,638,093	
Current portion of borrowings	141,561,817		199,754,238	
Non-current portion of borrowings	1,098,117,957		1,174,883,855	
	1,239,679,774		1,374,638,093	

Borrowings, excluding debt securities, are repayable as follows:

	31 December 2016	31 December 2015
Within 1 year	131,291,780	75,052,223
1 to 2 years	40,488,001	48,110,930
2 to 3 years	40,383,364	123,084,189
3 to 4 years	40,276,838	35,361,210
4 to 5 years	33,725,480	34,119,006
Over 5 years	182,173,222	206,039,303
	468,338,685	521,766,861

Borrowings as at 31 December were denominated in currencies as follows:

	31 December 2016	31 December 2015
US Dollars	803,503,513	916,750,198
Tenge	283,039,276	280,656,118
Euro	53,664,002	72,263,520
Other currencies	99,472,983	104,968,257
	1,239,679,774	1,374,638,093

Early extinguishment of debt

In December 2016, in accordance with the decision of the Ultimate Shareholder, the Group made early repayment of principal amount of loans that were received from the Sole Shareholder of 47,832,538 thousand tenge by transferring certain non-core assets (Note 16). The loans were received in 2011-2015 from republican budget for total amount of 48,948,650 thousand tenge for renewal of rolling stock of passenger coaches with interest rate 0.075-0.75% per annum and maturity in 2036-2045. The early extinguishment was recognized in equity.

Loans

During 2016, the Group received the following loans:

European Bank for Reconstruction and Development (EBRD)

Loan 1

Under the loan agreement dated 19 December 2013 with the European Bank for Reconstruction and Development ("EBRD") for the total amount of 40,000,000 US Dollars on the financing of the project "Purchase and installation of the components of the energy efficiency in the stationary devices, such as heat pumps, solar collectors, effective lightening, gas boilers", the Group, represented by KTZ Express shipping LLP, borrowed funds of 14,000,000 US Dollars (4,787,580 thousand tenge). In November 2016, the Group signed an addendum to the loan agreement with the Bank reducing the total loan limit amount by 15,750,000 US Dollars.

For the year ended 31 December 2016, effective interest rate is 6.09% per annum.

Loan 2

In April 2016, an addendum to loan agreement dated 24 July 2015 for total amount of 300,000,000 US Dollars between the Group and EBRD was signed, to decrease the loan amount to 100,000,000 US Dollars.

In April 2016, the Group used the funds of 100,000,000 US Dollars (32,766,000 thousand tenge) to refinance part of 350,000,000 US Dollars Eurobonds, issued in 2006. Interest is paid on a semi-annual basis at 6 months LIBOR + 4.5% per annum. The principal is repaid semiannually until 2024.

On 22 December 2016, the Group, represented by the Company and its subsidiary, Kaztemirtrans JSC entered into loans restructuring agreement for the total amount of 180,913,719 US Dollars by merging Loan 2 and loans of 250,000,000 US Dollars previously received by Kaztemirtrans JSC for purchasing of rolling stock. The loans maturities were extended from 2023 to 2026 for the Company and from 2019 to 2026 for Kaztemirtrans JSC. Interest is paid on a semi-annual basis at 6 months LIBOR + 4.35% per annum. The principal is repaid semiannually, starting October 2017 until full repayment in 2026. The loans restructuring agreement was treated as a modification of debt.

Shareholder

On 20 July 2016, the Group concluded a new loan agreement with the Shareholder for 5,500,000 thousand tenge. The purpose of the loan relates to the renewal of rolling stock park of passenger coaches of the subsidiary, Passenger Transportation JSC. The loan is unsecured. Interest is paid annually starting from 10 June 2017 at 0.075% per annum. The principal is repaid after grace period of 10 years, by equal annual payments until fully repaid in 2046. The Group has a right for early repayment of full or partial amount of loan per agreement with Shareholder without premiums or penalties.

The loan was provided at below market interest rate and fair value of the loan was calculated based on a market interest rate of 7.34%. During 2016 the Group recognized fair value adjustment of 3,986,964 thousand tenge less deferred tax of 797,393 thousand tenge in retained earnings (Note 16).

HSBC France

During 2016, under the General Framework Agreement, HSBC France, together with HSBC Bank PLC and SB HSBC Kazakhstan JSC, and with the support of export-credit agency, COFACE, entered on 31 May 2012 for purchasing of cargo and passenger electric locomotives for total amount of 880,877,000 Euro, and its additional addendums, the Group, represented by subsidiary, KTZ-Freight Transportation, borrowed funds of 61,660,832 Euro (23,932,554 thousand tenge) (including COFACE premium). Interest is paid on a semiannual basis at EUR CIRR + margin 0.75%. The principal is repaid on a semiannual basis until fully repaid in 2026. Loan is received under the Company's guarantee. For the year ended 31 December 2016, effective interest rate is 12.86% per annum.

(in thousands of tenge unless otherwise is stated)

In December 2016, the Group partially early repaid the loan of 75,815,516 Euro (26,687,820 thousand tenge) and shortened maturity upon which the Group paid a commission of 16,578,502 Euro (5,832,915 thousand tenge) and recognized such commission as finance costs. The maturity of the loan was changed until 2020, with the change in terms accounted for as a modification.

Development Bank of Kazakhstan JSC

In May 2016, the Group, represented by its subsidiary, NC Aktau Sea Trade Port JSC, amended the loan agreement with Development Bank of Kazakhstan JSC dated 7 August 2007 of 75,000,000 US Dollars for financing the first stage of investment project "Expansion of Aktau International Trade Sea Port in the North Direction. Construction of mole and breakwater". In accordance with the addendum, the interest rate was changed from 8.078% to 6 months LIBOR + 5.14%, based on replacement of the source of financing per credit agreement (Sumitomo Mitsui Banking Corporation funds), with the change in terms accounted for as a modification.

National bank of Kazakhstan JSC

Loan 1

Under the credit facility agreement with National bank of Kazakhstan JSC entered into on 15 April 2016 for 100,000,000 US Dollars to refinance part of 350,000,000 US Dollars Eurobonds, issued in 2006, the Group borrowed funds of 50,000,000 US Dollars (16,690,500 thousand tenge). The principal is repaid after grace period of 12 months, by semiannual payments until 2021. Interest is paid on a semiannual basis at 5.65% per annum. The loan is unsecured. For the year ended 31 December 2016, effective interest rate is 5.74% per annum.

Loan 2

Under the credit facility agreement with National bank of Kazakhstan JSC entered into on 9 December 2016 for 100,000,000 US Dollars to refinance part of HSBC France loan, the group, represented by subsidiary, KTZ-Freight Transportation JSC, borrowed funds of 33,112,000 thousand tenge in December 2016. The principal is repaid by semiannual payments until 2023. Interest is paid on a semiannual basis at 14% per annum. The loan is unsecured. For the year ended 31 December 2016, the effective interest rate is 14.38% per annum.

Debt securities

Debt securities as at 31 December comprised the following:

	Maturity date	Markets	31 December 2016	31 December 2015
Eurobonds issued at price				
6.95% Eurobonds (105.521%)	10 July 2042	LSE/KASE	383,857,203	391,928,889
6.375% Eurobonds (100%)	6 October 2020	LSE	236,673,280	241,414,460
7% Eurobonds (98.292%)	11 May 2016	SGX-ST	-	120,045,700
3.638% Eurobonds (100%)	20 June 2022	SIX Swiss Exchange	61,813,397	64,696,345
16.92% (inflation rate +2.52%) UNPF JSC	25 April 2026	KASE	55,757,500	-
2.59% Eurobonds (100%)	20 June 2019	SIX Swiss Exchange	33,239,709	34,785,838
Total debt securities issued			771,341,089	852,871,232
Current portion of debt securities			10,270,037	124,702,015
Long-term portion of debt securities			761,071,052	728,169,217
			771,341,089	852,871,232

On 25 April 2016, the Group placed debt securities on the local market of 50,000,000 thousand tenge for 10 years to refinance part of 350,000,000 US Dollars Eurobonds of the Group, issued in 2006. The interest rate of these debt securities is market and indexed to annual inflation rate + 2.52% (16.92% per annum in the first coupon year).

On 11 May 2016, the Group repaid 10-year Eurobonds issued in 2006 on the Singapore stock exchange (SGX-ST) of 350,000,000 US Dollars with coupon 7% per annum.

Fair value of the borrowings is disclosed in Note 32.

Covenants and breach of loan agreements

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

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

As at 31 December 2016, the Group negotiated with creditors to change thresholds for financial covenants in order to avoid the non-compliance on obligations to creditors. As at 31 December 2016, waivers were received on credit agreements concluded with HSBC France. As at 31 December 2016, the Group complied with financial covenants of EBRD.

As at 31 December 2015, the Group negotiated with creditors to change thresholds for financial covenants in order to avoid the non-compliance on obligations to creditors. As at 31 December 2015, waivers were received on credit agreements concluded with EBRD and HSBC France.

18. EMPLOYEE BENEFIT OBLIGATION

Defined benefits scheme and other non-current employee benefits

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

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

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

(in thousands of tenge unless otherwise is stated)

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

	2016	2015
Total liability at the beginning of the year	31,683,653	30,156,756
Current service cost	1,255,578	1,258,561
Past service cost	1,490,261	635,214
Interest cost	2,384,060	2,064,322
Actuarial remeasurement recognized in other comprehensive loss	(4,009,740)	(152,951)
Benefits paid during the year	(2,465,603)	(2,951,913)
Actuarial (gain)/loss recognized in profit and loss during the year	(547,476)	647,973
Transfer to disposal groups classified as held for sale	(470,624)	36,463
Disposal of subsidiaries	(189,569)	(10,772)
Total liability at the end of the year	29,130,540	31,683,653
Including liabilities due within a year	2,960,557	3,254,055
Liabilities due after one year	26,169,983	28,429,598
Total liability at the beginning of the year	29,130,540	31,683,653

The total amounts recognized in profit and loss in respect to these defined benefit obligations and other long term benefits during 2016 and 2015 were as follows:

	2016	2015
Cost of sales (Note 23)	3,980,118	3,932,608
General and administrative expenses (Note 24)	606,129	588,150
Recognized in profit and loss during the year (relating to continuing operations)	4,586,247	4,520,758

The estimates of the Group's obligations were made based on the published statistical data regarding mortality and the actual Group's data concerning the number, age, sex and years of service of the employees and pensioners and the Group's turnover statistics. Other significant actuarial assumptions at the reporting date were as follows:

	2016	2015
Discount rate	9.60%	7.29%
The expected rate of future annual material assistance increases	4.5% (average)	5.90% (average)
The expected rate of future annual minimum salary increases	4.5% (average)	7.20% (average)
The expected rate of future annual railway ticket price increases	7.0% (average)	10.20% (average)

Based on sensitivity analysis made by the actuary, the maximum increase in employee benefits obligation is 8.3%, which may result in case of inflation rate increase by 1%.

19. INCOME TAX EXPENSES

Income tax expense for the years ended 31 December comprised the following:

	2016	2015
Current income tax expense	1,215,067	3,403,820
Adjustment in respect of prior years	118,670	1,772,332
Deferred income tax benefit	(6,096,971)	(14,177,327)
	(4,763,234)	(9,001,175)

(in thousands of tenge unless otherwise is stated)

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

	2016	**2015**
Profit/(loss) before taxation from continuing operations	41,421,096	(461,307,781)
Statutory tax rate	20%	20%
Theoretical tax expense/(benefit) at the statutory rate	8,284,219	(92,261,556)
Tax effect of expenses that are not deductible for tax purposes and other effects:		
Adjustment in respect of previous years	118,670	1,772,332
Non-deductible expenses	11,366,924	20,019,075
Change in unrecognized deferred tax assets	(24,533,047)	61,468,974
Income tax benefit recognized in profit or loss (relating to continuing operations)	(4,763,234)	(9,001,175)

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

	31 December 2016	**31 December 2015**
Deferred tax assets:		
Tax losses carried forward	128,598,283	97,725,451
Differences in accounts receivable	3,109,493	3,908,672
Accrued liabilities to employees	2,336,725	2,457,249
Adjustment to fair value of loans given	2,273,781	2,238,931
Other	1,625,773	344,272
	137,944,055	106,674,575
Less: deferred tax assets offset with deferred tax liabilities	(129,312,036)	(106,674,575)
Deferred tax assets	8,632,019	-
Deferred tax liabilities:		
Property, plant and equipment and other non-current assets	(307,907,254)	(284,778,900)
Adjustment to fair value of loans received	(44,890,129)	(49,942,550)
Prepaid expenses	(856,264)	(1,473,980)
Other	(15,919)	-
	(353,669,566)	(336,195,430)
Less: deferred tax liabilities offset with deferred tax assets	129,312,036	106,674,575
Deferred tax liabilities	(224,357,530)	(229,520,855)
Total net deferred tax liabilities	(215,725,511)	(229,520,855)

	2016	**2015**
Net deferred income tax liability as at the beginning of the year	(229,520,855)	(240,880,392)
Recorded in profit or loss	6,096,971	13,132,112
Recorded in the consolidated statement of changes in equity	4,297,609	(1,779,096)
Transfer to liabilities of disposal groups classified as held for sale	2,214,906	-
Transfer from (liabilities)/assets of disposal groups classified as held for sale	(8,572)	25,881
Disposal of subsidiaries	314,581	(19,360)
Recognized in investments in associates	879,849	-
Net deferred income tax liability as at the end of the year	(215,725,511)	(229,520,855)

(in thousands of tenge unless otherwise is stated)

The Group has not recognized deferred tax assets relating to tax losses carried forward. In management's opinion, it is not considered probable that there will be sufficient taxable income available in the future against which such deferred tax assets can be utilized. The total tax effect of unrecognized tax losses carried forward as at 31 December 2016 amounted to 3,806,189 thousand tenge (31 December 2015: 64,231,715 thousand tenge). These tax losses carried forward expire in ten years from the date they were incurred.

20. TRADE ACCOUNTS PAYABLE

	31 December 2016	31 December 2015
Accounts payable for services	38,204,408	37,498,000
Accounts payable for property, plant and equipment	53,630,962	36,658,975
Accounts payable for inventory	32,099,886	22,823,523
Other accounts payable	518,543	301,129
	124,453,799	97,281,627

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

	2016	2015
Tenge	103,845,042	91,115,840
US Dollars	16,746,337	3,319,841
Swiss francs	444,343	481,334
Other currencies	3,418,077	2,364,612
	124,453,799	97,281,627

The average credit period taken for trade purchases is 61 days (2015: 55 days).

21. OTHER LIABILITIES

	31 December 2016	31 December 2015
Advances received	36,531,256	41,227,532
Dividends payable (Note 16)	16,424,670	16,424,670
Salaries payable	14,687,152	5,672,409
Unused vacation provision	9,897,257	11,265,432
Deferred income	5,935,882	5,225,137
Obligatory pension and social contributions	4,440,239	3,971,576
Liabilities under financial guarantee contracts	4,399,245	-
Other liabilities	4,351,172	4,663,680
	96,666,873	88,450,436
Current portion of other liabilities	92,267,628	88,450,436
Long-term portion of other liabilities	4,399,245	-
	96,666,873	88,450,436

As at 31 December 2016 and 2015, current salaries payable and other liabilities were mainly denominated in tenge.

As disclosed in Note 29, the Group has financial guarantees issued on the bank loans obtained by associates Electrovoz Kurastyru Zauyty LLP and Aktobe Rail and Section Mill Plant LLP. As at 31 December 2016, the Group estimated a fair value of the guarantees and recognized a fair value adjustment in the cost of investments in associates of 4,399,245 thousand tenge less deferred tax effect of 879,849 thousand tenge (Note 8).

(in thousands of tenge unless otherwise is stated)

22. OTHER REVENUE

	2016	2015
Revenue from the sale of goods and provision of other services	29,341,540	26,200,585
Penalties received	2,903,295	3,745,845
	32,244,835	29,946,430

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

Penalties received represent mainly revenue earned on the assessment of penalties on the late pickup of cargo cars for breach of contract terms.

23. COST OF SALES

	2016	2015
Personnel costs, including taxes, contributions and unused vacation provision	230,445,645	219,810,748
Depreciation and amortization	109,123,181	99,687,648
Repair and maintenance	75,480,043	60,337,493
Fuels and lubricants	72,176,287	66,053,137
Services	46,699,053	51,480,402
Materials and supplies	46,061,978	40,069,113
Electricity	39,796,578	40,441,072
Taxes	14,182,546	13,035,528
Employee benefit expense (Note 18)	3,980,118	3,932,608
Communication services	3,355,347	1,623,103
Utilities and building maintenance	2,789,336	2,575,612
Business trip expenses	2,098,496	2,320,269
Insurance	1,309,050	2,142,908
Operating lease expenses	1,219,558	1,638,325
Transportation services	1,029,195	1,082,685
Other	9,106,189	10,538,083
	658,852,600	616,768,734

24. GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
Personnel costs, including taxes, contributions and unused vacation provision	35,849,356	31,525,512
Property tax and other taxes	12,849,299	10,998,906
Depreciation and amortization	4,889,502	5,817,511
Consulting, audit and legal services	4,836,673	4,388,328
Business trip expenses	1,379,835	1,035,886
Operating lease expenses	1,185,762	129,523
Bank services	1,040,357	879,082
Other services of third parties	951,464	446,159
Materials	873,784	583,992
Expenses on holiday and cultural events	810,630	751,107
Advertising expenses	768,555	679,289
Utilities and building maintenance	760,108	811,470
Employee benefit expenses (Note 18)	606,129	588,150
Social sphere objects maintenance	468,859	335,038
Insurance	238,886	210,342
Professional trainings and qualifications	212,611	253,380
Repair and maintenance	194,928	247,006
Allowances for doubtful debts	128,211	9,773,595
Charities and sponsorship	1,796	521,180
Other	8,397,218	5,947,073
	76,443,963	75,922,529

(in thousands of tenge unless otherwise is stated)

25. FINANCE INCOME

	2016	2015
Interest income on cash and cash equivalents	4,119,683	3,367,541
Interest income on amounts in credit institutes (short-term financial investments)	1,731,425	1,846,564
Other finance income	474,090	367,705
	6,325,198	5,581,810

26. FINANCE COSTS

	2016	2015
Interest expense on borrowings	77,995,432	54,673,080
Change in fair value of derivative financial asset designated as at fair value through profit or loss	-	4,350,988
Finance leasing expense	69,923	76,744
Other finance cost	7,352,539	1,783,466
	85,417,894	60,884,278

27. DISPOSAL OF SUBSIDIARIES

Almaty Wagon Repair Plant JSC

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

Other

During 2016, the Group sold its 100% share in Magistral kyzmet LLP and Birzhan – Atyrau LLP to third parties. The Group lost control over the subsidiaries as a result of these sales.

During 2015, the Group sold 100% in Transport Service Center JSC, Gasyr Mangystau LLP and Ak Beren LLP to a third party. The Group lost control over the subsidiaries as a result of these sales.

