IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY U.S. PERSON OR TO ANY PERSON OR ADDRESS IN THE UNITED STATES

IMPORTANT: You must read the following before continuing. The following applies to the Swiss issuing and listing Prospectus (the "**Prospectus**") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, 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 (as each term is defined in the Prospectus), UBS AG, Gazprombank (Switzerland) Ltd and JSC "SkyBridge Invest", as a result of such access.

NOTHING IN THE FOLLOWING PROSPECTUS CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE FURTHER NOTES (AS DEFINED BELOW) AND THE GUARANTEES (TOGETHER, THE "**SECURITIES**") 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 THESE SECURITIES 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 PROSPECTUS 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 TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED PROSPECTUS 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 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 FURTHER NOTES DESCRIBED IN THE ATTACHED PROSPECTUS.

The Astana International Exchange ("AIX") does not accept responsibility for the content of the information included in this Prospectus including the accuracy or completeness of such information. Liability for the Prospectus lies with the Issuer and other persons such as Experts whose opinions are included in the Prospectus with their consent. Nor has the AIX assessed the suitability of the securities to which the Prospectus relates for any particular investor or type of investor. If you do not understand the content of this Prospectus or are unsure whether the securities are suitable for your individual circumstances, you should consult an authorised financial advisor.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – As the Further Notes are to be consolidated and form a single series with the Original Notes, the Further Notes are also not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, "**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the "Prospectus Directive"). Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Further Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Further Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Confirmation of your representation: In order to be eligible to view this Prospectus or make an investment decision with respect to the securities, investors must be outside the United States and not be a U.S. person (within the meaning of Regulation S under the Securities Act). By accepting the e-mail and accessing this Prospectus, you shall be deemed to have represented to the Issuer, the Guarantors, UBS AG, Gazprombank (Switzerland) Ltd and JSC "SkyBridge Invest" that you are not in the United States or a U.S. person; the e-mail address that you have given to us and to which this e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any state of the United States or the District of Columbia; and that you consent to delivery of such Prospectus by electronic transmission.

Under no circumstances shall this Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction or under any circumstances in which such offer, solicitation or sale is not authorised or would be unlawful. Recipients of this Prospectus who intend to subscribe for or purchase Further Notes are reminded that any subscription or purchase may only be made on the basis of the information contained in the final Prospectus.

The Prospectus may only be distributed to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(5) 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. Persons into whose possession this Prospectus may come are required by the Issuer, the Guarantors and the Joint Lead Managers (as defined below) to inform themselves about and to observe such restrictions. Further information with regard to restrictions on offers, sales and deliveries of the Further Notes and the distribution of this Prospectus is set out under "*Subscription and Sale*."

If a jurisdiction requires that the offering be made by a licensed broker or dealer and UBS AG and Gazprombank (Switzerland) Ltd (together, the "**Joint Bookrunners**") or JSC "SkyBridge Invest" (together with the Joint Bookrunners, the "**Joint Lead Managers**") or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of JSC "National Company "Kazakhstan Temir Zholy" in such jurisdiction.

This Prospectus has been sent to you in an 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 Joint Lead Managers or any person who controls any of them or their respective directors, officers, employees, agents or any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

JOINT STOCK COMPANY "NATIONAL COMPANY "KAZAKHSTAN TEMIR ZHOLY"
CHF 80,000,000 3.25% Notes due 2023
(to be consolidated and form a single series with the CHF 170,000,000 3.25% Notes Due 2023 issued on 5 December 2018 on the Consolidation Date, i.e. 10 July 2019)

Guaranteed by:

JOINT STOCK COMPANY "KAZTEMIRTRANS"
JOINT STOCK COMPANY "KTZ-FREIGHT TRANSPORTATION"
JOINT STOCK COMPANY "PASSENGER TRANSPORTATION"
JOINT STOCK COMPANY "VAGONSERVICE"
JOINT STOCK COMPANY "SUBURBAN TRANSPORTATION"

Issue Price: 104.238%

(plus accrued interest from, and including, 5 December 2018 to, but excluding, 31 May 2019)

Issuer	Joint Stock Company "National Company "Kazakhstan Temir Zholy", a joint stock company organised in the Republic of Kazakhstan, operating under business identification number 020540003431, having its registered office at 6 Konaev Street, Nur-Sultan 010000, Republic of Kazakhstan (the "**Issuer**" or the "**Company**").
Guarantors	Joint Stock Company "Kaztemirtrans", a joint stock company organised in the Republic of Kazakhstan, with business identification number 031040000572, having its registered office at 10 Konaev Street, Nur-Sultan 010000, Republic of Kazakhstan; Joint Stock Company "KTZ-Freight Transportation", a joint stock company organised in the Republic of Kazakhstan, with business identification number 031040001799, having its registered office at 6 Konaev Street, Nur-Sultan 010000, Republic of Kazakhstan; Joint Stock Company "Passenger Transportation", a joint stock company organised in the Republic of Kazakhstan, with registration number 11894-1901-AO and business identification number 020540000922, having its registered office at 6 Konaev Street, Nur-Sultan 010000, Republic of Kazakhstan; Joint Stock Company "Vagonservice", a joint stock company organised in the Republic of Kazakhstan, with registration number 15605-1901-AO and business identification number 040240005450, having its registered office at 6 Konaev Street, Nur-Sultan 010000, Republic of Kazakhstan; and Joint Stock Company "Suburban Transportation", a joint stock company organised in the Republic of Kazakhstan, with registration number 15606-1901-AO and business identification number 040240005351, having its registered office at 6 Konaev Street, Nur-Sultan 010000, Republic of Kazakhstan (together, the "**Guarantors**", and each, a "**Guarantor**").
Joint Lead Managers........	UBS AG of Bahnhofstrasse 45, 8001 Zurich, Switzerland; Gazprombank (Switzerland) Ltd of Zollikerstrasse 183, 8008 Zurich, Switzerland; and JSC "SkyBridge Invest" of 77/7 Al Farabi ave., Almaty, 050040, Republic of Kazakhstan.
Group................................	The Issuer, the Guarantors and their respective subsidiaries and affiliates (the "**Group**").
Further Notes....................	CHF 80,000,000 3.25% Notes due 2023 (the "**Further Notes**") to be consolidated and form a single series with the CHF 170,000,000 3.25% Notes Due 2023 issued by the Issuer on 5 December 2018 (the "**Original Notes**" and together, with the Further Notes, the "**Notes**"). The Original Notes represent the first tranche and the Further Notes will represent the second tranche, both within the same series of the Notes.

Consolidation Date	The Further Notes will be consolidated and form a single series, and be fungible, with the Original Notes on 10 July 2019.
Interest Rate......................	3.25% *per annum*, payable annually in arrear on 5 December in each year, commencing on 5 December 2019. Interest on the Further Notes will accrue from 5 December 2018.
Issue Price	104.238% of the principal amount of the Further Notes (plus an amount equal to the accrued interest on the Further Notes from, and including, 5 December 2018 to, but excluding, the Issue Date (*i.e*., 31 May 2019) of the Further Notes.)
Price for Placement	Based on supply and demand.
Form and Delivery............	The Further Notes will be in bearer form and, on issue, will be represented by a permanent global note (the "**Further Global Note**"**)**, without interest coupons, which will be deposited with SIX SIS Ltd ("**SIS**") on or around the Issue Date. The Further Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Further Notes in definitive form with interest coupons attached. Noteholders (as defined in "*Terms and Conditions of the Further Notes*") will not have the right to request the printing and delivery of Further Notes in definitive form.
Denomination....................	The Further Notes will be in denominations of CHF 5,000 or higher integral multiples thereof.
Issue Date	31 May 2019.
Final Redemption Date (Maturity Date).................	5 December 2023; redemption at par.
Early Redemption.............	For tax reasons or in other limited circumstances (as described in the "*Terms and Conditions of the Further Notes*"), including at the option of the Noteholders upon the occurrence of a Relevant Event (as defined in the "*Terms and Conditions of the Further Notes*"). See "*Terms and Conditions of the Further Notes*".
Reopening..........................	The Issuer reserves the right to reopen this series of Notes (for details see "*Terms and Conditions of the Further Notes—Condition 16 (Further Issues).*
Status of Further Notes....	The obligation of the Issuer to make payments under the Further Notes will constitute direct, general, unconditional, unsubordinated and (subject to *Terms and Conditions of the Further Notes—Condition 3 (Negative Pledge)*) unsecured obligations of the Issuer and ranks, and will rank, *pari passu*, without preference among themselves and the Original Notes, 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.
Status of the Guarantees..	The obligations of each Guarantor under each Guarantee constitutes a direct, general, unconditional, unsubordinated and (subject to *Terms and Conditions of the Further Notes—Condition 3 (Negative Pledge)*) unsecured obligation 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.
Listing / Trading...............	Application will be made for listing of the Further Notes on the SIX Swiss Exchange. The Further Notes will be provisionally admitted to trading on the SIX Swiss Exchange on 28 May 2019. The last trading day is expected to be the same as the Original Notes, *i.e.*, 1 December 2023. Application has also been made for the Further Notes to be admitted to the official list of the Astana International Exchange (the "**AIX**"), the stock exchange of the Astana International Financial Center ("**AIFC**") and the Further Notes are expected to be admitted on 31 May 2019. The Further Notes will be consolidated and form a single series with the Original Notes on the Consolidation Date, *i.e.* 10 July 2019, and until such time will be represented by a temporary ISIN, Common Code and Swiss Security Number, as follows: Temporary ISIN until Consolidation Date: CH0479222108 — ISIN from Consolidation Date: CH0448036266