Gain on disposal of subsidiaries:

	2016			2015
	Almaty Wagon Repair Plant JSC	**Other**	**Total**	**Other**
Consideration received	4,700,000	299,401	4,999,401	2,003,863
Disposed total net assets/(liabilities)	(2,658,235)	153,109	(2,505,126)	(491,852)
Non-controlling interests	98	-	98	-
Gain on disposal	2,041,863	452,510	2,494,373	1,512,011

(in thousands of tenge unless otherwise is stated)

Net cash flows from the disposal of subsidiaries:

	2016			2015
	Almaty Wagon Repair Plant JSC	**Other**	**Total**	**Other**
Cash consideration	4,700,000	299,401	4,999,401	2,003,863
Less: unpaid balance (Note 14)	(3,525,000)	-	(3,525,000)	-
Less: cash and cash equivalents of disposed subsidiaries	(311,783)	(1,666)	(313,449)	(529,000)
Total	863,217	297,735	1,160,952	1,474,863

28. EARNINGS PER SHARE

Basic earnings per share are calculated based on the weighted average number of common shares outstanding during the year. Basic and diluted per share data are the same, as there are no dilutive instruments outstanding. During 2016 and 2015, there were no antilutive instruments outstanding.

	2016	**2015**
Weighted average number of common shares	495,218,425	492,114,758
Profit/(loss) for the year attributable to the owner of the Company (thousand tenge)	40,979,582	(460,875,531)
Profit/(loss) per common share (tenge)	83	(937)
Profit/(loss) for the year from continued operations attributable to the owner of the Company (thousand tenge)	45,887,293	(453,200,428)
Profit/(loss) from continued operations per common share (tenge)	93	(921)
Net assets, excluding intangible assets and non-controlling interests	1,145,408,597	955,626,787
Number of common shares in issue	496,063,720	494,698,044
Carrying value per share, tenge[3]	2,309	1,932

29. FINANCIAL AND CONTINGENT LIABILITIES

Capital commitments

As at 31 December 2016, the Group had capital commitments for the construction of railway lines Zhezkazgan-Beineu and Arkalyk-Shubarkol, purchase of long rails, development of railway center in Astana including railway station, acquisition of freight and passenger electric locomotives, freight and passenger diesel locomotives totaling 1,136,590,240 thousand tenge (31 December 2015: 409,412,239 thousand tenge). This amount includes commitments for the purchase of long rails from associate, Aktobe Rail and Section Mill Plant LLP for 165,347,877 thousand tenge (31 December 2015: nil) electric locomotives from the associate, Electrovoz Kurastyru Zauyty LLP for 119,284,504 thousand tenge (31 December 2015: 179,246,693 thousand tenge) and diesel locomotives from joint venture Locomotive Kurastyru Zauyty JSC for 714,652,200 thousand tenge (31 December 2015: 41,849 thousand tenge).

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

Other contractual liabilities

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

Based on the assessment performed, the management of the Group considers that as at 31 December 2016 nonfulfillment of the minimum volumes of services for storage of goods is not considered probable, and, therefore, the Group has not provided for contingent liabilities.

Contingent liabilities

Legal claims

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

Contingent liabilities related to Kazakhstan taxation

As at 31 December 2016, contingent liabilities related to Kazakhstan taxation comprised the following:

During the thematic tax audit of the VAT refund carried out for the periods from 2009 to 2011, the tax authorities revealed that VAT amounts of 4,443,986 thousand tenge claimed for refund, but not confirmed by counter check of suppliers, and assessed a penalty of 2,712,425 thousand tenge.

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

As at 31 December 2016, the Group did not accrue provisions for these amounts, since the Group believes that actions of tax authorities contradict tax law and the Group intends to defend its position in the court and state bodies.

Due to the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, may be in excess of the amount expensed to date and accrued as at 31 December 2016. It is not practicable to determine the amount of any unasserted claims that may manifest, if any, or the likelihood of any unfavorable outcome.

Insurance

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

(in thousands of tenge unless otherwise is stated)

Guarantees

As at 31 December 2016, guarantees comprised the following:

	Guarantee purpose	Guarantee issued date	Guarantee maturity	Guarantee amount
Eurasian Development Bank	execution of obligations of the joint venture Electrovoz Kurastyru Zauyty LLP on financing construction of the plant for production of locomotives	17 September 2012	till 2022	2,370,000 thousand tenge
Development Bank of Kazakhstan JSC	execution of obligations of the associate Aktobe Rail and Section Mill Plant LLP on financing construction of rail and section mill plant in Aktobe.	4 July 2013	till 2023	13,353,126 thousand tenge

In the Note 21, a fair value of these guarantees is disclosed. As at 31 December 2016 and 2015, the Group did not have any obligations related to the guarantees listed above, which would require recognition of provisions for these guarantees.

In order to avoid non-compliance with respect to its obligations to its creditors, the Group received a waiver related to the non-application of financial covenants as at 31 December 2016 relating to the financial guarantee contract with Development Bank of Kazakhstan JSC.

Finance lease

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

30. SUBSIDIARIES

Information about the composition of the Group at the end of the reporting period is included in the following table:

Subsidiary	Nature of activities	Country of residence	Ownership share, % 2016	Ownership share, % 2015
1. Kaztemirtrans JSC	Operation of cargo wagons	Kazakhstan	100	100
2. Passenger Transportation JSC	Passenger transportation	Kazakhstan	100	100
3. KTZ-Freight Transportation JSC (Locomotive JSC)	Freight transportation and locomotive haul services	Kazakhstan	100	100
4. KTZ Express JSC	Multimodal freight services	Kazakhstan	100	100
5. Temirzholsu JSC	Utilities	Kazakhstan	100	100
6. Remlocomotive JSC	Production of rolling stocks	Kazakhstan	100	100
7. Almaty Wagon Repair Plant JSC	Repair of wagons	Kazakhstan	-	100
8. Locomotive Service Center JSC	Repair of locomotives	Kazakhstan	-	100
9. Kaztransservice JSC	Transit cargo transportation	Kazakhstan	-	100
10. Transtelecom JSC	Communication services	Kazakhstan	51	100
11. Magistral kyzmet LLP	Protection of railway transportation property from unfavorable weather conditions	Kazakhstan	-	100
12. Militarized Railway Guard JSC	Security services	Kazakhstan	100	100
13. Kamkor Repair Corporation LLP	Production of machinery	Kazakhstan	100	100
14. Vokzal-service JSC	Railway stations activities	Kazakhstan	100	100
15. Kazakh Academy of Transport and Communications named after M.Tynyshpaev JSC	Education, training and retraining	Kazakhstan	100	100

(in thousands of tenge unless otherwise is stated)

Subsidiary	Nature of activities	Country of residence	Ownership share, % 2016	2015
16. Aktau International Sea Commercial Port National Company JSC[4]	Sea port services, loading, unloading vessels servicing	Kazakhstan	100	100
17. Port Kuryk LLP (Research Institute of Transport and Communications LLP)	Transfer of cargo and vessels servicing	Kazakhstan	100	100

During 2016, the subsidiaries KTZ-Freight Transportation JSC and KTZ Express JSC were reorganized through the merger of subsidiaries Locomotive Service Center 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) and 49% of shares in Transtelecom JSC (Note 15) were disposed of.

31. RELATED PARTY TRANSACTIONS

For the purposes 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 in making financial or operational decisions. In addition, parties under common control with 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 of the Group	Joint ventures where the Group is a participant	Companies in the group of the Shareholder	Other related parties
Debt due from related parties for goods, services and non-current assets	2016	-	9,580,245	7,397,824	1,656,854	-
	2015	-	3,614,794	13,861,465	410,365	-
including allowances for doubtful debt	2016	-	*(16,763)*	*(191,312)*	*(33,552)*	-
	2015	-	-	*(5,753)*	*(1,454,035)*	-
Debt to from related parties for goods, services and non-current assets	2016	-	1,619,534	4,299,385	3,816,564	-
	2015	-	1,015,857	3,590,081	1,938,274	20

[4] In November 2013, the Shareholder transferred 100% interest in Aktau International Sea Commercial Port National Company JSC to the Group under the trust management agreement. The entity was recognised as the Group's subsidiary, while the entity is not legally owned by the Group.

(in thousands of tenge unless otherwise is stated)

		Shareholder	Associates of the Group	Joint ventures where the Group is a participant	Companies in the group of the Shareholder	Other related parties
Current accounts and contributions	2016	-	-	-	-	309
	2015	-	-	-	-	792
Restricted cash	2016	-	-	-	-	357,811
	2015	-	-	-	-	862,705
Loans given	2016	-	-	99,428	-	-
	2015	-	-	1,301,568	-	-
including impairment provision on loans	2016	-	-	*(590,075)*	-	-
	2015	-	-	*(562,131)*	-	-
Loans received	2016	152,960,581	-	-	-	43,813,136
	2015	171,249,829	-	-	-	50,480,696
Liabilities on finance lease	2016	-	-	-	-	136,052
	2015	-	-	-	-	229,092
Dividends receivable	2016	-	-	1,663,776	-	-
	2015	-	-	-	-	-
Dividends payable	2016	16,424,670	-	-	-	-
	2015	16,424,670	-	-	-	-

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

		Shareholder	Associates of the Group	Joint ventures, where the Group is a participant	Companies in the Group of the Shareholder	Other related parties
Sale of goods, services and non-current assets	2016	-	636,232	39,022,259	16,957,257	-
	2015	-	73,706	21,811,681	24,805,368	-
(Accrued)/ reversed allowances for doubtful debt	2016	-	(16,763)	(191,312)	1,420,483	-
	2015	-	-	(5,287)	(317,258)	-
Purchase of goods, services and non-current assets	2016	-	55,815,681	3,782,148	10,068,762	19
	2015	-	5,581,952	30,468,830	13,639,711	1,706
Loans issued	2016	-	-	810,928	-	-
	2015	-	-	4,965,051	-	-
Repayment of loans issued	2016	-	-	2,093,503	-	-
	2015	-	-	2,963,152	-	-
Loans received	2016	5,500,000	-	-	-	1,070,299
	2015	8,862,000	-	-	-	-

(in thousands of tenge unless otherwise is stated)

		Shareholder	Associates of the Group	Joint ventures, where the Group is a participant	Companies in the Group of the Shareholder	Other related parties
Repayment of loans received	2016	48,948,658	-	-	-	7,527,599
	2015	-	-	-	-	-
Finance income	2016	-	-	225,229	-	-
	2015	-	-	32,810	-	-
Finance cost	2016	8,761,044	-	58,425	-	3,523,381
	2015	8,097,515	-	85,505	-	3,183,738
Dividends declared	2016	-	-	-	-	-
	2015	4,559,619	-	-	-	-
Dividends receivable	2016	-	-	3,128,141	-	-
	2015	-	-	-	-	-
Share capital contributions	2016	128,066,584	-	-	-	-
	2015	72,063,911	-	-	-	-

As at 31 December 2016 and 2015, certain of the Group's borrowings of 3,285,544 thousand tenge and 4,096,677 thousand tenge, respectively, were guaranteed by the Government of the Republic of Kazakhstan.

As at 31 December 2016, certain borrowings of the associates and joint ventures have been guaranteed by the Group (Notes 21 and 29).

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

As at and for the years ended 31 December, the Group recognized constructive obligations for the construction of the following projects for the benefit of the Shareholder:

	Current liabilities					Non-current liabilities
	Teleradio complex equipment	**Mangystau municipali-ties**	**Kindergarten in Astana**	**Ice palace**	**Total**	**Ice palace**
At 1 January 2015	28,238,638	247,276	750,000	-	29,235,914	48,601,265
Increase	-	-	952,660	-	952,660	-
At 31 December 2015	28,238,638	247,276	1,702,660	-	30,188,574	48,601,265
Increase	-	-	195,587	-	195,587	-
Decrease	-	-	(30,315)	-	(30,315)	(823,196)
Disposals	(28,238,638)	-	(1,825,478)	-	(30,064,116)	-
Transfers	-	-	-	47,778,069	47,778,069	(47,778,069)
At 31 December 2016	-	247,276	42,454	47,778,069	48,067,799	-

(in thousands of tenge unless otherwise is stated)

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

	Current assets					Non-current
	Teleradio complex equipment	**Mangystau municipali-ties**	**Kindergarten in Astana**	**Ice palace**	**Total**	**Ice palace**
At 1 January 2015	28,238,638	247,276	511,535	-	28,997,449	23,850,672
Additions	-	-	1,160,810	-	1,160,810	17,417,702
At 31 December 2015	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)
At 31 December 2016	-	247,276	42,454	47,778,069	48,067,799	-

In accordance with the decision of the Ultimate Shareholder, Teleradio complex equipment, recognized as Assets for the benefit of the Shareholder, were transferred in exchange for the early extinguishment of debt, received from the Shareholder in December 2016 (Note 16).

As at 31 December 2016, construction of Ice palace in Astana is completed and the asset is commissioned. The Group classified the asset and respective constructive obligation to the Shareholder as current, as it believes that the transfer to Astana mayor office will occur within 12 months of the year-end.

Compensation of key management personnel of the Group

Key management personnel comprise members of the Group's Management Board and Board of Directors totaling 14 persons as at 31 December 2016 (31 December 2015: 13 persons). Total amount of compensation to key management personnel, included in the personnel costs in the consolidated statement of profit or loss and other comprehensive income, comprised 574,755 thousand tenge for the year ended 31 December 2015 (31 December 2015: 486,357 thousand tenge). Compensation to key management personnel mainly consists of expenses related to salary based on agreements, and bonuses based on operational results.

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

The Group's principal financial instruments consist of borrowings, debt securities issued (Eurobonds), 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 entities in the Group will be able to continue as a going concern while maximizing the return to the Shareholder by optimizing the balance of debt and equity. The Group's overall strategy remains unchanged from 2015.

The Group's capital structure includes net debt (borrowings, debt securities and finance lease liabilities after deducting cash and cash equivalents) and equity of the Group (which comprises share capital, foreign currency translation reserve, retained earnings and non-controlling interests).

(in thousands of tenge unless otherwise is stated)

Financial risk management objectives

Management of risk is an essential element of the Group's operations. The Company monitors and manages financial risks relating to the Group's operations through internal reports on risks, which analyze the exposure to risk by the degree and size of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), liquidity risk and cash flow interest rate risk. A description of the 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 borrowings and debt securities issued. 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 floating interest rates.

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

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

	31 December 2016		**31 December 2015**	
	Increase/decrease in interest rates in basis points	**Effect on profit before tax/equity**	**Increase/decrease in interest rates in basis points**	**Effect on profit before tax/equity**
US Dollars	60/(8)	(499,987)/66,665	50/(12)	(261,435)/62,744
Tenge	60/(8)	(303,857)/40,514	50/(12)	(6,640)/1,594

Foreign currency risk

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

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

The following table reflects sensitivity of the Group's profit before tax and equity to potential changes in the exchange rate of US Dollars, Euro, Russian Rubles and other currencies, provided all other parameters are constant values.

	31 December 2016			**31 December 2015**		
	Increase/ decrease in exchange rate	**Effect on profit before tax**	**Effect on equity**	**Increase/ decrease in exchange rate**	**Effect on profit before tax**	**Effect on equity**
US Dollars	13%/(13%)	(102,659,544)/ 102,659,544	-	60%/(20%)	(519,146,138)/ 173,048,713	-
Euro	15%/(15%)	(8,309,478)/ 8,309,478	-	60%/(20%)	(43,222,489)/ 14,407,496	-
Russian rubles	23%/(19%)	(124,392)/ 102,759	-	40%/(29%)	133,661/ (96,904)	-
Swiss francs	15%/(15%)	24,266/ (24,266)	(14,257,966)/ 14,257,966	60%/(20%)	(32,784)/ 10,928	(59,689,310)/ 19,896,437
Other currencies	15%/(15%)	(653,534)/ 653,534	-	60%/(20%)	(3,286,138)/ 1,095,379	-

On 7 August 2015, the Group commenced cash flow hedging in order to decrease the risk of changes in tenge equivalent of revenue denominated in Swiss francs. Eurobonds issued on 20 June 2014 on the Swiss stock exchange are used as the hedging instruments. Revenue from the transit transportation in Swiss francs is the hedged item. As a result of hedging, effect of 4,417,426 thousand tenge was recognized in other comprehensive income (2015: 43,491,357 thousand tenge).

Credit risk

Credit risk arising from the inability of a party 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 obligations of the Group to that party. It is the Group's policy to enter into financial instruments with a diversity of creditworthy parties. The maximum exposure to credit risk is represented by the carrying value of each financial asset.

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

The Group has procedures in place to ensure that sales are only made to customers with an appropriate credit history and that an acceptable credit exposure limit is not exceeded. Credit risk is minimized by the fact that the 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 the periodic estimation 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 requirements of the Shareholder. The Group manages the liquidity risk by maintaining adequate reserves, bank loans and accessible credit lines by constant monitoring of the projected and actual cash flows and comparison of maturities of financial assets and liabilities.

As at 31 December 2016, the Group has also available credit lines in credit organizations: Halyk Bank of Kazakhstan JSC and CitiBank of Kazakhstan for a total amount of 23,776,141 thousand tenge.

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

As at 31 December 2016, the Group negotiated with creditors to change the thresholds for the financial covenants in order to avoid the non-compliance on obligations to creditors. As at 31 December 2016, waivers were received on credit agreements concluded with HSBC France and Development Bank of Kazakhstan.

To refinance long-term borrowings, received by subsidiaries, Kaztemirtrans JSC and KTZ-Freight Transportation JSC from the Shareholder for total amount of 75,000,000 thousand tenge, the Group plans to issue debt securities on internal market of Russian Federation of 10-15 billion Russian rubles.

(in thousands of tenge unless otherwise is stated)

The following tables reflect 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 cash flows on both interest and principal.

	Less than 1 month	1-3 months	3 months-1 year	1-5 years	Beyond 5 years	Total
2016						
Non-interest bearing:						
Trade accounts payable	109,480,452	12,922,007	2,051,340	-	-	124,453,799
Other current liabilities	-	-	4,351,172	-	-	4,351,172
Interest bearing:						
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
	124,809,062	32,392,343	199,864,824	724,368,548	1,501,851,781	2,583,286,558
2015						
Non-interest bearing:						
Trade accounts payable	64,727,938	20,731,983	11,821,706	-	-	97,281,627
Other current liabilities	-	-	4,663,680	-	-	4,663,680
Interest bearing:						
Borrowings	18,028,832	10,393,658	234,049,141	854,365,077	1,516,137,093	2,632,973,801
Finance lease	70,177	163,704	698,882	2,849,893	-	3,782,656
	82,826,947	31,289,345	251,233,409	857,214,970	1,516,137,093	2,738,701,764

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

	Less than 1 month	1-3 months	3 months-1 year	1-5 years	Indefinite settlement term[5]	Total
2016						
Interest bearing:						
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
Non-interest bearing:						
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
	52,176,845	4,161,968	25,301,318	3,153,274	8,094,689	92,888,094

[5] Due to uncertainty in recoverability of doubtful debts, the Group included the provided trade accounts receivable in the 'Indefinite settlement term'.