Temporary Common Code until Consolidation Date: 200558570	Common Code from Consolidation Date: 191792343
Temporary Swiss Security Number until Consolidation Date: 47.922.210	Swiss Security Number from Consolidation Date: 44.803.626

The AIX does not accept responsibility for the content of the information included in this Prospectus, including the accuracy or completeness of such information. Liability for the Prospectus lies with the Issuer and other persons such as Experts whose opinions are included in the Prospectus with their consent. Nor has the AIX assessed the suitability of the securities to which the Prospectus relates for any particular investor or type of investor. If you do not understand the content of this Prospectus or are unsure whether the securities are suitable for your individual circumstances, you should consult an authorised financial advisor.

Simultaneously with the commencement of the placement of the Further Notes outside of the Republic of Kazakhstan ("**Kazakhstan**"), not less than 20% of the Further Notes must be offered through the AIX. Subject to sufficient demand, investors' orders submitted through the AIX must be satisfied in a volume not less than 20% of the total volume of the Further Notes to be placed. If the total volume of investors' orders submitted through the AIX is less than 20% of the total volume of the Further Notes to be placed, such orders will be satisfied in full, and then all or any Further Notes remaining after the satisfaction of the investors' orders submitted though AIX may be offered and placed outside of Kazakhstan.

Listing Requirements of the SIX Swiss Exchange ....

The Issuer fulfils the requirements of the listing rules of the SIX Swiss Exchange. Therefore, the Guarantees are not required in order to fulfil the requirements of the listing rules of the SIX Swiss Exchange and, accordingly, the Guarantors are not subject to the listing rules of the SIX Swiss Exchange and its implementing provisions, including in particular the disclosure requirements and the ongoing obligations.

Auditors............................

The auditors of the Issuer are Deloitte, LLP at 36 Al-Farabi Ave, Almaty Financial District, Building "B", Almaty 050059, Kazakhstan (the "**Auditors**"). The Auditors are a member of the Chamber of Auditors of Kazakhstan which oversees audit firms in Kazakhstan. Potential Investors are informed that the Chamber of Auditors of Kazakhstan is not recognised as a foreign supervisory body by the Swiss Federal Council.

Selling Restrictions...........

The Further Notes have been offered to the public in Switzerland and Kazakhstan (subject to applicable laws and regulations). The offering and sale of the Further Notes is subject to applicable laws and regulations and the Further Notes may not be sold in other jurisdictions, including without limitation the United Kingdom and the European Economic Area (the "**EEA**") other than in compliance with applicable laws and regulations. See "*Subscription and Sale*". The Further Notes and the Guarantees have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered or sold 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 ("**Regulation S**")). The Further Notes will be issued in compliance with U.S. Treasury Regulation §1.163 5(c)(2)(i)(D).

Further Notes in bearer form are subject to United States tax law requirements and, subject to certain exceptions, may not be offered, sold or delivered within the United States or to U.S. persons. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and the Treasury Regulations promulgated thereunder.

Law and Jurisdiction........