(in thousands of tenge unless otherwise is stated)

	Less than 1 month	1-3 months	3 months-1 year	1-5 years	Indefinite settlement term[5]	Total
2015						
Interest bearing:						
Short-term deposits	19,886,199	61,474	2,970,622	-	-	22,918,295
Interest on short-term deposits	217,112	1,026	199,870	-	-	418,008
Other financial assets	6,758,521	344,470	32,517,979	-	-	39,620,970
Interest on other financial assets	29,701	3,759	911,200	-	-	944,660
Cash and cash equivalents	12,192,810	-	-	-	-	12,192,810
Non-interest bearing:						
Cash and cash equivalents	32,727,024	-	-	-	-	32,727,024
Restricted cash	-	-	2,393,520	-	-	2,393,520
Trade accounts receivable	9,543,141	42,794	30,127	137,719	11,264,107	21,017,888
	81,354,508	453,523	39,023,318	137,719	11,264,107	132,233,175

Fair values of financial instruments

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

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

Cash and cash equivalents

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

Financial assets and liabilities

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

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

Borrowings

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

(in thousands of tenge unless otherwise is stated)

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

As at 31 December 2016 and 2015, the fair value of financial assets and financial liabilities, except for borrowings and debt securities, was not significantly different from its cost. Carrying value and fair value of borrowings and debt securities (Eurobonds) as at 31 December is presented as follows:

	31 December 2016		**31 December 2015**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Loans given	969,745	969,745	1,940,673	1,940,673
Other financial assets	17,549,976	17,549,976	39,705,096	39,705,096
Borrowings	468,338,685	451,931,634	521,766,861	492,188,671
Debt securities (Eurobonds)	771,341,089	790,399,781	852,871,232	801,131,583
Financial guarantees	4,399,245	4,399,245	-	-
Finance lease	-	-	2,682,872	2,682,872

Fair value hierarchy as at 31 December 2016

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

Fair value hierarchy as at 31 December 2015

	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Loans given	-	1,940,673	-	1,940,673
Other financial assets	-	39,705,096	-	39,705,096
Total	-	41,645,769	-	41,645,769
Financial liabilities				
Financial liabilities held at amortized cost:				
- debt securities (Eurobonds)	801,131,583	-	-	801,131,583
- bank loans	-	269,838,663	9,582,751	279,421,414
- loans from related parties	-	212,767,257	-	212,767,257
- finance lease	-	2,682,872	-	2,682,872
Total	801,131,583	485,288,792	9,582,751	1,296,003,126

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

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

During 2016 and 2015, there were no transfers between the hierarchy levels.

33. EVENTS AFTER THE REPORTING DATE

State regulation

Starting from 1 January 2017, changes to the legislation of Kazakhstan regarding market competition matters are effective, which assume cancelation of regulated markets and extension of price regulation on entities of publicly important markets, which render freight transportation services, including locomotive haulage. The amendments exclude price regulation on wagons rental services, wagons (containers) operator services and freight transportation in the transit routes through Kazakhstan. Accordingly, the Group will be able to set prices (tariffs) on their own.

Disposal of non-current assets classified as held for sale

In January 2017, the Group, represented by its subsidiary, Kaztemirtrans JSC, sold 100% interests in its subsidiary, Center of Transportation Services JSC. In January-February 2017, the Group, represented by its subsidiary, KTZ-Freight Transportation JSC, sold 100% interests in its subsidiaries Rauan-Burabai LLP, Mak-Ekibastuz LLP and Bas-Balkhash LLP. As a result of these sales, the Group lost control over these subsidiaries.

In February 2017, the Group represented by its subsidiary, Kaztemirtrans JSC, sold 50% interest in joint venture Astyk-Trans JSC. As a result of this sale, the Group lost joint control over Astyk-Trans JSC.

Borrowings

In February 2017, the Group obtained loans from Halyk Bank of Kazakhstan of 20,000,000 thousand tenge at interest rates of 13%-14% due within one year.

In February 2017, the Group, represented by its subsidiary KTZ-Freight Transportation JSC, obtained loans from Citi Bank JSC of 2,700,000 thousand tenge at interest rate of 13% due within one year.

In February 2017, the Group registered a subsidiary KTZ Finance LLP for the purposes of issuing debt securities in the Russian Federation.

In February 2017, the Group under the loans restructuring agreement with EBRD dated 22 December 2016, the Group converted portion of the debt of 170,000,000 US Dollars into tenge. As a result of conversion, debt amounted to 54,983,100 thousand tenge and 10,913,719 US Dollars. Interest is paid on a semi-annual basis at 6 months LIBOR + 4.35% for US Dollar tranche and all-in-cost[6] + 2.95% for tenge tranche (Note 17).

Loans given

In January-February 2017, the Group, represented by its subsidiary Airport Management Group LLP, provided financial aid of 10,500,000 thousand tenge to Astana International Airport LLP, which is under trust management.

Dividends

In January 2017, the Group received cash dividends of 1,663,776 thousand tenge (4,721,003 EUR) from its joint venture Logistic System Management B.V. for 2015.

Approval of financial statements

The consolidated financial statements were authorized for issue by management on 13 March 2017.

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

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

Consolidated financial statements
for the year ended 31 December 2015

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

CONTENT

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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 2015, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

In preparing 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 of the Group for the year ended 31 December 2015 were approved by management on 14 March 2016.

On behalf of management of the Group:

B.S. Kamaliyev	**M.R. Kabashev**	**N.Kh. Abilova**
Acting President	**Vice-President**	**Chief Accountant**
14 March 2016	14 March 2016	14 March 2016

Deloitte.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Kazakhstan Temir Zholy National Company JSC and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Alexander Dorofeyev
Engagement Partner
Qualified auditor
of Russian Federation
Certificate No. 042607
dated 28 February 2002
Russian Federation

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

DELOITTE, LLP

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

Nurlan Bekenov
General Director
Deloitte, LLP

14 March 2016

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015
(in thousands of tenge)

	Notes	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	7	2,395,441,635	2,228,942,130
Asset held for the benefit of the Shareholder	30	41,268,374	23,850,672
Investments in joint ventures	8	22,104,613	21,086,452
Intangible assets		13,288,840	12,566,300
Investments in associates	8	10,898,604	16,299,164
Investment property		6,574,127	6,931,262
Other non-current financial assets	12	178,929	4,001,783
Long-term trade accounts receivable	11	137,599	-
Other non-current assets	9	99,847,392	172,856,718
Total non-current assets		2,589,740,113	2,486,534,481
Current assets			
Cash and cash equivalents	14	67,838,129	86,552,218
VAT recoverable		53,353,425	70,938,553
Other current financial assets	12	41,466,840	38,753,294
Asset held for the benefit of the Shareholder	30	30,158,259	28,997,449
Inventories	10	29,315,295	34,814,915
Trade accounts receivable	11	9,616,182	7,649,242
Prepaid income tax		2,224,060	2,129,314
Other current assets	13	25,511,265	11,800,956
		259,483,455	281,635,941
Assets and disposal groups classified as held for sale	15	34,750,812	67,283,089
Total current assets		294,234,267	348,919,030
Total assets		2,883,974,380	2,835,453,511
EQUITY AND LIABILITIES			
Equity			
Share capital	16	865,393,896	793,329,985
Cash flow hedging reserve	16	(43,491,357)	-
Foreign currency translation reserve	16	4,601,406	(782,574)
Retained earnings		142,411,682	600,970,019
Equity attributable to the Shareholder		968,915,627	1,393,517,430
Non-controlling interests		(651,552)	16,056,277
Total equity		968,264,075	1,409,573,707

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015 (CONTINUED)
(in thousands of tenge)

	Notes	31 December 2015	31 December 2014
Non-current liabilities			
Borrowings	17	1,174,883,855	809,015,812
Deferred tax liability	19	229,520,855	240,880,392
Constructive obligation for the benefit of Shareholder	30	48,601,265	48,601,265
Employee benefit obligation	18	28,429,598	27,178,832
Finance lease liabilities		2,183,849	2,667,615
Total non-current liabilities		1,483,619,422	1,128,343,916
Current liabilities			
Borrowings	17	199,754,238	45,800,422
Trade accounts payable	20	97,281,627	91,661,881
Constructive obligation for the benefit of Shareholder	30	30,188,574	29,235,914
Other taxes payable		6,629,531	7,090,368
Employee benefit obligation	18	3,254,055	2,977,924
Income tax payable		1,579,639	732,921
Finance lease liabilities		499,023	441,902
Other current liabilities	21	88,450,436	86,007,591
		427,637,123	263,948,923
Liabilities directly associated with disposal groups classified as held for sale	15	4,453,760	33,586,965
Total current liabilities		432,090,883	297,535,888
Total liabilities		1,915,710,305	1,425,879,804
Total equity and liabilities		2,883,974,380	2,835,453,511

B.S. Kamaliyev	**M.R. Kabashev**	**N.Kh. Abilova**
Acting President	**Vice-President**	**Chief Accountant**
14 March 2016	14 March 2016	14 March 2016

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

(in thousands of tenge)

	Notes	2015	2014
Continuing operations			
Revenue			
Freight transportation		629,049,742	743,243,126
Passenger transportation		71,787,391	77,386,364
Government grants		21,721,705	24,637,811
Other revenue	22	37,950,983	36,001,266
Total revenue		760,509,821	881,268,567
Cost of sales	23	(622,968,439)	(643,893,521)
Gross profit		137,541,382	237,375,046
General and administrative expenses	24	(78,452,245)	(71,326,751)
Impairment of assets	7, 9, 10, 12	(4,960,728)	(2,735,886)
Other profit and loss		885,734	3,662,888
Finance income	25	6,000,871	10,529,813
Finance costs	26	(66,170,599)	(46,980,953)
Foreign exchange loss	31	(449,940,248)	(71,978,880)
Share of (loss)/profit of associates and joint ventures	8	(12,187,711)	45,324
Gain from disposal of subsidiaries		1,512,011	821,163
(Loss)/profit before tax		(465,771,533)	59,411,764
Income tax benefit/(expenses)	19	7,955,960	(21,104,620)
(Loss)/profit for the year from continuing operations		(457,815,573)	38,307,144
Discontinued operations			
Loss for the year from discontinued operations	15	(2,166,136)	(4,750,353)
(Loss)/profit for the year		(459,981,709)	33,556,791
Other comprehensive income/(loss) net of tax:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligations		174,318	(257,013)
Items that may be reclassified subsequently to profit or loss:			
Net fair value loss on hedging instruments entered into for cash flow hedges	16	(43,491,357)	-
Exchange differences on translating foreign operations		5,391,426	(638,493)
Other comprehensive loss for the year		(37,925,613)	(895,506)
Total comprehensive (loss)/income for the year		(497,907,322)	32,661,285
(Loss)/profit for the year attributable to:			
Shareholder		(460,875,531)	30,397,462
Non-controlling interests		893,822	3,159,329
		(459,981,709)	33,556,791
Total comprehensive (loss)/income for the year attributable to:			
Shareholder		(498,808,660)	29,501,956
Non-controlling interests		901,338	3,159,329
		(497,907,322)	32,661,285
(Loss)/earnings per share from continuing and discontinued operations (in whole tenge)	27	(937)	62
(Loss)/earnings per share from continuing operations (in whole tenge)	27	(932)	71

B.S. Kamaliyev	**M.R. Kabashev**	**N.Kh. Abilova**
Acting President	**Vice-President**	**Chief Accountant**
14 March 2016	14 March 2016	14 March 2016

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015
(in thousands of tenge)

	Notes	2015	2014
Cash flows from operating activities:			
(Loss)/profit for the year		(459,981,709)	33,556,791
Income tax (benefit)/expense recognized in profit or loss including discontinued operations	15, 19	(6,881,118)	22,791,364
Adjustments for:			
Depreciation and amortization		107,519,344	101,196,715
Finance costs	15, 26	66,506,639	47,361,597
Impairment of assets		4,940,387	2,941,923
Finance income	15, 25	(6,077,255)	(10,786,274)
Defined benefit plan costs		4,605,250	3,253,396
Share of loss/(profit) of associates and joint ventures	8	12,187,711	(45,324)
Allowance for doubtful debts		10,638,658	3,305,303
Foreign exchange loss		449,570,560	72,166,751
Gain on disposal of subsidiaries		(1,512,011)	(821,163)
Gain on disposal of discontinued operations	15	(1,096,611)	-
Other		3,121,682	(880,547)
Operating income before changes in working capital and other balances		183,541,527	274,040,532
Change in trade accounts receivable		(66,756)	6,421,688
Changes in inventories		3,464,520	2,588,921
Change in other current and non-current assets (including non-current VAT recoverable)		(7,037,335)	(1,911,612)
Changes in trade accounts payable		(20,800,383)	9,033,940
Changes in other taxes payable		18,657,442	(21,100,706)
Change in other current liabilities		(14,721,747)	(11,624,102)
Change in employee benefit obligations		(2,955,062)	(2,063,208)
Change in other non-current liabilities		1,352,587	500
Cash generated from operations		161,434,793	255,385,953
Interest paid		(59,115,772)	(43,109,409)
Interest received		5,471,074	4,488,927
Income tax paid		(4,766,768)	(8,727,135)
Net cash flows from operating activities		103,023,327	208,038,336
Cash flows from investing activities:			
Purchase of property, plant and equipment, including advances paid		(209,055,211)	(353,536,388)
Purchase of intangible assets		(1,395,471)	(2,164,560)
Proceeds from disposal of other non-current assets		8,607,778	-
Investments in associates	8	(3,645,194)	(14,813,614)
Cash invested in other financial assets		(79,035,388)	(78,032,351)
Proceeds from sale of other financial assets		86,986,193	85,107,717
Dividends received from joint ventures		1,358,688	516,517
Net cash inflows from disposal of subsidiaries and discontinued operations		17,947,051	1,812,114
Other		644,520	1,104,382
Net cash flows used in investing activities		(177,587,034)	(360,006,183)

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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)
(in thousands of tenge)

	Notes	2015	2014
Cash flows from financing activities:			
Contributions to share capital	16	68,338,937	79,000,000
Proceeds from borrowings		81,879,893	149,596,234
Repayments of borrowings		(77,708,027)	(54,290,098)
Proceeds from sale of derivative financial instrument		327,008	-
Dividends and distributions paid		(306,471)	(5,170,372)
Purchase of asset held for the benefit of the Shareholder		(18,069,308)	(15,065,475)
Repayments of finance lease		(602,523)	(560,226)
Net cash flows from financing activities		53,859,509	153,510,063
Net (decrease)/increase in cash and cash equivalents		(20,704,198)	1,542,216
Cash and cash equivalents at the beginning of the year	14	89,964,767	85,855,902
Effects of exchange rate changes on the balance of cash held in foreign currencies		5,642,952	2,566,649
Cash and cash equivalents at the end of the year	14	74,903,521	89,964,767
Non-cash transactions:			
Trade accounts payable and receivable arising from disposal of subsidiaries		23,539,128	-
Additions to construction-in-progress arising from disposal of subsidiaries		12,562,464	-
Advances paid and received arising from disposal of subsidiaries		8,978,155	-
Additions of property, plant and equipment for the borrowing funds directly transferred by bank to supplier		4,971,503	20,797,846
Settlement of loans given by non-current assets		3,671,032	-
Railway administrations receivables and payables offset		3,505,050	2,982,329

B.S. Kamaliyev	**M.R. Kabashev**	**N.Kh. Abilova**
Acting President	**Vice-President**	**Chief Accountant**
14 March 2016	14 March 2016	14 March 2016

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015
(in thousands of tenge)

	Share capital	Additional paid-in capital	Cash flow hedging reserve	Foreign currency translation reserve	Retained earnings	Equity attributable to the Shareholder	Non-controlling interests	Total equity
At 1 January 2014	683,932,991	30,000,000	-	(144,081)	601,316,737	1,315,105,647	14,065,376	1,329,171,023
Profit for the year	-	-	-	-	30,397,462	30,397,462	3,159,329	33,556,791
Other comprehensive loss for the year	-	-	-	(638,493)	(257,013)	(895,506)	-	(895,506)
Total comprehensive (loss)/income for the year	-	-	-	(638,493)	30,140,449	29,501,956	3,159,329	32,661,285
Shares issue (Note 16)	109,396,994	(30,000,000)	-	-	-	79,396,994	-	79,396,994
Dividends declared (Note 16)	-	-	-	-	(16,165,051)	(16,165,051)	(1,170,372)	(17,335,423)
Other distributions (Note 16)	-	-	-	-	(24,659,207)	(24,659,207)	-	(24,659,207)
Other contributions (Note 16)	-	-	-	-	10,337,091	10,337,091	-	10,337,091
Acquisition of subsidiaries	-	-	-	-	-	-	1,944	1,944
At 31 December 2014	793,329,985	-	-	(782,574)	600,970,019	1,393,517,430	16,056,277	1,409,573,707
At 1 January 2015	793,329,985	-	-	(782,574)	600,970,019	1,393,517,430	16,056,277	1,409,573,707
(Loss)/profit for the year	-	-	-	-	(460,875,531)	(460,875,531)	893,822	(459,981,709)
Other comprehensive (loss)/income for the year	-	-	(43,491,357)	5,383,980	174,248	(37,933,129)	7,516	(37,925,613)
Total comprehensive (loss)/income for the year	-	-	(43,491,357)	5,383,980	(460,701,283)	(498,808,660)	901,338	(497,907,322)
Shares issue (Note 16)	72,063,911	-	-	-	-	72,063,911	-	72,063,911
Dividends declared (Note 16)	-	-	-	-	(4,559,619)	(4,559,619)	(6,471)	(4,566,090)
Other distributions (Note 16)	-	-	-	-	(952,660)	(952,660)	-	(952,660)
Other contributions (Note 16)	-	-	-	-	7,167,201	7,167,201	-	7,167,201
Disposal of subsidiaries (Note 15)	-	-	-	-	-	-	(13,389,698)	(13,389,698)
Change in ownership share in subsidiaries without loss of control	-	-	-	-	488,024	488,024	(4,212,998)	(3,724,974)
At 31 December 2015	865,393,896	-	(43,491,357)	4,601,406	142,411,682	968,915,627	(651,552)	968,264,075

B.S. Kamalіyev
Acting President

14 March 2016

M.R. Kabashev
Vice-President

14 March 2016

N.Kh. Abilova
Chief Accountant

14 March 2016

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

1. GENERAL INFORMATION

Kazakhstan Temir Zholy National Company JSC (the "Company") was organized in Kazakhstan in accordance with Resolutions of the Government of the Republic of Kazakhstan (the "Government") for the purpose of establishing 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 St., Astana, 010000, the Republic of Kazakhstan.

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

The Group operates a Government regulated nationwide railway system providing freight transportation, passenger transportation and maintenance of railway infrastructures within the Republic of Kazakhstan. As part of the regulation of the rail industry in Kazakhstan, the Government sets the tariffs, which the Group charges its freight and passenger customers, as well as partially subsidizes certain passenger transportation activities through government grants. These regulated tariffs differ based on the type of transportation provided. The tariff for freight transportation in international transit direction is not regulated by the Government.

The Government of Kazakhstan approved a tariff for 2016-2020 for railway network services with annual tariff increase of 4%. The previous increase in tariffs was set by the Government from 1 January 2014 by an average of 7% for freight transportation and passenger transportation for international, interregional and inter-district directions. There were no changes to tariffs in 2015.

The Group historically financed large investment projects through the capital contributions received from the Government, and loans, in addition to cash flows from operating activities. As at 31 December 2015, the Group's loans of 199,754,238 thousand tenge are payable within twelve months of the reporting date, including Eurobonds of 120,045,700 thousand tenge payable in May 2016. The Group has assessed its needs for cash, including its debts liabilities and its development plans, and believes that there will be sufficient cash flows from operations, along with available cash to finance its obligations (Note 31).

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

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to significant decrease in national export revenue. On 20 August 2015, the Government and the National Bank of Kazakhstan announced a transition to a new monetary policy based on free-floating tenge exchange rate, and cancelled the currency corridor. In 2015, tenge depreciated significantly against major foreign currencies.

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

2. BASIS OF PREPARATION

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").

(in thousands of tenge unless otherwise is stated)

Going concern

The consolidated financial statements have been prepared on a going concern basis. This assumes the sale of assets and settlement of liabilities in the normal course of business in the foreseeable future. As at 31 December 2015, current liabilities of the Group exceeded its current assets by 137,856,616 thousand tenge. In assessing its going concern basis, the management have considered the Group's financial position, expected future performance, its borrowings, available credit facilities and its capital expenditure commitments, considerations of tariffs, currency exchange rates and other risks facing the Group. After making appropriate enquiries, management consider that the Group has adequate resources to continue in operational existence and settle its liabilities and that the going concern basis is appropriate in preparing these 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 at the end of each reporting period.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and entities controlled by the Company and its subsidiaries listed in Note 29. The Company's investments in which it has significant influence are accounted for using the equity method. All intragroup transactions, balances, and unrealized gains and losses are eliminated on consolidation.

Functional and presentation currency

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

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

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

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

	31 December 2015	31 December 2014
US Dollar	340.01	182.35
Swiss Franc	343.48	184.64
Russian Ruble	4.61	3.17

3. SIGNIFICANT ACCOUNTING POLICIES

Adoption of new and revised standards

The Group has early applied the amendments to IAS 1 Presentation of Financial Statements, which are effective for annual periods beginning on and after 1 January 2016.

In particular, the Group reconsidered:
- disclosed information in terms of application of materiality, since the inclusion of immaterial information may obscure the usefulness of disclosed material financial information;
- significant accounting policies for disclosure of particular transactions and events specific to the Group when those policies are selected from alternatives allowed in IFRSs.

The Group believes that the amendments will increase the quality, understandability and usefulness of the consolidated financial statements.

The Group has not early applied other standards, amendments and interpretations, which have been issued, but not effective.

Management of the Group anticipates that the application of IFRS 9 Financial Instruments in the future may have an impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

Management of the Group also anticipates that the application of IFRS 15 Revenue from Contracts with Customers in the future may have a significant impact on amount and timing of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

Management of the Group anticipates that the application of IFRS 16 Leases in the future may have a significant impact on the amount of assets and liabilities due to recognition of all leases for contracts where the Group is a lessee. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed.

For other Standards, amendments and Interpretations effective starting on and after 1 January 2016, management anticipates that application of those Standards, amendments and Interpretations will not have a material effect of the consolidated financial statements in the periods of their application.

Property, plant and equipment

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

Subsequent expenditure

Maintenance expenses incurred during the useful life of the asset (regular maintenance activities to maintain the asset in a good condition) and repair expenses (technical inspections, maintenance contracts, etc.) are recorded as operating expenses.

Only those costs are capitalized which qualify for recognition as assets in accordance with provisions of IAS 16 Property, Plant and Equipment.

Construction-in-progress

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

Borrowing costs

The Group capitalizes 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 capitalizes the borrowing costs on generally used borrowings to the extent that it uses them for the purpose of obtaining a qualifying asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period and used for construction and production of a qualifying asset, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Borrowing costs also include the exchange differences arising from loans in foreign currencies to the extent to which they are considered to be an interest expense adjustment. The exchange difference amount capitalized as an interest expense adjustment must not exceed the interest expense amount, which would be capitalized by the Group if the loan were received in the local currency. Any excess of exchange difference is recognized in profit or loss.

All other borrowing costs, including any excess exchange differences, are recognized in profit or loss in the period in which they are incurred.

Inventories

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

Equity

Share capital

Common shares are classified as equity. Costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. 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 recognized as additional paid-in capital until such time as the common shares are registered, when such proceeds are transferred to share capital.

Other contributions

The Group enters into equity transactions with the Shareholder, such as transfer of assets, benefits from below market interest loans and others that would not relate to acquisition of additional equity interest in the Group. The Group recognizes such transactions in retained earnings.

Other distributions

Distributions are recognized 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 recognized 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 recognized 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 the financial instruments have been classified. Accounts receivable and investments, classified as loans and receivables, are measured at amortized cost, using the effective interest method. Certain equity investments, classified as available for sale, are recognized 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 amortized 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 the hedge relationship, the 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 recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'finance costs' line item.

Amounts previously recognized 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 recognized hedged item.

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

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

Recognition of revenue

Revenue is recognized to the extent that it is probable that the 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 recognized 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 volume, provided as at the reporting date to the total services volume according to information on the dates of cargo departure and arrival (intersection of joint station).

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

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

In respect to the sale of goods, revenue is recognized when the goods are delivered and titles have passed, at which time all of the following conditions are satisfied:

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

Government grants

The Group is eligible to receive a subsidy, in the form of a Government grant, for a portion of the costs of transporting passengers on socially important routes within the Republic of Kazakhstan, as defined by the Government. The Group, along with other railway companies in the Republic of Kazakhstan, submits an application for these grants to the Government on an annual basis. If awarded the contract, the Group is eligible for a subsidy of the costs to transport passengers on the socially important routes within the Republic of Kazakhstan up to a pre-budgeted amount, which is determined by the Government.

Government grants are recognized in profit or loss in the period in which the transportation is provided to the passengers at the reduced tariffs set by the Government when there is reasonable assurance that the Group will comply with the conditions attaching to the grants and the collection of the grant funds can be reasonably assured.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Critical judgements in applying accounting policies

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

Control assessment

Control over KazAutoZhol National Company JSC

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

Control over Aktau International Sea Commercial Port National Company JSC

Aktau International Sea Commercial Port National Company JSC is recognized as a subsidiary of the Group (Note 29), although the Group does not legally own shares in Aktau International Sea Commercial Port. The Group assessed whether it has control over Aktau International Sea Commercial Port, considering all relevant facts and circumstances arising from a trust management agreement concluded with Samruk-Kazyna National Welfare Fund JSC, the legal owner, in respect of its 100% ownership interest in Aktau International Sea Commercial Port. The Group concluded that it controls Aktau International Sea Commercial Port. In reaching this judgment, management of the Group considered the broad power granted to the Group by the Shareholder, which gives the Group the practical ability to unilaterally direct the relevant activities of Aktau International Sea Commercial Port to affect its returns to the Group.

Control over airports

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

Control over Khorgos International Centre of Boundary Cooperation JSC

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

Control over Tulpar-Talgo LLP

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

On 15 May 2015, the Group and Patentes Talgo S.L.U., sole founder of Talgo Kazajstan S.L., entered into a preliminary agreement on sale of 51% of the shares in Tulpar Talgo LLP, under which the Group received an advance of 23,000 thousand euro (4,661,410 thousand tenge). The agreement provides certain conditional clauses, including the Shareholder's approval of the transaction by the stated date, reimbursement of financial consequences of changes in euro exchange rate against tenge, as well as an increase in the purchase price of passenger coaches delivered in 2015 or later in the case of growth of the exchange rate of euro against tenge, which resulted in increased costs for the production of these passenger coaches. Since these terms have not been met yet as at 31 December 2015, the transaction is considered as incomplete, therefore the Group continues to exercise control over Tulpar Talgo LLP. Meanwhile, management considers the sale transaction as highly probable. Accordingly, it classifies the subsidiary within disposal group classified as held for sale.

Loans at a rate below the market interest rate

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

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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 that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value measurements

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified appraisers to perform the valuation.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in Notes 15 and 31.

Impairment of tangible and intangible assets

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

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

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

Due to existing indicators, the Group performed an impairment test as at 31 December 2015.

Management of the Group considered all segments as a single cash-generating unit (CGU) for the purposes of the impairment testing as under the current operating model of the Group the cash flows for each segment are not considered to be sufficiently independent. The Government of Kazakhstan as a sole shareholder of the Company has approved a privatization plan of certain entities of the Group, which, if realized, would result in a new scheme of interaction among the various business units within the group, and would include development of the new tariff system. Due to absence of approved detailed plans, these possible developments have not been taken into account for the purposes of the current year impairment testing. Subsequent changes in identification of the cash generating units may affect the carrying value of the Group's assets.

Additionally, there are a number of subjective factors that are necessarily incorporated into impairment review, both operational and financial, using the best evidence available.

The operational considerations used in the test reflect the most likely volume of transportation services based on historical data and forecasted demand, as well as government's development plan for transportation and logistics industry in Kazakhstan.

The financial assumptions include significant estimates associated with forecasted level and growth rate of tariffs, discounts, as well as forecasted tenge to US Dollar exchange rate. The key long-term assumptions used in calculation were the annual growth in tariffs of 4%, the exchange rate of 400 tenge per 1 USD and the pre-tax discount rate of 12.52%. These assumptions related to cash flow projections in real terms.

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(in thousands of tenge unless otherwise is stated)

As at 31 December 2015, no impairment has been identified based on the estimate of the value in use of the Group's property, plant and equipment. However, the value in use estimate is sensitive to the following assumptions: discount rate, the appropriate level of sustainable maintenance costs, variable costs coefficients and a forecasted tenge to US Dollar exchange rate. Adverse changes to the planned growth rates of cargo and passenger traffic associated with the general trends in the economy, lack of appropriate indexation of tariffs to inflation, the continuing volatility of tenge against foreign currencies, the level of government support, as well as adverse changes in other factors in the future may lead to significant impairment losses in the period in which they occur.

Recoverability of VAT

At each reporting date, the Group assesses the recoverability of VAT arising on sales to customers on international transportation. The Group cannot charge VAT onwards to these customers, and accordingly can only receive these amounts through a collection from the tax authorities. In assessing the recoverability of the VAT recoverable, the Group considers information from its internal tax department regarding projected collection of VAT, 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 amortization of intangible assets

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

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

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

Taxation

Kazakhstan legislative acts and regulations are not always clearly written. Instances of inconsistent opinions between local, regional and national tax authorities are possible. Where additional taxes are imposed by the tax authorities, penalties and interest applied are significant; penalties are generally assessed at 50% of the additional taxes accrued, and interest is assessed at 13.75% 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 2015. Any difference between the estimated amount and the actual amount paid, if any, could have a significant impact on future operating results.

(in thousands of tenge unless otherwise is stated)

5. CHANGES IN CLASSIFICATION AFFECTING COMPARATIVE INFORMATION

For the purpose of better presentation of information and understandability of the financial statements, the Group reclassified certain items in the consolidated statement of financial position. Accordingly, the comparative amounts as at 31 December 2014 have been restated.

Effect on the consolidated statement of financial position

	As previously reported	Reclassifications	As restated
At 31 December 2014			
Non-current assets			
Derivative financial instrument	4,001,783	(4,001,783)	-
Other non-current financial assets	-	4,001,783	4,001,783
Total non-current assets	2,486,534,481	-	2,486,534,481
Current assets			
VAT recoverable	-	70,938,553	70,938,553
Restricted cash	734,044	(734,044)	-
Derivative financial instrument	676,213	(676,213)	-
Other current financial assets	38,077,081	676,213	38,753,294
Other current assets	82,005,465	(70,204,509)	11,800,956
Total current assets	348,919,030	-	348,919,030
Non-current liabilities			
Borrowings	355,121,763	453,894,049	809,015,812
Debt securities issued	453,894,049	(453,894,049)	-
Other non-current liabilities	48,601,265	(48,601,265)	-
Constructive obligation for the benefit of Shareholder	-	48,601,265	48,601,265
Total non-current liabilities	1,128,343,916	-	1,128,343,916
Current liabilities			
Borrowings	42,676,856	3,123,566	45,800,422
Current portion of debt securities issued	3,123,566	(3,123,566)	-
Other taxes payable and obligatory payments to budget	8,100,811	(8,100,811)	-
Other taxes payable	-	7,090,368	7,090,368
Constructive obligation for the benefit of Shareholder	-	29,235,914	29,235,914
Other current liabilities	114,233,062	(28,225,471)	86,007,591
Total current liabilities	297,535,888	-	297,535,888

Additionally, to bring its presentation of the consolidated statement of profit or loss and other comprehensive income in line with the accounting policy of the Shareholder, the Group recognized tax expenses, which are directly related to the production of goods, works and services (except for income tax), within the cost of sales account. The Group also reclassified assets impairment provisions from general and administrative expenses to the separate item of consolidated statement of profit or loss and other comprehensive income.

In December 2015, the Group, through its subsidiary Kaztemirtrans JSC, terminated the contract of ownership sale in Kazakhstan Wagon Construction Company LLP (hereinafter – "KWCC LLP"). Selling the asset in its current state is no longer assessed as highly probable. As KWCC LLP no longer meets the criteria for assets classified as held for sale, the Group reclassified the items of income and expense related to KWCC LLP as part of continuing operations. Consequently, the amounts for the year ended 31 December 2014 have also been restated.

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(in thousands of tenge unless otherwise is stated)

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

	As previously reported	Taxes	Assets impairment provisions	Selling expenses	Discontinued operations	As restated
2014						
Other revenue	35,979,278	-	-	-	21,988	36,001,266
Total revenue	881,246,579	-	-	-	21,988	881,268,567
Cost of sales	(634,172,853)	(9,712,762)	-	-	(7,906)	(643,893,521)
Gross profit	247,073,726	(9,712,762)	-	-	14,082	237,375,046
General and administrative expenses	(82,344,029)	9,712,762	1,571,080	-	(266,564)	(71,326,751)
Selling expenses	(26,614)	-	-	26,614	-	-
Finance income	10,521,364	-	-	-	8,449	10,529,813
Finance costs	(46,702,065)	-	-	-	(278,888)	(46,980,953)
Foreign exchange loss	(71,699,687)	-	-	-	(279,193)	(71,978,880)
Impairment of property, plant and equipment	(1,164,806)	-	1,164,806	-	-	-
Impairment of assets	-	-	(2,735,886)	-	-	(2,735,886)
Other profit and loss	3,620,763	-	-	(26,614)	68,739	3,662,888
Profit before tax	60,145,139	-	-	-	(733,375)	59,411,764
Income tax expense	(21,086,274)	-	-	-	(18,346)	(21,104,620)
Profit from continuing operations	39,058,865	-	-	-	(751,721)	38,307,144
Loss from discontinued operations	(5,502,074)	-	-	-	751,721	(4,750,353)
Profit for the year	33,556,791	-	-	-	-	33,556,791
Earnings per share from continuing and discontinued operations (in whole tenge)	73	-	-	-	(2)	71

The Group reclassified impairment of assets expenses in the non-cash adjustments in the consolidated statement of cash flows and grouped other immaterial items.

Effect on the consolidated statement of cash flows

	As previously reported	Assets impairment provisions	Other reclassifications	As restated
2014				
Allowance for non-recoverable value added tax	803,000	(803,000)	-	-
Loss from impairment of property, plant and equipment	1,173,221	(1,173,221)	-	-
Allowance for obsolete and slow-moving inventories	181,310	(181,310)	-	-
Allowance for doubtful debts	4,089,695	(784,392)	-	3,305,303
Impairment of assets	-	2,941,923	-	2,941,923
Recovery of provision on legal claims	(420,576)	-	420,576	-
Loss on disposal of property, plant, and equipment and other non-current assets	465,565	-	(465,565)	-
Unused vacation provision expense	978,687	-	(978,687)	-
Other	(1,904,223)	-	1,023,676	(880,547)
Net cash flows from operating activities	208,038,336	-	-	208,038,336
Proceeds from disposal of property, plant and equipment and other non-current assets	460,401	-	(460,401)	-
Purchase of other non-current assets	(655,078)	-	655,078	-
Acquisition of subsidiaries, less cash and cash equivalents acquired	656,881	-	(656,881)	-
Proceeds from sale of available for sale investments	642,178	-	(642,178)	-
Other	-	-	1,104,382	1,104,382
Net cash flows used in investing activities	(360,006,183)	-	-	(360,006,183)

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(in thousands of tenge unless otherwise is stated)

6. SEGMENT INFORMATION

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

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

The Group does not have a specified pricing policy for inter-segmental sales, however in general intersegment transactions are charged at prevailing market prices.

	For the year ended 31 December 2015				
	Cargo transportation	**Passenger transportation**	**Total reportable segments**	**Other**	**Total**
Key operating measures					
Revenue					
Transportation	656,811,366	73,755,616	730,566,982	-	730,566,982
Government grants	-	21,721,705	21,721,705	-	21,721,705
Other revenue	17,142,194	3,945,284	21,087,478	48,673,830	69,761,308
Intersegment revenue	(29,405,609)	(2,446,681)	(31,852,290)	(29,687,884)	(61,540,174)
Revenue	644,547,951	96,975,924	741,523,875	18,985,946	760,509,821
Cost of sales	(527,614,931)	(91,185,150)	(618,800,081)	(4,168,358)	(622,968,439)
General and administrative expenses	(67,369,185)	(4,865,439)	(72,234,624)	(6,217,621)	(78,452,245)
Impairment of assets	(3,088,728)	(1,872,000)	(4,960,728)	-	(4,960,728)
Other profit and loss	(274,483)	924,963	650,480	235,254	885,734
Finance income	4,355,188	503,864	4,859,052	1,141,819	6,000,871
Finance costs	(58,330,928)	(1,500,780)	(59,831,708)	(6,338,891)	(66,170,599)
Foreign exchange (loss)/gain	(450,383,148)	(129,861)	(450,513,009)	572,761	(449,940,248)
Share of loss of associates and joint ventures	(5,818,460)	-	(5,818,460)	(6,369,251)	(12,187,711)
Gain on disposal of subsidiaries	1,215,814	-	1,215,814	296,197	1,512,011
Loss before tax	(462,760,910)	(1,148,479)	(463,909,389)	(1,862,144)	(465,771,533)
Income tax benefit/(expenses)	9,091,984	(903,429)	8,188,555	(232,595)	7,955,960
Loss for the year from continuing operations	(453,668,926)	(2,051,908)	(455,720,834)	(2,094,739)	(457,815,573)
Other key segment information					
Additions to property, plant and equipment	238,693,032	24,146,718	262,839,750	26,318,850	289,158,600
Depreciation of property, plant and equipment	90,135,335	7,504,226	97,639,561	7,957,740	105,597,301

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(in thousands of tenge unless otherwise is stated)

	For the year ended 31 December 2014				
	Cargo transportation	Passenger transportation	Total reportable segments	Other	Total
Key operating measures					
Revenue					
Transportation	772,834,872	79,400,169	852,235,041	-	852,235,041
Government grants	-	24,637,811	24,637,811	-	24,637,811
Other revenue	17,086,932	3,364,481	20,451,413	45,215,446	65,666,859
Intersegment revenue	(31,372,390)	(2,569,080)	(33,941,470)	(27,329,674)	(61,271,144)
Revenue	758,549,414	104,833,381	863,382,795	17,885,772	881,268,567
Cost of sales	(545,018,124)	(93,259,757)	(638,277,881)	(5,615,640)	(643,893,521)
General and administrative expenses	(62,440,057)	(3,664,693)	(66,104,750)	(5,222,001)	(71,326,751)
(Impairment)/impairment recovery of assets	(1,581,958)	(1,192,349)	(2,774,307)	38,421	(2,735,886)
Other profit and loss	543,618	1,799,597	2,343,215	1,319,673	3,662,888
Finance income	9,230,435	258,703	9,489,138	1,040,675	10,529,813
Finance costs	(41,333,629)	(1,358,269)	(42,691,898)	(4,289,055)	(46,980,953)
Foreign exchange (loss)/gain	(71,985,504)	151,516	(71,833,988)	(144,892)	(71,978,880)
Share of profit/(loss) of associates and joint ventures	2,637,997	-	2,637,997	(2,592,673)	45,324
Gain on disposal of subsidiaries	420,326	-	420,326	400,837	821,163
Profit before tax	49,022,518	7,568,129	56,590,647	2,821,117	59,411,764
Income tax expenses	(18,915,342)	(1,513,982)	(20,429,324)	(675,296)	(21,104,620)
Profit for the year from continuing operations	30,107,176	6,054,147	36,161,323	2,145,821	38,307,144
Other key segment information					
Additions to property, plant and equipment	318,815,851	30,116,880	348,932,731	50,424,735	399,357,466
Depreciation of property, plant and equipment	86,553,273	6,898,127	93,451,400	5,994,328	99,445,728

Geographical information for the Group

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

Customer country of domicile	2015	2014
Kazakhstan	749,544,018	871,831,897
Russia	8,381,189	7,062,389
Other	2,584,614	2,374,281
	760,509,821	881,268,567

Substantially all of the Group's non-current assets are in Kazakhstan.