The Further Notes, all related contractual documentation (including the Trust Deed) and any non-contractual obligations arising out of or in relation with the same will be governed by, and construed in accordance with English Law. The Issuer and each Guarantor has agreed that any claim, dispute or difference of whatever nature arising under, out of or in connection with the Further Notes or the Trust Deed shall be referred to and finally settled by arbitration in accordance with the rules of the London Court of International Arbitration as modified by *Terms and Conditions of the Further Notes* **-** *Condition 22* (*Governing Law, Jurisdiction and Arbitration*).

Risk Factors	For a discussion of certain issues that should be considered by prospective purchasers, see "*Risk Factors*".
Rating of Notes..................	The Original Notes were rated "BBB-" by Fitch Ratings Inc. ("**Fitch**") and "Baa3" by Moody's Investors Service Limited ("**Moody's**") and it is expected that the rating of the Notes will be the same immediately after the issuance of the Further Notes. The Issuer's current long-term debt ratings by Moody's, S&P Global Ratings Europe Limited ("**S&P**") and Fitch are Baa3 (stable), BB- (stable) and BBB- (stable), respectively. 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, S&P 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) № 1060/2009 on Credit Rating Agencies as amended by Regulation (EU) № 513/2011 (the "**CRA Regulation**"). As such, each of the rating agencies is included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation as of the date of this Prospectus.

Joint Lead Managers

UBS Investment Bank	**Gazprombank**	**SkyBridge Invest**

The date of this Prospectus is 28 May 2019.

SUMMARY

Introduction

This summary must be read as an introduction to, and is qualified in its entirety by the more detailed information contained elsewhere in, this Prospectus, and any decision to invest in the Further Notes should be based on a consideration of the Prospectus as a whole. Civil liability attaches only to those persons who are included in this summary, including any translation thereof, but only where this summary is misleading, inaccurate or inconsistent, when read with the other parts of the Prospectus, or where it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in the Further Notes. Information is presented in this Prospectus on the basis of certain conventions that are set forth under "Presentation of Financial and Other Information".

The Issue............. CHF 80,000,000 3.25% Notes due 2023 to be consolidated and form a single series with the Original Notes. The Further Notes will be consolidated and form a single series with the Original Notes on the Consolidation Date, *i.e.*, 10 July 2019, and until such time will be represented by a temporary ISIN, Common Code and Swiss Security Number, as follows:

Temporary ISIN until Consolidation Date: CH0479222108	ISIN from Consolidation Date: CH0448036266
Temporary Common Code until Consolidation Date: 200558570	Common Code from Consolidation Date: 191792343
Temporary Swiss Security Number until Consolidation Date: 47.922.210	Swiss Security Number from Consolidation Date: 44.803.626

Issuer .... Joint Stock Company "National Company "Kazakhstan Temir Zholy". The legal entity identifier of the Issuer is 213800X9NVS4IWFKLS77. The contact details of the Issuer are: 6 Konaev Street, Esil District, Nur-Sultan 010000, Republic of Kazakhstan, and its telephone number is +7 (7172) 60 47 77.

Guarantors.......... Joint Stock Company "Kaztemirtrans", Joint Stock Company "KTZ-Freight Transportation", Joint Stock Company "Passenger Transportation", Joint Stock Company "Vagonservice", and Joint Stock Company "Suburban Transportation".

Listing / Trading. Application will be made for listing of the Further Notes on the SIX Swiss Exchange. The Further Notes will be provisionally admitted to trading on the SIX Swiss Exchange on 28 May 2019. The last trading day is expected to be the same as the Original Notes, *i.e.*, 1 December 2023. Application has also been made for the Further Notes to be admitted to the official list of the AIX and the Further Notes are expected to be admitted on 31 May 2019. This Prospectus has been approved by the AIX on 28 May 2019.

Key Information About the Issuer

Who is the issuer of the Notes?

Issuer .... Joint Stock Company "National Company "Kazakhstan Temir Zholy", a joint stock company organised in, and operating under the laws of, the Republic of Kazakhstan. The legal entity identifier of the Issuer is 213800X9NVS4IWFKLS77. The contact details of the Issuer are: 6 Konaev Street, Esil District, Nur-Sultan 010000, Republic of Kazakhstan, and its telephone number is +7 (7172) 60 47 77.

Auditors.............. The independent auditors of the Group are Deloitte, LLP. The audit licence number of the independent auditors in the Republic of Kazakhstan is 0000015, type MFU-2 issued by the Ministry of Finance of Kazakhstan on 13 September 2006. Deloitte, LLP is a member of the Chamber of Auditors of Kazakhstan which oversees audit firms in Kazakhstan.