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(in thousands of tenge unless otherwise is stated)

7. PROPERTY, PLANT AND EQUIPMENT

	Railway infrastructure	Buildings and construction	Machinery and equipment	Transport	Land	Other	Capital construction in progress	Total
Carrying value at 1 January 2014	599,536,660	129,817,409	189,634,185	761,688,272	3,824,436	12,905,542	282,594,924	1,980,001,428
Additions	74,258	1,048,887	1,113,399	76,496,441	663,221	407,330	304,836,444	384,639,980
Disposals	(18,782)	(1,343,687)	(2,499,041)	(4,537,856)	(77,567)	(376,749)	-	(8,853,682)
Transfer to assets of disposal groups classified as held for sale	-	(9,996,382)	(13,139,831)	(11,127,486)	(191,936)	(268,146)	(2,271,254)	(36,995,035)
Depreciation charge	(22,987,345)	(3,876,176)	(24,033,799)	(46,877,274)	-	(1,671,134)	-	(99,445,728)
Depreciation on disposal	18,426	540,952	2,384,509	3,956,722	-	360,411	-	7,261,020
Impairment (charge)/reversal	(11,730)	(154,684)	(238,957)	(397,827)	-	6,289	(367,897)	(1,164,806)
Other movements	(3,162,139)	(415,459)	7,941,251	2,352,241	(45,840)	3,341,824	(6,512,925)	3,498,953
Transfers	57,522,818	21,152,080	49,442,151	8,052,899	(197,226)	713,530	(136,686,252)	-
Carrying value at 1 January 2014	630,972,166	136,772,940	210,603,867	789,606,132	3,975,088	15,418,897	441,593,040	2,228,942,130
Cost	754,560,946	162,999,508	310,651,629	1,048,418,242	3,975,088	22,379,219	446,961,182	2,749,945,814
Accumulated depreciation and impairment	(123,588,780)	(26,226,568)	(100,047,762)	(258,812,110)	-	(6,960,322)	(5,368,142)	(521,003,684)
Carrying value at 1 January 2015	630,972,166	136,772,940	210,603,867	789,606,132	3,975,088	15,418,897	441,593,040	2,228,942,130
Additions	30,419	14,821	1,577,316	65,173,653	58,568	111,828	216,657,349	283,623,954
Disposals	(97,918)	(347,754)	(1,674,664)	(3,604,480)	(51,410)	(482,889)	-	(6,259,115)
Depreciation charge	(23,301,032)	(6,918,496)	(26,263,509)	(47,255,961)	-	(1,858,303)	-	(105,597,301)
Depreciation on disposal	78,377	208,357	1,623,946	3,131,919	-	387,164	-	5,429,763
Impairment (charge)/reversal	511,216	(1,467,711)	(184,109)	(45,773)	-	(8,325)	(795,619)	(1,990,321)
Transfer from assets of disposal groups classified as held for sale	-	3,480,070	3,047,313	21,783	7,917	54,567	-	6,611,650
Transfer to non-current assets and assets of disposal groups classified as held for sale	-	(15,001,695)	(2,583)	(168,698)	(93,757)	(2,948)	-	(15,269,681)
Other movements	(1,741,182)	16,741	3,372,039	167,759	-	1,898,269	(3,763,070)	(49,444)
Transfers	297,623,524	8,404,158	44,700,010	2,015,995	-	(21,137)	(352,722,550)	-
Carrying value at 31 December 2015	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
Cost	1,048,883,901	156,822,649	362,903,067	1,108,852,072	3,896,406	23,839,402	307,132,911	3,012,330,408
Accumulated depreciation and impairment	(144,808,331)	(31,661,218)	(126,103,441)	(299,809,743)	-	(8,342,279)	(6,163,761)	(616,888,773)

In 2015, the Group received property, plant and equipment of 50,816 thousand tenge from the ultimate shareholder/Shareholder (2014: 860,597 thousand tenge, including train stations and passenger platforms of 396,994 thousand tenge) and recognized them in the consolidated statement of changes in equity as a contribution to share capital and other contributions (Note 16).

As at 31 December 2015, capital construction in progress primarily comprises project costs for the construction of railway lines Zhezkazgan-Beineu and Arkalyk-Shubarkol of 142,091,568 thousand tenge (31 December 2014: 349,160,830 thousand tenge), the development of a railway junction at Astana station, including construction of a railway station of 54,124,453 thousand tenge (31 December 2014: 12,339,944 thousand tenge), construction of dry port and infrastructure of special economic zone "Khorgos-Eastern Gates" of 49,345,478 thousand tenge (2014: 335,446 thousand tenge).

As at 31 December 2015 and 2014, property, plant and equipment of the Group with a carrying value of 149,720,567 thousand tenge and 162,467,016 thousand tenge, respectively, was pledged as collateral for a portion of the Group's borrowings.

For the years ended 31 December 2015 and 2014, capitalized borrowing costs amounted to 5,411,762 thousand tenge and 4,457,583 thousand tenge, respectively. The average capitalization rate varied from 2.59% to 10% (2014: from 3.04% to 12%).

As at 31 December 2015 and 2014, the cost of fully depreciated property, plant and equipment which was still in use amounted to 235,488,259 thousand tenge and 208,896,610 thousand tenge, respectively.

As at 31 December 2015, the carrying value of property, plant and equipment under finance lease included in machinery and equipment and railway transport amounted to 4,161,879 thousand tenge (31 December 2014: 4,655,268 thousand tenge).

(in thousands of tenge unless otherwise is stated)

8. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Name	Principal activity	Place of incorporation and principal place of business	2015		2014	
			Carrying value	Share	Carrying value	Share
Associates:						
China-Kazakhstan International Logistics Company in Lianyungang	International multimodal transportation	China	10,792,218	49%	6,063,411	49%
Aktobe Rail and Section Mill Plant LLP	Production and sales of metal roll	Kazakhstan	-	30%	4,249,345	30%
Continental Logistics LLP	Construction and exploitation of transportation and logistics centers	Kazakhstan	-	30%	3,538,298	30%
Aktau Sea North Terminal LLP	Construction and exploitation of logistics, industrial and infrastructural constructions	Kazakhstan	-	40%	2,279,388	40%
Other			106,386	25-49%	168,722	25-49%
Total investments in associates			10,898,604		16,299,164	
Joint ventures:						
Logistic System Management B.V.	Forwarding services, handling rolling stock, terminal service	Kazakhstan (incorporated in Netherlands)	9,887,179	50%	7,280,213	50%
Locomotive Kurastyru Zauyty JSC	Assembly of locomotives	Kazakhstan	8,378,678	50%	9,526,378	50%
Astyk Trans LLP	Forwarding services for grain transportation and other agricultural products by railway	Kazakhstan	3,464,364	50%	3,024,081	50%
LLP Electrovoz kurastyru zauyty [1]	Cargo and passenger electric locomotives production	Kazakhstan	374,392	25%	1,040,304	25%
Other			-	50%	215,476	50%
Total investments in joint ventures			22,104,613		21,086,452	

[1] The Group owns 50% in the joint venture as at 31 December 2015 and 2014, where 25% is classified as held for sale in accordance with the Group's decision to sell (Note 15).

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(in thousands of tenge unless otherwise is stated)

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

As at 31 December, the movement in investments in associates and joint ventures was as follows:

	2015	2014
Associates		
At 1 January	16,299,164	1,943,788
Effect of foreign currency exchange differences	4,725,013	-
Contributions to charter capital without change in ownership share	3,645,194	2,828,375
Share of loss	(13,770,767)	(630,227)
Additions	-	12,157,228
At 31 December	10,898,604	16,299,164
Joint ventures		
At 1 January	21,086,452	24,746,576
Share of profit	1,583,056	675,551
Contributions to charter capital without change in ownership share	793,793	1,336,135
Dividends	(1,358,688)	(588,558)
Transfer to disposal groups classified as held for sale (Note 15)	-	(5,083,252)
At 31 December	22,104,613	21,086,452

As at 31 December 2015, the carrying value of investments in Aktobe Rail and Section Mill Plant LLP, Continental Logistics LLP and Aktau Sea North Terminal LLP decreased to zero. The unrecognized Group's share of loss in these entities amounted to 7,211,794 thousand tenge.

During 2015, the Group, represented by its subsidiary Remlocomotive JSC, made an additional cash contribution of 1,453,994 thousand tenge to Aktobe Rail and Section Mill Plant LLP. In addition, the Group, represented by its subsidiaries KTZ Express JSC and Aktau International Sea Commercial Port National Company JSC, made an additional cash contribution of 1,643,400 thousand tenge and 547,800 thousand tenge, respectively, to Aktau Sea North Terminal LLP.

During 2015, the Group, represented by its subsidiary Kaztemirtrans JSC, made an additional contribution by non-current assets to Astyk Trans LLP of 708,288 thousand tenge (2014: 1,336,135 thousand tenge) with the other joint venture party contributing non-current assets of the same value.

(in thousands of tenge unless otherwise is stated)

Summary financial information for the Group's material investments in associates as at 31 December and for the years then ended was as follows:

	2015				2014			
	China-Kazakhstan International Logistics Company in Lianyungang	Aktobe Rail and Section Mill Plant LLP	Continental Logistics LLP	Aktau Sea North Terminal LLP	China-Kazakhstan International Logistics Company in Lianyungang	Aktobe Rail and Section Mill Plant LLP	Continental Logistics LLP	Aktau Sea North Terminal LLP
Current assets	3,616,003	8,608,842	1,747,331	12,351,231	6,269,756	2,074,073	9,708,411	10,842,666
Non-current assets	18,718,986	74,672,980	31,239,237	22,763,567	6,913,194	54,785,380	6,745,894	2,424,664
Total assets	22,334,989	83,281,822	32,986,568	35,114,798	13,182,950	56,859,453	16,454,305	13,267,330
Current liabilities	310,054	13,516,573	11,703,912	3,642,958	808,642	5,121,060	4,659,979	7,568,859
Non-current liabilities	-	90,419,983	22,227,605	33,301,562	-	37,573,911	-	-
Total liabilities	310,054	103,936,556	33,931,517	36,944,520	808,642	42,694,971	4,659,979	7,568,859
Net assets	22,024,935	(20,654,734)	(944,949)	(1,829,722)	12,374,308	14,164,482	11,794,326	5,698,471
Group's ownership interest	49%	30%	30%	40%	49%	30%	30%	40%
Group's share of net assets	10,792,218	(6,196,420)	(283,485)	(731,889)	6,063,411	4,249,345	3,538,298	2,279,388
Carrying amount of investments	10,792,218	-	-	-	6,063,411	4,249,345	3,538,298	2,279,388
Revenue	811,478	674,032	944,524	-	402,055	-	-	-
(Loss)/profit for the year and total comprehensive (loss)/income	7,743	(39,665,863)	(12,739,277)	(13,006,193)	9,509	(1,697,941)	(205,673)	(73,529)
Group's recognized share of total comprehensive (loss)/income of associate	3,794	(5,703,339)	(3,538,298)	(4,470,588)	4,659	(509,382)	(61,702)	(29,412)

(in thousands of tenge unless otherwise is stated)

Summary financial information for the Group's material investments in joint ventures as at 31 December and for the years then ended was as follows:

	2015				2014			
	Logistic System Management B.V.	Locomotive Kurastyru Zauyty JSC	Astyk Trans LLP	Electrovoz kurastyru zauyty LLP	Logistic System Management B.V.	Locomotive Kurastyru Zauyty JSC	Astyk Trans LLP	Electrovoz kurastyru zauyty LLP
Current assets, including	11,028,571	15,528,088	8,749,928	48,265,560	4,950,645	29,032,928	5,699,863	19,248,894
Cash and cash equivalents	*4,037,034*	*219,368*	*1,267,603*	*127,326*	*1,125,010*	*118,760*	*198,016*	*3,300,589*
Non-current assets	10,831,288	15,939,512	1,225,593	17,476,854	11,110,299	16,124,788	2,633,252	15,599,696
Total assets	21,859,859	31,467,600	9,975,521	65,742,414	16,060,944	45,157,716	8,333,115	34,848,590
Current liabilities, including	4,590,978	11,166,252	2,948,695	57,986,857	3,892,362	19,839,073	2,284,954	15,857,629
Current financial liabilities (excluding trade and other payables and provisions)	*112,593*	*6,049,971*	-	*8,838,498*	*162,825*	*4,311,099*	-	*1,559,645*
Non-current liabilities, including	842,192	1,275,619	98,098	6,257,990	955,825	3,997,514	-	14,829,745
Non-current financial liabilities (excluding trade and other payables and provisions)	*450,370*	-	-	-	*715,107*	*2,108,422*	-	*8,545,863*
Total liabilities	5,433,170	12,441,871	3,046,793	64,244,847	4,848,187	23,836,587	2,284,954	30,687,374
Net assets	16,426,689	19,025,729	6,928,728	1,497,567	11,212,757	21,321,129	6,048,161	4,161,216
Group's ownership interest at year end	50%	50%	50%	25%	50%	50%	50%	25%
Group's share of net assets of joint ventures	8,213,345	9,512,865	3,464,364	374,392	5,606,379	10,660,565	3,024,081	1,040,304
Goodwill	1,673,834	-	-	-	1,673,834	-	-	-
Fair value adjustment of the remaining interest	-	(1,134,187)	-	-	-	(1,134,187)	-	-
Carrying amount of investments	9,887,179	8,378,678	3,464,364	374,392	7,280,213	9,526,378	3,024,081	1,040,304
Revenue	41,446,291	20,712,393	16,596,757	16,988,700	44,483,979	16,860,729	9,296,040	23,986,141
(Loss)/profit for the year and total comprehensive (loss)/income	5,213,931	(2,466,409)	2,181,365	(2,663,647)	2,883,246	(346,288)	3,108,424	(3,001,342)
Group's recognized share of total comprehensive (loss)/income of joint ventures	2,606,966	(1,233,205)	1,090,683	(665,912)	1,441,623	(173,144)	1,554,212	(1,500,671)

(in thousands of tenge unless otherwise is stated)

9. OTHER NON-CURRENT ASSETS

	31 December 2015	31 December 2014
Advances to suppliers for property, plant and equipment	67,150,813	121,811,497
VAT recoverable	27,178,359	35,005,242
Assets for sale to the Government	12,977,064	12,905,735
Loans given to employees	7,205,444	2,357,445
Prepaid expenses	4,323,531	-
Residential properties	1,766,689	20,895,758
Other	1,897,449	296,655
	122,499,349	193,272,332
Less: allowance for advances to suppliers for property, plant and equipment	(2,452,512)	(2,088,169)
Less: allowance for non-recoverable VAT	(20,199,445)	(18,327,445)
	99,847,392	172,856,718

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

	31 December 2015	31 December 2014
Construction of Zhezkazgan-Beineu and Arkalyk-Shubarkol railway lines	14,686,212	36,118,004
Supply of locomotives	12,864,944	30,311,060
Construction of dry port and infrastructure at Khorgos-Eastern Gates Special Economic Zone	4,154,798	21,364,520
Construction of a railway station in Astana	-	3,716,582
Other	35,444,859	30,301,331
	67,150,813	121,811,497

As at 31 December 2015 and 2014, non-current VAT recoverable represents amounts that arose from the purchases of goods, services, and property, plant and equipment and are expected to be recovered in more than one year.

Assets for sale to the Government

In 2011, the ultimate Shareholder issued the Company with a decree in which it requested that the Company should sell certain assets constructed within railway lines construction projects at a price yet to be agreed. The sale is expected to occur in 2017 at a price not less than the carrying value of the related assets. In these consolidated financial statements, such assets have been presented within other non-current assets. As at 31 December 2015, the carrying value of assets for sale to the Government is 12,977,064 thousand tenge (2014: 12,905,735 thousand tenge).

(in thousands of tenge unless otherwise is stated)

10. INVENTORIES

	31 December 2015	31 December 2014
Materials and supplies	10,764,000	9,476,025
Spare parts	7,056,514	8,247,164
Fuel	6,512,774	9,676,511
Upper railway components	2,946,970	4,383,572
Construction materials	869,095	1,351,208
Finished goods	485,040	576,934
Work in process	307,422	424,333
Other	782,127	1,015,781
Less: allowance for obsolete and slow-moving inventories	(408,647)	(336,613)
	29,315,295	34,814,915

11. TRADE ACCOUNTS RECEIVABLE

	31 December 2015	31 December 2014
Trade accounts receivable	21,017,888	12,881,564
Less: allowance for doubtful debts	(11,264,107)	(5,232,322)
	9,753,781	7,649,242
Current portion of trade accounts receivable	9,616,182	7,649,242
Non-current portion of trade accounts receivable	137,599	-
	9,753,781	7,649,242

The movements in the allowance for doubtful debts for the years ended 31 December were as follows:

	2015	2014
Allowance for doubtful debts at the beginning of the year	(5,232,322)	(4,658,654)
Provided for during the year	(6,174,680)	(1,284,515)
Transfer to disposal groups classified as held for sale	-	192,801
Written-off during the year against previously created allowance	142,895	517,393
Transfer to other current assets (Note 13)	-	653
Allowance for doubtful debts at the end of the year	(11,264,107)	(5,232,322)

As at 31 December, analysis of age of trade accounts receivables that are past due but not impaired were as follows:

	Total	Not past due and not impaired	Past due but not impaired		
			Less than 90 days	From 90 to 120 days	More than 120 days
2015	9,753,781	9,657,932	-	4,811	91,038
2014	7,649,242	7,513,475	-	95,180	40,587

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(in thousands of tenge unless otherwise is stated)

12. OTHER FINANCIAL ASSETS

	31 December 2015	31 December 2014
Amounts in credit institutions (short-term financial investments)	39,705,096	38,077,081
Loans given	2,502,804	-
Derivative financial instrument	-	4,677,996
Less: allowance on loans given	(562,131)	-
	41,645,769	42,755,077
Current portion of other financial assets	41,466,840	38,753,294
Non-current portion of other financial assets	178,929	4,001,783
	41,645,769	42,755,077

As at 31 December 2015, loans given are mainly represented by loans in tenge given to joint venture, Locomotive Kurastyru Zauyty JSC.

Amounts in credit institutions:

	31 December 2015	31 December 2014
Ratings from BBB-(Baa3) till BB-(Ba3)	349,592	50,000
Ratings from B+(B1) till B-(B3)	39,355,504	37,839,261
Ratings from C(C) till D(D)	-	187,820
	39,705,096	38,077,081

As at 31 December 2015, weighted average interest rate on amounts in credit institutions comprised 5.32% in US Dollars and 13.99% in tenge (2014: 4.57% in US Dollars, 6.68% in tenge).

Amounts in credit institutions as at 31 December were denominated in the following currencies:

	31 December 2015	31 December 2014
US Dollars	39,593,209	29,608,320
Tenge	111,887	8,468,761
	39,705,096	38,077,081

13. OTHER CURRENT ASSETS

	31 December 2015	31 December 2014
Other taxes prepaid	8,874,213	3,589,074
Claims, fines and penalties	7,667,593	5,286,620
Advances paid	4,644,594	3,189,532
Prepaid expenses	4,028,963	882,509
Restricted cash	2,393,520	734,044
Receivables from employees	1,448,224	621,446
Other	6,595,196	4,304,897
	35,652,303	18,608,122
Less: allowance for doubtful debts	(10,141,038)	(6,807,166)
	25,511,265	11,800,956

(in thousands of tenge unless otherwise is stated)

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

	2015	2014
Allowance for doubtful debts at the beginning of the year	(6,807,166)	(7,291,735)
Provided for the year	(3,605,099)	(1,770,332)
Written off during the year against previously created allowance	274,679	1,232,086
Transfer to disposal groups classified as held for sale	(3,452)	864,282
Transfer to other non-current assets	-	159,186
Transfer from trade accounts receivable (Note 11)	-	(653)
Allowance for doubtful debts at the end of the year	(10,141,038)	(6,807,166)

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents, including accrued interest, as at 31 December comprised the following:

	31 December 2015	31 December 2014
Cash in current accounts in tenge	35,443,413	49,164,829
Cash in current accounts in US Dollars	7,394,554	7,328,185
Cash in current accounts in other currencies	2,070,226	2,327,662
Short-term bank deposits in tenge	20,254,433	27,553,056
Short-term bank deposits in US Dollars	2,663,862	154,998
Petty cash	11,641	23,488
	67,838,129	86,552,218
Cash included in disposal groups classified as held for sale	7,065,392	3,412,549
	74,903,521	89,964,767

As at 31 December 2015, weighted average interest rate on cash on current accounts comprised 7.12% in tenge, 0.37% in US Dollars and 1.97% in other currencies (31 December 2014: 1.26%, 1.69% and 0.16%, accordingly).

Short-term bank deposits in tenge and in foreign currency are placed for varying periods of up to three months depending on the Group's immediate cash requirements. As at 31 December 2015, weighted average interest rate on short-term bank deposits comprised 37.34% in tenge and 5.21% in US Dollars (31 December 2014: 12.91% in tenge and 0.04% in US Dollars).

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

In July 2014, as part of the Government privatization plan for 2014-2016, the Shareholder approved a list of the Group's subsidiaries, associates and joint ventures subject to disposal to private investors.

The complex plan of privatization for 2016-2020 years was approved by the Government of the Republic of Kazakhstan in December 2015. As at 31 December 2015, management of the Group has not approved the updated list of the Group's subsidiaries, associates and joint ventures subject to disposal (Note 32).

As at 31 December 2015 and 2014, assets and liabilities of the subsidiaries satisfying criteria of non-current assets held for sale were classified as disposal groups in the consolidated financial statements.

Tulpar-Talgo LLP

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

As at 31 December 2015, the conditions are not met due to administrative delays and the transaction is considered as incomplete. However, management believes that main condition will be fulfilled and the transaction will be completed during 2016.

Administrative building 'Emerald Quarter'

In December 2015 the Group entered into an agreement with a third party relating to the sale of the administrative building 'Emerald Quarter' for the amount of 24,300,000 thousand tenge including VAT. The Group classified the administrative building of 15,062,484 thousand tenge as a non-current asset held for sale.

(in thousands of tenge unless otherwise is stated)

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

	As at 31 December 2015			As at 31 December 2014				
	Tulpar-Talgo LLP	Other	Total	Subsidiaries of Kamkor Repair Corporation LLP	KWCC LLP	Tulpar-Talgo LLP	Other	Total
Assets								
Property, plant and equipment	-	357,185	357,185	29,864,361	6,792,387	-	338,287	36,995,035
Intangible assets	-	1,049	1,049	374,472	197,463	-	1,661	573,596
Other non-current assets	-	-	-	8,067	126,221	-	26,088	160,376
Inventories	-	40,767	40,767	9,133,271	263,176	-	65,689	9,462,136
Trade accounts receivable	-	34,049	34,049	1,234,340	540	-	26,134	1,261,014
Other current assets	-	15,648	15,648	2,277,887	566,221	-	21,597	2,865,705
Cash and cash equivalents	-	124,472	124,472	2,767,070	45,270	-	39,406	2,851,746
Assets of newly acquired subsidiary	18,074,855	-	18,074,855	-	-	11,174,091	-	11,174,091
Total assets of disposal groups classified as held for sale	18,074,855	573,170	18,648,025	45,659,468	7,991,278	11,174,091	518,862	65,343,699
Transfer from investments in joint ventures	-	1,040,303	1,040,303	-	-	-	1,040,303	1,040,303
Administrative building 'Emerald Quarter'	-	15,062,484	15,062,484	-	-	-	-	-
Other	-	-	-	-	-	-	899,087	899,087
Total non-current assets classified as held for sale	-	16,102,787	16,102,787	-	-	-	1,939,390	1,939,390
Total non-current assets and assets of disposal groups classified as held for sale	18,074,855	16,675,957	34,750,812	45,659,468	7,991,278	11,174,091	2,458,252	67,283,089
Liabilities								
Loans	-	-	-	2,746,444	2,140,705	-	-	4,887,149
Employee benefit obligations	-	20,183	20,183	1,412,695	36,463	-	68,697	1,517,855
Deferred tax liabilities	-	13,720	13,720	2,344,508	-	-	14,170	2,358,678
Trade accounts payables	-	19,668	19,668	13,332,815	3,541,103	-	106,104	16,980,022
Other taxes	-	21,208	21,208	1,949,820	19,037	-	34,491	2,003,348
Other non-current liabilities	-	-	-	170,168	-	-	-	170,168
Other current liabilities	-	34,703	34,703	3,307,217	202,106	-	94,335	3,603,658
Liabilities of newly acquired subsidiary	4,344,278	-	4,344,278	-	-	2,066,087	-	2,066,087
Total liabilities of disposal groups classified as held for sale	4,344,278	109,482	4,453,760	25,263,667	5,939,414	2,066,087	317,797	33,586,965
Net assets of disposal group	13,730,577	-	-	20,395,801	2,051,864	9,108,004	-	-

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(in thousands of tenge unless otherwise is stated)

Discontinued operations

The Group has presented the results of operations of subsidiaries of Kamkor Repair Corporation LLP and Tulpar-Talgo LLP in the consolidated statement of profit or loss and other comprehensive income as discontinued operations.

On 4 May 2015, the Group sold its ownership interest in the subsidiaries of Kamkor Repair Corporation LLP to a third party, based on the sale and purchase agreement of the ownership interest in subsidiaries dated 31 December 2014.

The assets and liabilities of disposed subsidiaries of Kamkor Repair Corporation LLP are presented as follows at the date of disposal:

	As at 4 May 2015
Assets	
Property, plant and equipment	30,096,095
Intangible assets	374,472
Other non-current assets	20,520
Inventories	13,317,926
Trade accounts receivable	22,074,751
Other current assets	10,737,214
Cash and cash equivalents	4,218,292
Total assets of disposal groups classified as held for sale	80,839,270
Liabilities	
Loans	4,083,755
Employee benefit obligations	1,412,695
Deferred tax liabilities	2,365,327
Trade accounts payables	18,332,427
Other taxes	1,586,450
Other non-current liabilities	94,147
Other current liabilities	24,642,312
Total liabilities of disposal groups classified as held for sale	52,517,113
Net assets of disposal group	28,322,157

Net cash inflows relating to the disposal of subsidiaries of Kamkor Repair Corporation LLP are as follows:

	2015
Consideration received	16,029,070
Less cash and cash equivalents disposed of	(4,218,292)
Net cash inflow	11,810,778

(in thousands of tenge unless otherwise is stated)

The results of the discontinued operations were as follows:

	2015		
	Subsidiaries of Kamkor Repair Corporation LLP	Tulpar-Talgo LLP	Total
Revenue	1,410,052	-	1,410,052
Cost of sales	(454,820)	-	(454,820)
General and administrative expenses	(1,514,943)	(1,681,547)	(3,196,490)
Other income and expenses	34,906	(91,585)	(56,679)
Finance income	41,442	34,942	76,384
Finance cost	(97,911)	(238,129)	(336,040)
Foreign exchange gain	42,433	327,255	369,688
Loss before tax	(538,841)	(1,649,064)	(2,187,905)
Income tax expenses	(750,700)	(324,142)	(1,074,842)
Loss from discontinued operations for the year	(1,289,541)	(1,973,206)	(3,262,747)
Consideration from disposed subsidiaries	16,029,070	-	16,029,070
Disposed net assets	(28,322,157)	-	(28,322,157)
Disposed non-controlling interest	13,389,698	-	13,389,698
Income on disposed subsidiaries:	1,096,611	-	1,096,611
Loss from discontinued operations for the period	(192,930)	(1,973,206)	(2,166,136)
Basic loss per share (in tenge)	(2)	(3)	(5)

	2014		
	Subsidiaries of Kamkor Repair Corporation LLP	Tulpar-Talgo LLP	Total
Revenue	3,975,307	-	3,975,307
Cost of sales	(2,006,069)	-	(2,006,069)
General and administrative expenses	(5,408,678)	277,257	(5,131,421)
Loss from impairment of assets	(8,415)	-	(8,415)
Other income	344,518	74,525	419,043
Finance income	256,461	-	256,461
Finance costs	(380,644)	-	(380,644)
Foreign exchange (loss)/gain	(193,294)	5,423	(187,871)
(Loss)/profit before tax	(3,420,814)	357,205	(3,063,609)
Income tax expenses	(1,686,744)	-	(1,686,744)
(Loss)/profit from discontinued operations for the year	(5,107,558)	357,205	(4,750,353)
Basic (loss)/earning per share (in tenge)	(10)	1	(9)

The cash flows from discontinued operations of subsidiaries of Kamkor Repair Corporation LLP are presented as follows:

	2015	2014
Net cash inflows from operating activities	739,594	306,571
Net cash outflows from investing activities	(678,487)	(2,056,034)
Net cash inflows/(outflows) from financing activities	1,392,687	(3,906,946)
Net cash inflows/(outflows)	1,453,794	(5,656,409)

16. EQUITY

Share capital as at 31 December 2015 and 2014 comprised the following:

	Number of shares authorized	Number of shares issued and paid	Share capital, in thousands of tenge
At 1 January 2014	502,040,458	491,297,819	683,932,991
New shares issued	-	330,200	109,396,994
At 31 December 2014	502,040,458	491,628,019	793,329,985
At 1 January 2015	502,040,458	491,628,019	793,329,985
New shares issued	-	3,070,025	72,063,911
At 31 December 2015	502,040,458	494,698,044	865,393,896

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

Contributions

Contributions to share capital

During 2015, additions to share capital were as follows:

(a) an issue of 361,907 shares for which cash of 36,190,700 thousand tenge was received. This capital was received to finance construction of Zhezkazgan-Beineu and Arkalyk-Shubarkol railway lines;
(b) an issue of 67,000 shares for which cash of 6,700,000 thousand tenge was received. This capital was received for completion of the project "Completion of construction Borzhaty-Yersai railway lines";
(c) an issue of 48,000 shares for which cash of 4,800,000 thousand tenge was received. This capital was received for completion of the project "Construction of ferry in village Kyryk";
(d) an issue of 83,000 shares for which cash of 8,300,000 thousand tenge was received. This capital was received for completion of the project "Construction of second railway lines on sector Shu-Almaty 1";
(e) an issue of 2,472,492 shares for which cash of 12,348,237 thousand tenge was received. This capital was received for completion of the project "Construction of second railway lines on sector Shu-Almaty 1" и "Creation and complex development of special economic zone "Khorgos-Eastern Gates";
(f) an issue of 37,626 shares for which 35% of shares in subsidiary Kazakh Academy of Transport and Communications named after M.Tynyshpaev JSC for the total amount of 3,724,974 thousand tenge were received (Note 29).

During 2014, additions to share capital were as follows:

(a) a transfer from additional paid-in capital to share capital to reflect legal registration for the issue of 30,000 of shares for which a cash contribution of 30,000,000 thousand tenge was received in 2013;
(b) an issue of 299,500 shares in total for which cash of 79,000,000 thousand tenge was received during 2014. This capital was received to finance construction of Zhezkazgan-Beineu and Arkalyk-Shubarkol railway lines; and
(c) an issue of 700 shares for which passengers platforms and train stations valued at 396,994 thousand tenge were received of (Note 7).

(in thousands of tenge unless otherwise is stated)

Other contributions

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

	2015	2014
Property, plant and equipment by the Company	50,816	463,603
Property, plant and equipment received by subsidiaries	-	171,989
Benefit recognized for the loans received at below market rate of interest	7,116,385	9,701,499
	7,167,201	10,337,091

During 2015, the Company received property, plant and equipment valued at 50,816 thousand tenge (2014: 463,603 thousand tenge) for which no shares were issued in exchange.

During 2014, the Group, through its subsidiary, Kaztransservice JSC, received from the Government a long-term right for the use of land plots of 171,989 thousand tenge.

During 2014, a fair value adjustment to loans of 8,895,481 thousand tenge (2014: 12,126,873 thousand tenge) less deferred tax of 1,779,096 thousand tenge (2014: 2,425,374 thousand tenge) was recognized (Note 17).

These contributions were recognized directly in the Group's retained earnings.

Foreign currency translation reserve

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

Cash flow hedging reserve

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

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

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

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

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

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

As at 31 December 2015, the effective part of 43,491,357 thousand tenge was recognized through other comprehensive income in the cash flow hedging reserve.

(in thousands of tenge unless otherwise is stated)

Dividends and other distributions

Dividends

During 2015, the Company declared dividends of 4,559,619 thousand tenge in respect of 2014 results (2014: 16,165,051 thousand tenge in respect of 2013 results).

As at 31 December 2015, the amount of dividends payable to the Shareholder was to 16,424,670 thousand tenge (31 December 2014: 12,165,051 thousand tenge) (Notes 21 and 30).

Other distributions

During 2015, due to an increase in the budgeted cost, the Group accepted an additional irrevocable commitment for the construction of a kindergarten in Astana and, as a result, recognized a distribution to the Shareholder of 952,660 thousand tenge, which is equal to the corresponding construction agreement.

In 2014, the Group entered into an irrevocable commitment with the Kazakhstan Government for the construction of additional facilities in the multifunctional ice palace and, as a result, additionally recognized a distribution to the Shareholder of 23,595,513 thousand tenge, which is equal to the amount of respective additional construction agreement.

During 2014, the Group accepted entered into an irrevocable commitment for construction of a kindergarten in Astana of 750,000 thousand tenge and the transfer of social facilities to the Mangistau municipality of 313,694 thousand tenge (Note 30).

17. BORROWINGS

Borrowings, including accrued interest, as at 31 December comprised the following:

	31 December 2015		31 December 2014	
	Amount	Weighted-average interest rate (%)	Amount	Weighted-average interest rate (%)
Borrowings with fixed interest rate				
Loans	467,861,572	8.42	364,821,941	6.85
Debt securities	852,871,232	6.36	457,017,615	6.17
Borrowings with floating interest rate:				
Loans	53,905,289	3.78	32,976,678	3.53
	1,374,638,093		854,816,234	
Current portion of borrowings	199,754,238		45,800,422	
Non-current portion of borrowings	1,174,883,855		809,015,812	
	1,374,638,093		854,816,234	

Borrowings, excluding debt securities, are repayable as follows:

	31 December 2015	31 December 2014
Within 1 year	75,052,223	42,676,856
1 to 2 years	48,110,930	24,635,806
2 to 3 years	123,084,189	104,071,931
3 to 4 years	35,361,210	30,083,077
4 to 5 years	34,119,006	22,004,290
Over 5 years	206,039,303	174,326,659
	521,766,861	397,798,619

(in thousands of tenge unless otherwise is stated)

Borrowings as at 31 December were denominated in currencies as follows:

	31 December 2015	31 December 2014
US Dollars	916,750,198	503,748,670
Tenge	280,656,118	254,719,666
Euro	72,263,520	39,374,967
Other currencies	104,968,257	56,972,931
	1,374,638,093	854,816,234

Loans

During 2015, the Group received the following loans:

EBRD

Under the loan agreement dated 19 December 2013 with the European Bank for Reconstruction & Development ("EBRD") for the total amount of 40,000,000 US Dollars on the financing of the project "Purchase and installation of the components of the energy efficiency in the stationary devices, such as heat pumps, solar collectors, effective lightening, gas boilers", the Group drew credit funds of 7,250,000 US Dollars (1,746,882 thousand tenge) during 2015.

Shareholder

On 22 July 2015, the Group entered into a loan agreement with the Shareholder for the total amount of 8,862,000 thousand tenge. This loan is granted on the renewal of rolling stock for passenger coaches at the subsidiary Passenger Transportation JSC. The loan is not secured. Interest on the loan is repayable in semi-annual instalments from 5 May 2016 at the interest rate of 0.08%. A grace period for principal amount is provided of ten years, after which payments will be made in equal annual instalments until full repayment in 2045. The Group has the right to early repay all or part of the loan as agreed with the Shareholder without premium or penalty.

The loan was granted at a below market interest rate, and the fair value of the loan was calculated based on an interest rate of 7.38%. During 2015, the Group recognized a fair value adjustment to the loan of 6,422,912 thousand tenge net of deferred tax of 1,284,582 thousand tenge with an offsetting adjustment to retained earnings.

HSBC France

In accordance with the General Framework Agreement with HSBC France, HSBC Bank Plc and HSBC Kazakhstan SB JSC, and with support from export-credit agency COFACE, concluded on 31 May 2012 for the financing of cargo and passenger electric locomotives purchase in the total amount of 880,877,000 Euro and additional agreements to them, the Group, represented by its subsidiary JSC Locomotive, drew credit funds of 26,434,496 Euro (5,494,788 thousand tenge) during 2015 (including the premium paid to COFACE). The annual effective interest rate on the loan amounted to 13.5% for the year ended 31 December 2015.

Development Bank of Kazakhstan

In accordance with the credit line agreement with Development Bank of Kazakhstan, concluded on 26 June 2014 for the total amount of 25,420,927 thousand tenge to finance the project for the construction of a hardware and software communications platform along the railway lines, the Group, represented by its subsidiary Transtelecom JSC, drew credit funds of 9,118,390 thousand tenge during 2015. The effective interest rate on the loan was 9.5% per annum for the year ended 31 December 2015.

On 31 July 2015, the Group entered into an agreement with the Development Bank of Kazakhstan for the total amount of 5,000,000 thousand tenge. The loan was granted to finance the purchase of passenger coaches for Passenger Leasing Wagon Company JSC and Passenger Transportation JSC. The loan is not secured. Interest on the loan is repayable in semi-annual instalments at the annual interest rate of 1.75%. A grace period for the principal amount is provided of ten years, after which payments will be made in equal semi-annual instalments until full repayment in 2035. The loan was granted at a below market interest rate, and the fair value of the loan was calculated based on an interest rate of 7.38%.

(in thousands of tenge unless otherwise is stated)

During 2015, the Group recognized a fair value adjustment of the loan of 2,472,569 thousand tenge net of deferred tax of 494,514 thousand tenge in retained earnings.

Eurasian Development Bank JSC

In accordance with the loan agreement on non-renewable credit line concluded on 2 April 2013 with Eurasian Development Bank JSC for realization of the project "Automated Control System Energy Dispatching Traction" for the total amount of 17,513,000 thousand tenge, the Group, represented by its subsidiary Transtelecom JSC, drew credit funds of 5,321,239 thousand tenge during 2015 with annual interest rate of 7.7%. In connection with market changes the bank increased the interest rate from 7.7% to 9% starting from 26 November 2015. A grace period for the principal amount is provided for two years, after which payments will be made in equal semi-annual instalments until full repayment in October 2020. Interest is paid semi-annually. The effective interest rate on the loan was 10.66% per annum for the year ended 31 December 2015. The loan is guaranteed by the Company.

In accordance with the credit line agreement concluded on 30 October 2014 with Eurasian Development Bank JSC for the total amount of 7,500,000 thousand tenge to refinance the loan from Sberbank of Russia JSC for the project "Automated Control System Energy Dispatching Traction" and financing tight area equipment in Astana, the Group, represented by its subsidiary Transtelecom JSC, drew credit funds of 260,563 thousand tenge during 2015. The effective interest rate on the loan was 13.1% per annum for the year ended 31 December 2015. Loan is guaranteed by the Company.

Halyk Bank of Kazakhstan JSC

In accordance with the credit line agreement concluded with Halyk Bank JSC, during 2015, the Company borrowed short-term loans of 33,000,000 thousand tenge for replenishment of working capital at the interest rate of 12% per annum and maturity of twelve months, without collateral. Interest is paid monthly. The Company repaid the loan of 30,000,000 thousand tenge in advance.

Debt securities

Debt securities as at 31 December comprised the following:

	Maturity date	Markets	31 December 2015	31 December 2014
Eurobonds issued at price				
6.95% Eurobonds (105.521%)	10 July 2042	LSE/KASE	391,928,889	210,065,888
6.375% Eurobonds (100%)	6 October 2020	LSE	241,414,460	129,331,623
7.00% Eurobonds (98.292%)	11 May 2016	SGX-ST	120,045,700	64,206,382
3.638% Eurobonds (100%)	20 June 2022	SIX Swiss Exchange	64,696,345	34,737,623
2.59% Eurobonds (100%)	20 June 2019	SIX Swiss Exchange	34,785,838	18,676,099
Total debt securities issued			852,871,232	457,017,615
Current portion of debt securities			124,702,015	3,123,566
Long-term portion of debt securities			728,169,217	453,894,049
			852,871,232	457,017,615

On 24 July 2015, the Group entered into loan agreement with EBRD, under which the Group may draw up to 300 million US Dollars to refinance the Eurobonds maturing in 2016. As at 31 December 2015, the funds were undrawn.

Fair value of the borrowings is disclosed in Note 31.

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(in thousands of tenge unless otherwise is stated)

Covenants and breach of loan agreements

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

As at 31 December 2015, the Group negotiated with creditors to change thresholds for financial covenants in order to avoid the non-compliance on obligations to creditors. As at 31 December 2015, waivers were received on credit agreements concluded with EBRD, HSBC France and Development Bank of Kazakhstan.

On 16 November 2015, the Group, represented by its subsidiary Vostokmashzavod JSC, delayed payment of interest and principal on the loans from Halyk Bank of Kazakhstan JSC of 528,927 thousand tenge on the loans with a carrying value of 15,671,396 thousand tenge. During the period from November to December 2015 Vostokmashzavod JSC delayed payment of interest and principal on the loans in accordance with the repayment schedule of 1,130,839 thousand tenge. The delay had arisen in connection with the postponement of the investment project implementation for which these loans were drawn. As at 31 December 2015 and 2014, the loans were classified within current portion of borrowings.

18. EMPLOYEE BENEFIT OBLIGATIONS

Defined benefits scheme and other non-current employee benefits

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

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

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

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

	2015	2014
Total liability at the beginning of the year	30,156,756	30,227,410
Current service cost	1,258,561	1,172,037
Past service cost	635,214	567,162
Interest cost	2,064,322	1,868,199
Actuarial remeasurement recognized in other comprehensive (loss)/income	(152,951)	257,013
Benefits paid during the year	(2,951,913)	(2,063,208)
Actuarial loss/(gain) recognized in profit and loss during the year	647,973	(327,096)
Transfer to disposal groups classified as held for sale	36,463	(1,517,855)
Disposal of subsidiaries	(10,772)	(26,906)
Total liability at the end of the year	31,683,653	30,156,756
Including liabilities due within a year	3,254,055	2,977,924
Liabilities due after one year	28,429,598	27,178,832
	31,683,653	30,156,756

(in thousands of tenge unless otherwise is stated)

The total amounts recognized in profit and loss in respect to these defined benefit obligations and other long term benefits during 2015 and 2014 were as follows:

	2015	2014
Cost of sales (Note 23)	4,006,107	2,749,703
General and administrative expenses (Note 24)	599,143	363,033
Recognized in profit and loss during the year	4,605,250	3,112,736

The estimates of the Group's obligations were made based on the published statistical data regarding mortality and the actual Group's data concerning the number, age, sex and years of service of the employees and pensioners and the Group's turnover statistics. Other significant actuarial assumptions at the reporting date were as follows:

	2015	2014
Discount rate	7.29%	6.70%
The expected rate of future annual material assistance increases	5.90% (average)	4.50%
The expected rate of future annual minimum salary increases	7.20% (average)	4.50%
The expected rate of future annual railway ticket price increases	10.20% (average)	7.50%

Based on sensitivity analysis made by the actuary, the maximum increase in employee benefits obligation is 10.1%, which may result in case of inflation rate increase by 1%.

19. INCOME TAX EXPENSES

Income tax expense for the years ended 31 December comprised the following:

	2015	2014
Current income tax expense	3,403,820	1,655,405
Adjustment in respect of prior years	1,772,332	4,367,057
Deferred income tax (benefit)/expense	(13,132,112)	15,082,158
	(7,955,960)	21,104,620

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

	2015	2014
(Loss)/profit before taxation from continuing operations	(465,771,533)	59,411,764
Statutory tax rate	20%	20%
Theoretical tax expense at the statutory rate	(93,154,307)	11,882,353
Tax effect of expenses/(gains) that are not deductible/(not taxable) for tax purposes:		
Adjustment in respect of previous years	1,772,332	4,367,057
Non-deductible expenses	21,957,041	3,703,632
Change in unrecognized deferred tax assets	61,468,974	1,151,578
Income tax (benefit)/expense recognized in profit or loss (relating to continuing operations)	(7,955,960)	21,104,620

(in thousands of tenge unless otherwise is stated)

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

	31 December 2015	31 December 2014
Deferred tax assets:		
Tax losses carried forward	97,725,451	59,550,920
Differences in accounts receivable	3,908,672	1,017,705
Accrued liabilities to employees	2,457,249	2,644,862
Adjustment to fair value of loans given	2,238,931	-
Other	344,272	1,229,276
	106,674,575	64,442,763
Deferred tax liabilities:		
Property, plant and equipment and other non-current assets	(284,778,900)	(256,489,621)
Adjustment to fair value of loans received	(49,942,550)	(48,833,534)
Prepaid expenses	(1,473,980)	-
	(336,195,430)	(305,323,155)
Total net deferred tax liabilities	(229,520,855)	(240,880,392)

	2015	2014
Net deferred income tax liability as at the beginning of the year	(240,880,392)	(225,465,889)
Recorded in profit or loss	13,132,112	(15,082,158)
Recorded in the consolidated statement of changes in equity	(1,779,096)	(2,425,374)
Transfer to liabilities of disposal groups classified as held for sale	-	2,082,419
Transfer from liabilities of discontinued operations classified as assets held for sale	25,881	-
Disposal of subsidiaries	(19,360)	7,799
Addition at business combination	-	2,811
Net deferred income tax liability as at the end of the year	(229,520,855)	(240,880,392)

The Group has not recognized deferred tax assets relating to tax losses carried forward and indexation of liabilities on intragroup loans. In management's opinion, there is no high probability that there will be sufficient taxable income available in the future against which such deferred tax assets can be utilized. The total tax effect of unrecognized tax losses carried forward as at 31 December 2015 amounted to 64,231,715 thousand tenge (31 December 2014: 2,762,741 thousand tenge). These tax losses carried forward expire in ten years from the date they were incurred.

20. TRADE ACCOUNTS PAYABLE

	31 December 2015	31 December 2014
Accounts payable for services	37,498,000	18,850,886
Accounts payable for property, plant and equipment	36,658,975	42,268,980
Accounts payable for inventory	22,823,523	30,220,420
Other accounts payable	301,129	321,595
	97,281,627	91,661,881

(in thousands of tenge unless otherwise is stated)

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

	2015	2014
Tenge	91,115,840	86,141,243
US Dollars	3,319,841	3,864,069
Swiss francs	481,334	354,334
Other currencies	2,364,612	1,302,235
	97,281,627	91,661,881

The average credit period taken for trade purchases is 55 days (2014: 48 days).

21. OTHER CURRENT LIABILITIES

	31 December 2015	31 December 2014
Advances received	41,227,532	33,980,380
Dividends payable (Note 16)	16,424,670	12,165,051
Unused vacation provision	11,265,432	11,712,051
Salaries payable	5,672,409	13,901,586
Deferred income	5,225,137	5,402,894
Obligatory pension and social contributions	3,971,576	4,795,270
Other liabilities	4,663,680	4,050,359
	88,450,436	86,007,591

As at 31 December 2015 and 2014, current salaries payable and other liabilities were mainly denominated in tenge.

22. OTHER REVENUE

	2015	2014
Revenue from the sale of goods and provision of other services	34,205,138	30,723,010
Penalties received	3,745,845	5,278,256
	37,950,983	36,001,266

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

Penalties received represent mainly revenue earned on the assessment of penalties on the late pickup of cargo cars for breach of contract terms.

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(in thousands of tenge unless otherwise is stated)

23. COST OF SALES

	2015	2014
Personnel costs, including taxes, contributions and unused vacation provision	221,317,879	235,081,510
Depreciation and amortization	101,167,501	96,798,415
Fuels and lubricants	66,084,788	97,460,902
Repair and maintenance	61,254,031	35,048,885
Services	51,628,796	53,509,070
Materials and supplies	40,531,685	49,474,274
Electricity	40,493,849	41,104,592
Taxes	13,135,123	9,874,758
Employee benefit expense (Note 18)	4,006,107	2,749,703
Utilities and building maintenance	2,619,378	2,066,419
Business trip expenses	2,369,449	3,060,364
Communication services	2,345,473	1,672,696
Insurance	2,153,006	2,008,664
Operating lease expenses	2,054,205	2,047,521
Transportation services	1,088,870	888,445
Other	10,718,299	11,047,303
	622,968,439	643,893,521

24. GENERAL AND ADMINISTRATIVE EXPENSES

	2015	2014
Personnel costs, including taxes, contributions and unused vacation provision	33,234,233	33,016,956
Property tax and other taxes	10,996,431	12,321,648
Allowances for doubtful debts	9,780,281	3,054,967
Depreciation and amortization	5,994,708	4,096,658
Consulting, audit and legal services	4,461,762	2,744,182
Business trip expenses	1,077,727	1,224,613
Bank services	922,209	819,243
Utilities and building maintenance	811,470	1,067,104
Advertising expenses	747,353	1,101,480
Employee benefit expenses (Note 18)	599,143	363,033
Materials	593,925	723,029
Charities and sponsorship	521,180	3,758,595
Other services of third parties	457,157	715,639
Social sphere objects maintenance	397,684	351,744
Expenses on holiday and cultural events	375,893	1,581,485
Professional trainings and qualifications	293,150	455,558
Repair and maintenance	247,006	247,812
Operating lease expenses	227,645	250,928
Insurance	210,895	200,329
Other	6,502,393	3,231,748
	78,452,245	71,326,751

(in thousands of tenge unless otherwise is stated)

25. FINANCE INCOME

	2015	2014
Interest income on cash and cash equivalents	3,783,951	2,553,805
Interest income on amounts in credit institutes (short-term financial investments)	1,849,215	2,504,113
Change in fair value of derivative financial asset designated as at fair value through profit or loss	-	4,677,996
Other finance income	367,705	793,899
	6,000,871	10,529,813

26. FINANCE COSTS

	2015	2014
Interest expense on borrowings	60,331,502	46,032,035
Change in fair value of derivative financial asset designated as at fair value through profit or loss	4,350,988	-
Finance leasing expense	1,323,880	948,918
Other finance cost	164,229	-
	66,170,599	46,980,953

27. EARNINGS PER SHARE

Basic earnings per share are calculated based on the weighted average number of common shares outstanding during the year. Basic and diluted per share data are the same, as there are no material dilutions.

	2015	2014
Weighted average number of common shares	492,114,758	491,363,675
(Loss)/profit for the year attributable to the owner of the Company (thousand tenge)	(460,875,531)	30,397,462
(Loss)/profit per common share (tenge)	(937)	62
(Loss)/profit for the year from continued operations attributable to the owner of the Company (thousand tenge)	(458,709,395)	35,147,815
(Loss)/profit from continued operations per common share (tenge)	(932)	71
Net assets, excluding intangible assets and non-controlling interests	955,626,787	1,380,951,130
Number of common shares in issue	494,698,044	491,628,019
Carrying value per share[2], tenge	1,932	2,809

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

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28. FINANCIAL AND CONTINGENT LIABILITIES

Capital commitments

As at 31 December 2015, the Group had capital commitments for the construction of railway lines Zhezkazgan-Beineu and Arkalyk-Shubarkol, development of railway junction in Astana including railway station, construction of the multifunctional ice palace in Astana, construction of the dry port and objects of infrastructure of the special economic zone Khorgos-East Gate, construction of primary railway transportation communication network, acquisition of freight and passenger electric locomotives, freight and passenger wagons, diesel locomotives totaling 409,412,239 thousand tenge (31 December 2014: 555,845,899 thousand tenge). This amount includes commitments for the purchase of passenger locomotives from the joint venture, Electrovoz Kurastyru Zauyty LLP of 179,246,693 thousand tenge (31 December 2014: 168,069,016 thousand tenge) to be supplied up to 31 December 2020, locomotives from the joint venture of Locomotive Kurastyru Zauyty JSC of 41,849 thousand tenge (31 December 2014: 80,637,394 thousand tenge).

Contingent liabilities

Legal claims

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

Kazakhstan taxation contingencies

As at 31 December 2015, contingent liabilities related to Kazakhstan taxation comprised the following:

During the thematic tax audit of VAT refund carried out for the periods from 2009 to September 2010, the tax authorities revealed that VAT amounts of 3,881,862 thousand tenge claimed for refund, but not confirmed by counter check of suppliers, and assessed a penalty of 2,354,669 thousand tenge.

As at 31 December 2015, the Group did not accrue provisions for these amounts, since the Group believes that actions of tax authorities contradict tax law and the Group intends to defend its position in the court and state bodies.

Due to the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, may be in excess of the amount expensed to date and accrued as at 31 December 2015. It is not practicable to determine the amount of any unasserted claims that may manifest, if any, or the likelihood of any unfavorable outcome.

Insurance

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

(in thousands of tenge unless otherwise is stated)

Other contingencies

Guarantees

As at 31 December 2015, Guarantees comprised the following:

	Guarantee purpose	Guarantee issued date	Guarantee maturity	Guarantee amount
ATF Bank JSC	Execution of obligations on loan agreement on refinancing the loan provided on 4 August 2008 ABN Amro Bank N.V. (The Royal Bank of Scotland) for the purpose of locomotive assembly plant construction in Astana. Waiver from the creditor was received as at 31 December 2015	27 January 2011	till 2016	95,000,000 US Dollars (32,300,950 thousand tenge)
Eurasian Development Bank	execution of obligations of the joint venture Electrovoz Kurastyru Zauyty LLP on financing construction of the plant for production of locomotives	17 September 2012	till 2022	2,370,000 thousand tenge
Development Bank of Kazakhstan JSC	Execution of obligations of the associate Aktobe Rail and Section Mill Plant LLP on financing construction of rail and section mill plant in Aktobe. Waiver on non-application of financial covenants from the creditor was received as at 31 December 2015	4 July 2013	till 2023	13,353,126 thousand tenge

As at 31 December 2015 and 2014, the Group has not recognized a liability in relation to the above listed guarantees.

(in thousands of tenge unless otherwise is stated)

29. SUBSIDIARIES

Information about the composition of the Group at the end of the reporting period is included in the following table:

Subsidiary	Nature of activities	Country of residence	Ownership share, %	
			2015	2014
1. Kaztemirtrans JSC	Operation of cargo wagons	Kazakhstan	100	100
2. Passenger Transportation JSC	Passenger transportation	Kazakhstan	100	100
3. Locomotive JSC	Locomotive haul services	Kazakhstan	100	100
4. KTZ Express JSC	Formation of transport and logistics	Kazakhstan	100	100
5. Temirzholsu JSC	Utilities	Kazakhstan	100	100
6. Remlocomotive JSC	Repair of locomotives	Kazakhstan	100	100
7. Almaty Wagon Repair Plant JSC	Repair of wagons	Kazakhstan	100	100
8. Locomotive Service Center JSC	Repair of locomotives	Kazakhstan	100	100
9. Kaztransservice JSC	Transit cargo transportation	Kazakhstan	100	100
10. Transtelecom JSC	Communication services	Kazakhstan	100	100
11. Magistal kyzmet LLP (Lesozashita LLP)	Protection of railway transportation property from unfavorable weather conditions	Kazakhstan	100	100
12. Center of Transport Service JSC	Operating of local railway lines	Kazakhstan	-	100
13. Militarized Railway Guard JSC	Security services	Kazakhstan	100	100
14. Akzhaiyk Zapad 2006 LLP	Flushing and steaming of wagons	Kazakhstan	-	100
15. Kamkor Repair Corporation LLP	Repair of railway rolling stock and mainline railway track	Kazakhstan	100	100
16. Vokzal-service JSC	Railway stations activities	Kazakhstan	100	100
17. Kazakh Academy of Transport and Communications named after M.Tynyshpaev JSC	Education, training and retraining	Kazakhstan	100	65
18. Aktau International Sea Commercial Port National Company JSC[3]	Sea port services, loading, unloading vessels servicing	Kazakhstan	100	100
19. Research Institute of Transport and Communications LLP	Research and development activities	Kazakhstan	100	100

As at 31 December 2015, the process of subsidiary Akzhaiyk Zapad 2006 LLP liquidation was completed.

On 11 November 2015, the Company received from the Shareholder as a contribution to charter 35% shares in subsidiary Kazakh Academy of Transport and Communications named after M.Tynyshpaev JSC, increasing ownership in subsidiary to 100% (Note 16).

[3] In November 2013, the Shareholder transferred 100% interest in Aktau International Sea Commercial Port National Company JSC to the Group under the trust management agreement The entity was recognised as the Group's subsidiary, while the entity is not legally owned by the Group.

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(in thousands of tenge unless otherwise is stated)

30. RELATED PARTY TRANSACTIONS

For the purposes 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 in making financial or operational decisions. In addition, parties under common control with 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 of the Group	Joint ventures where the Group is a participant	Companies in the group of the Shareholder	Other related parties
Debt due from related parties for goods, services and non-current assets	2015	-	3,614,794	13,861,465	410,365	-
	2014	-	2,372	30,757,738	497,783	-
Including allowance on doubtful debt	*2015*	-	*(3,622)*	*(2,131)*	*(1,454,035)*	-
	2014	-	-	-	*(18,820)*	-
Debt to from related parties for goods, services and non-current assets	2015	-	1,015,857	3,590,081	1,938,274	20
	2014	-	767,560	1,859,548	3,972,894	-
Current accounts and contributions	2015	-	-	-	-	792
	2014	-	-	-	-	2,211
Restricted cash	2015	-	-	-	-	862,705
	2014	-	-	-	-	734,044
Loans given	2015	-	-	1,863,699	-	-
	2014	-	-	-	-	-
Loans received	2015	171,249,829	-	-	-	50,480,696
	2014	165,489,594	-	-	-	34,718,282
Liabilities on finance lease	2015	-	-	-	-	229,092
	2014	-	-	-	-	299,595
Dividends payable	2015	16,424,670	-	-	-	-
	2014	12,165,051	-	-	-	-

(in thousands of tenge unless otherwise is stated)

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

		Shareholder	Associates of the Group	Joint ventures where the Group is a participant	Companies in the group of the Shareholder	Other related parties
Sale of goods, services and non-current assets	2015	-	73,706	21,811,681	24,805,368	-
	2014	-	19,568	24,367,874	30,710,872	-
Accrual of allowance on doubtful debt	2015	-	-	(5,287)	(317,258)	-
	2014	-	-	-	(1,137,450)	-
Purchase of goods, services and non-current assets	2015	-	5,581,952	30,468,830	13,639,711	1,706
	2014	-	3,460,381	39,325,573	36,617,661	1,227
Loans receipt	2015	8,862,000	-	-	-	-
	2014	18,931,411	-	-	-	-
Finance income	2015	-	-	32,810	-	-
	2014	-	-	-	3,274	-
Finance cost	2015	8,097,515	-	85,505	-	3,183,738
	2014	7,733,180	-	-	-	1,762,646
Dividends declared	2015	4,559,619	-	-	-	-
	2014	16,165,051	-	-	-	-
Contributions to charter capital	2015	72,063,911	-	-	-	-
	2014	79,396,994	-	-	-	-

As at 31 December 2015 and 2014, the Group's certain borrowings of 4,096,677 thousand tenge and 2,832,176 thousand tenge, respectively, were guaranteed by the Government of the Republic of Kazakhstan.

As at 31 Decemer 2015, certain borrowings of the associates and joint ventures have been guaranteed by the Group (Note 28).

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

As at and for the years ended 31 December, the Group recognized constructive obligations for the construction of the following objects for the benefit of the Shareholder:

	Current liabilities				Non-current liabilities	
	Teleradio complex equipment	Mangistau municipalities	Kindergarten in Astana	Total	Ice palace	Total
As at 1 January 2014	28,238,638	965,450	-	29,204,088	25,005,752	25,005,752
Additions	-	313,694	750,000	1,063,694	23,595,513	23,595,513
Disposals	-	(1,031,868)	-	(1,031,868)	-	-
As at 31 December 2014	28,238,638	247,276	750,000	29,235,914	48,601,265	48,601,265
Additions	-	-	952,660	952,660	-	-
As at 31 December 2015	28,238,638	247,276	1,702,660	30,188,574	48,601,265	48,601,265

(in thousands of tenge unless otherwise is stated)

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

	Current assets				Non-current	
	Teleradio complex equipment	Mangistau municipalities	Kindergarten in Astana[4]	Total	Ice palace	Total
As at 1 January 2014	28,238,638	965,450	-	29,204,088	10,757,881	10,757,881
Additions	-	313,694	511,535	825,229	13,092,791	13,092,791
Disposals	-	(1,031,868)	-	(1,031,868)	-	-
As at 31 December 2014	28,238,638	247,276	511,535	28,997,449	23,850,672	23,850,672
Additions	-	-	1,160,810	1,160,810	17,417,702	17,417,702
As at 31 December 2015	28,238,638	247,276	1,672,345	30,158,259	41,268,374	41,268,374

Compensation of key management personnel of the Group

Key management personnel comprise members of the Group's Management Board and Board of Directors and other key managers of the Company, totaling 22 persons as at 31 December 2015 (31 December 2014: 31 persons). Total amount of compensation to key management personnel, included in the personnel costs in the consolidated statement of profit or loss and other comprehensive income, comprised 743,803 thousand tenge for the year ended 31 December 2015 (31 December 2014: 767,269 thousand tenge). Compensation to key management personnel is mainly consists of expenses related to salary based on agreements, and bonuses based on operational results. Besides, key management personnel was provided with apartments with installment payment of 98,013 thousand tenge.

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

The Group's principal financial instruments consist of borrowings, debt securities issued (Eurobonds), 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 entities in the Group will be able to continue as a going concern while maximizing the return to the Shareholder by optimizing the balance of debt and equity. The Group's overall strategy remains unchanged from 2014.

The Group's capital structure includes net debt (borrowings, debt securities and finance lease liabilities after deducting cash and cash equivalents) and equity of the Group (which comprises share capital, foreign currency translation reserve, retained earnings and non-controlling interests).

Financial risk management objectives

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

[4] See Note 32

(in thousands of tenge unless otherwise is stated)

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 borrowings and debt securities issued. 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 floating interest rates.

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

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

	31 December 2015		31 December 2014	
	Increase/decrease in interest rates in basis points	**Effect on profit before tax/equity**	**Increase/decrease in interest rates in basis points**	**Effect on profit before tax/equity**
US Dollars	50/(12)	(261,435)/62,744	2/(2)	(6,560)/6,560
Tenge	50/(12)	(6,640)/1,594	-	-

Foreign currency risk

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

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

The following table reflects sensitivity ша the Group's profit before tax to potential changes in the exchange rate of US Dollars, Euro, Russian Rubles and other currencies, provided all other parameters are constant values.

	31 December 2015			31 December 2014		
	Increase/decrease in exchange rate	**Effect on profit before tax**	**Effect on capital**	**Increase/decrease in exchange rate**	**Effect on profit before tax**	**Effect on capital**
US Dollars	60%/(20%)	(519,146,138)/ 173,048,713	-	17.37%/ (17.37%)	(81,514,673)/ 81,514,673	-
Euro	60%/(20%)	(43,222,489)/ 14,407,496	-	18.36%/ (18.36%)	(7,134,983)/ 7,134,983	-
Russian Rubles	40%/(29%)	133,661/ (96,904)	-	33.54%/ (33.54%)	58,600/ (58,600)	-
Swiss francs	60%/(20%)	(32,784)/ 10,928	(59,689,310)/ 19,896,437	18.50%/ (18.50%)	(9,809,899)/ 9,809,899	-
Other currencies	60%/(20%)	(3,286,138)/ 1,095,379	-	18.50%/ (18.50%)	(644,822)/ 644,822	-

On 7 August 2015, the Group commenced cash flow hedging in order to decrease the risk of changes in tenge equivalent of revenue denominated in Swiss francs. Eurobonds issued on 20 June 2014 on the Swiss stock exchange are used as the hedging instruments. Revenue from the transit transportation in Swiss francs is the hedged item. As a result of hedging, effect of 43,491,357 thousand tenge was recognized in other comprehensive income.

On 20 August 2015, the Government and the National Bank of Kazakhstan announced a transition to a new monetary policy based on a free-floating tenge exchange rate, and cancelled the currency corridor. As a result, tenge to US Dollar exchange rate fluctuated from 187 to 350 tenge per US Dollar during the period August to December 2015. The foreign exchange loss for the year ended 31 December 2015 of 449,940,248 thousand tenge mainly occurred on the Group's debt securities issued and borrowings, as a major part of such items is denominated in foreign currency.

Credit risk

Credit risk arising from the inability of a party 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 obligations of the Group to that party. It is the Group's policy to enter into financial instruments with a diversity of creditworthy parties. The maximum exposure to credit risk is represented by the carrying value of each financial asset.

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

The Group has procedures in place to ensure that sales are only made to customers with an appropriate credit history and that an acceptable credit exposure limit is not exceeded. Credit risk is minimized by the fact that the 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 28.

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 the periodic estimation 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 requirements of the Shareholder. The Group manages the liquidity risk by maintaining adequate reserves, bank loans and accessible credit lines by constant monitoring of the projected and actual cash flows and comparison of maturities of financial assets and liabilities.

To refinance Eurobonds maturing in 2016, on 24 July 2015 the Group entered into a loan agreement with EBRD, under which the Group may draw up to 300 million US Dollars (Note 17). As at 31 December 2015, the funds were undrawn. In addition the Group plans to make placement of bonds in the local market within its registered bonds programme (Note 32), and borrow funds from Kazakhstani banks.

As at 31 December 2015, the Group has also available credit lines in credit organisations: Halyk Bank of Kazakhstan JSC, CitiBank of Kazakhstan, Eurasian Development Bank JSC and Development Bank of Kazakhstan for a total amount of 27,283,897 thousand tenge.

The remaining amount of 50 million US Dollars of Eurobonds will be settled using the Group's own funds, which are accumulated based on the approved schedule.

In addition, the Group is negotiating redemption of borrowings received from the Shareholder on purchase of passenger wagons for total amount of 49,800,000 thousand tenge by transfer of the Group' non-core assets.

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

As at 31 December 2015, the Group negotiated with creditors to change the thresholds for the financial covenants in order to avoid the non-compliance on obligations to creditors. As at 31 December 2015, waivers were received on credit agreements concluded with EBRD, HSBC France, Development Bank of Kazakhstan.

(in thousands of tenge unless otherwise is stated)

The following tables reflect 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 cash flows on both interest and principal.

	Less than 1 month	1-3 months	3 months-1 year	1-5 years	Beyond 5 years	Total
2015						
Non-interest bearing:						
Trade accounts payable	64,727,938	20,731,983	11,821,706	-	-	97,281,627
Other current liabilities	-	-	4,663,680	-	-	4,663,680
Interest bearing:						
Borrowings	18,028,832	10,393,658	234,049,141	854,365,077	1,516,137,093	2,632,973,801
Finance lease	70,177	163,704	698,882	2,849,893	-	3,782,656
	82,826,947	31,289,345	251,233,409	857,214,970	1,516,137,093	2,738,701,764
2014						
Non-interest bearing:						
Trade accounts payable	59,528,624	13,767,394	18,365,863	-	-	91,661,881
Other current liabilities	-	-	4,050,359	-	-	4,050,359
Interest bearing:						
Borrowings	10,296,341	7,949,773	57,297,405	465,899,500	1,185,097,573	1,726,540,592
Finance lease	-	-	940,122	3,781,372	-	4,721,494
	69,824,965	21,717,167	80,653,749	469,680,872	1,185,097,573	1,826,974,326

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

	Less than 1 month	1-3 months	3 months-1 year	Beyond 1 year	Indefinite settlement term[5]	Total
2015						
Interest bearing:						
Short-term deposits	19,886,199	61,474	2,970,622	-	-	22,918,295
Interest on short-term deposits	217,112	1,026	199,870	-	-	418,008
Other financial assets	6,758,521	344,470	32,517,979	-	-	39,620,970
Interest on other financial assets	29,701	3,759	911,200	-	-	944,660
Cash and cash equivalents	12,192,810	-	-	-	-	12,192,810
Non-interest bearing:						
Cash and cash equivalents	32,727,024	-	-	-	-	32,727,024
Restricted cash	-	-	2,393,520	-	-	2,393,520
Trade accounts receivable	9,543,141	42,794	30,127	137,719	11,264,107	21,017,888
	81,354,508	453,523	39,023,318	137,719	11,264,107	132,233,175

[5] Due to uncertainty in recoverability of doubtful debts, the Group included the provided trade accounts receivable in the 'Indefinite settlement term'.

(in thousands of tenge unless otherwise is stated)

	Less than 1 month	1-3 months	3 months-1 year	Beyond 1 year	Indefinite settlement term[6]	Total
2014						
Interest bearing:						
Short-term deposits	26,715,189	992,865	-	-	-	27,708,054
Interest on short-term deposits	73,253	61,503	-	-	-	134,756
Other financial assets	-	4,920,456	32,415,309	-	-	37,335,765
Interest on other financial assets	-	68,742	1,454,029	-	-	1,522,771
Cash and cash equivalents	17,588,424	-	-	-	-	17,588,424
Derivative financial instrument	-	-	579,648	4,661,399	-	5,241,047
Non-interest bearing:						
Cash and cash equivalents	41,255,740	-	-	-	-	41,255,740
Restricted cash	-	-	734,044	-	-	734,044
Trade accounts receivable	7,443,304	14,671	191,267	-	5,232,322	12,881,564
	93,075,910	6,058,237	35,374,297	4,661,399	5,232,322	144,402,165

Fair values of financial instruments

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

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

Cash and cash equivalents

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

Financial assets and liabilities

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

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

Derivative financial assets

On 5 May 2015, the Group closed, with the gain of 1,760,000 US Dollars (327,008 thousand tenge), the deal on cross-currency swap concluded on 29 August 2014 with The Royal Bank of Scotland plc. (United Kingdom) with the purpose of the partial hedging its exposure to Eurobonds denominated in US Dollars for the total amount of 324,000,000 US Dollars with the annual interest rate of 7.0% and maturity date in May 2016 and its exposure to Swiss franc denominated sales.

[6] Due to uncertainty in recoverability of doubtful debts, the Group included the provided trade accounts receivable in the 'Indefinite settlement term'.

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(in thousands of tenge unless otherwise is stated)

Borrowings

The estimated fair value for loans from banks was made by discounting the scheduled future cash flows of individual loans through the estimated maturity using prevailing market rates as at the respective year-end for debt with a similar maturity and credit-rating profile. The Group's bank loans are mostly provided by international development institutions and foreign banks at floating rates, which are considered to be the market interest rates for this category of lenders. 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 that are not measured at fair value on a recurring basis

As at 31 December 2015 and 2014, the fair value of financial assets and financial liabilities, except for borrowings and debt securities, was not significantly different from its cost. Carrying value and fair value of borrowings and debt securities (Eurobonds) as at 31 December is presented as follows:

	31 December 2015		31 December 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans	521,766,861	492,188,671	397,798,619	390,398,236
Debt securities (Eurobonds)	852,871,232	801,131,583	457,017,615	451,601,264

Fair value hierarchy as at 31 December 2015

	Level 1	Level 2	Level 3	Total
Financial assets				
Loans given to a related party	-	1,940,673	-	1,940,673
Other financial assets	-	39,705,096	-	39,705,096
Total	-	41,645,769	-	41,645,769
Financial liabilities				
Financial liabilities held at amortized cost:				
- debt securities (Eurobonds)	801,131,583	-	-	801,131,583
- bank loans	-	269,838,663	9,582,751	279,421,414
- loans from related parties	-	212,767,257	-	212,767,257
- finance lease	-	2,682,872	-	2,682,872
Total	801,131,583	485,288,792	9,582,751	1,296,003,126

Fair value hierarchy as at 31 December 2014

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instrument	-	4,677,996	-	4,677,996
Other financial assets	-	38,077,081	-	38,077,081
Total	-	42,755,077	-	42,755,077
Financial liabilities				
Financial liabilities held at amortized cost:				
- debt securities (Eurobonds)	451,601,264	-	-	451,601,264
- bank loans	-	192,886,200	6,391,385	199,277,585
- loans from related parties	-	191,120,651	-	191,120,651
- finance lease	-	3,109,517	-	3,109,517
Total	451,601,264	387,116,368	6,391,385	845,109,017

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

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

During 2015 and 2014, there were no transfers between the hierarchy levels.

32. EVENTS AFTER THE REPORTING DATE

Privatization plan

In February 2016, as part of the Complex plan on privatization for 2016-2020 years, the Group's management approved a list of the subsidiaries, associates and joint ventures of the Group, which should be sold to private investors (Note 15).

Disposal of non-current assets held for sale

In January 2016, the Group, through its subsidiary Locomotive JSC, sold its 100% ownership in the subsidiary Birzhan-Atyrau LLP. As Birzhan-Atyrau LLP does not represent a significant type of operations of the Group, it has not been classified as discontinued operations in these consolidated financial statements. As a result of the sale, the Group lost control over Birzhan-Atyrau LLP.

In February 2016, the Group, through its subsidiary Remlocomotive JSC, sold a 25% stake of the ownership in the joint venture Electrovoz Kurastyru Zauyty LLP. As a result of the sale, the Group lost joint control of Electrovoz Kurastyru Zauyty LLP, however, retained a 25% ownership stake and significant influence. Accordingly, the Group classified Electrovoz Kurastyru Zauyty LLP as an associate.

In January 2016, the Group sold its administrative building 'Emerald Quarter' for the total amount of 24,300,000 thousand tenge including VAT.

Dividends

In January 2016, the Group received dividends for 2014 from its joint venture Logistic System Management B.V. of 951,036 thousand tenge (2,398 thousand Euro).

Contributions to share capital

In January 2016, the Group issued shares for 57,780 thousand tenge for the contribution from the Shareholder by residential property in Taraz for accommodation of technical library of the Group's Center of science and technical information and analysis.

In March 2016, the Group issues shares for 26,400,000 thousand tenge for the contribution from the Shareholder for completion of the projects "Construction of second railway lines on sector Shu-Almaty 1" and "Construction of ferry in village Kyryk".

Guarantees

In January 2016, the guarantee given to ATF Bank of 95,000,000 US Dollars for liabilities execution by Locomotive Kurastyru Zauyty JSC, the Group's joint venture, expired due to settlement of its liabilities by the joint venture.

Borrowings

In accordance with the credit line agreement concluded with Development Bank of Kazakhstan on completion of the project VOLS for the total amount of 25,420,927 thousand tenge, the Group, represented by its subsidiary Transtelecom JSC, drew credit funds of 508,367 thousand tenge in February 2016. A grace period for the principal amount is granted until June 2016, after which payments will be made in semi-annual instalments until full repayment in June 2024. Interest on the loan is payable in semi-annually at the annual interest rate of 8%. The loan was obtained under the guarantee of the Company.

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In February 2016, the Group registered its bonds issuance programe of 200,000,000 thousand tenge. In accordance with the Decree of the Government of the Republic of Kazakhstan, the Company will be provided with the funds from Integrated Accumulated Pension Fund JSC of 50,000,000 thousand tenge for refinancing of foreign currency debts and repayment of Eurobonds. As at the date of consolidated financial statements approval, the debt securities have not been issued (Note 31).

Asset for the benefit of the Shareholder

In February 2016, the Group transferred the kindergarten (except for separate service lines) to the Astana municipality, for which the Group entered into irrevocable commitment to construct in 2014.

Approval of the financial statements

The consolidated financial statements of the Group for the year ended 31 December 2015 were approved and authorized for issue by management on 14 March 2016.

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Прошнуровано и пронумеровано
на 403 листах

Вице-президент
по финансам АО «НК «ҚТЖ»

Ж.Мадиев