Members of the Board of Directors.............

- Christian Kuhn (*Chairman of the Board of Directors*)
- Yermek Askerbekovich Kudabayev (*Independent Director*)
- Sauat Mukhametbayevich Mynbayev (*Chairman of the Management Board*)
- Almassadam Maidanovich Satkaliyev (*Representative of Samruk-Kazyna*)
- Nurzhan Talipovich Baidauletov (*Representative of Samruk-Kazyna*)
- Lutz Freytag (*Independent Director*)
- Serik Amanzholovich Svyatov (*Independent Director*)
- Yernar Beisenuly Zhanadil (*Representative of Samruk-Kazyna*)
- Andrey Nikolaevich Kravchenko (*Representative of Samruk-Kazyna*)

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 Issuer was established by a decree of the Government of Kazakhstan's (the "**Government**"), which, through its wholly-owned management company, Samruk-Kazyna JSC ("**Samruk-Kazyna**"), owns all of the outstanding shares of the Issuer. As Kazakhstan's national railway company, the Issuer has a natural monopoly over the provision of services on Kazakhstan's mainline railway network and, through its subsidiary, JSC KTZ-Freight Transportation ("**KTZFT**"), is the dominant provider of railway freight transportation and, through its subsidiary, JSC Passenger Transportation ("**Passenger Transportation**"), is the dominant provider of passenger transportation. The Group is responsible for the maintenance, operation and modernisation of Kazakhstan's mainline railway network and provides railway transportation, infrastructure and support services.

In addition, in connection with Government initiatives for the development of transportation logistics, which is a relatively new priority in Kazakhstan's transportation sector, the then-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 Issuer's subsidiary, KTZ Express JSC ("**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.

The Government has control over the Issuer and is able to determine the Issuer's strategy, make policy decisions in relation to the Issuer's business and supervise the implementation of such decisions.

What is the key financial information regarding the Issuer?

The principal sources of the Group's revenue are fees from freight and passenger transportation, Government grants and other revenue. For the year ended 31 December 2018, total revenue was KZT 1,044,174 million, as compared to KZT 913,113 million in 2017, reflecting an increase of KZT 131,061 million, or 14.4%. This increase was primarily due to a KZT 28,972 million, or 47.3%, increase in other revenue, as well as a KZT 99,465 million, or 13.3%, increase in revenue from freight transportation. For the year ended 31 December 2017, total revenue was KZT 913,113 million, as compared to KZT 823,112 million in 2016, reflecting an increase of KZT 90,001 million, or 10.9%. This increase was primarily due to a KZT 28,951 million, or 89.8%, increase in other revenue, as well as a KZT 61,367 million, or 8.9 %, increase in revenue from freight transportation.

The independent auditors of the Group, Deloitte, LLP, issued unqualified independent auditor's reports in respect of the Group's audited consolidated financial statements as at and for the year ended 31 December 2018, which include comparative data as at and for the year ended 31 December 2017 and the Group's audited consolidated financial statements as at and for the year ended 31 December 2017, which include comparative data as at and for the year ended 31 December 2016. Comparative information for 2017 and as at 31 December 2017 and 1 January 2017 was restated in the Group's audited consolidated financial statements as at and for the year ended 31 December 2018.

What are the key risks that are specific to the Issuer?

- *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 Issuer'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. In addition, the Group receives Government grants as compensation for certain passenger transportation tariffs that are set at levels that are either low or not profitable; with revenue from Government grants amounting to KZT 20,751 million in 2018. The Government (either acting directly or through Samruk-Kazyna) has no obligation to continue to provide such financial support to the Group either at a similar level or at all.

- *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. 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.

- *The Government, which indirectly controls the Issuer, may cause the appointment or removal of members of the Issuer's management team or require the Issuer to privatise certain of its assets.* The State, through Samruk-Kazyna, indirectly wholly owns the Issuer and, therefore, is in a position to appoint and remove, or influence the appointment and removal of, the members of management of the Issuer and its subsidiaries. According to the Issuer's Charter, the appointment of members of the Management Board is subject to the approval of Samruk-Kazyna as sole shareholder. Since July 2002, the Issuer 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. The 2016 Complex Privatisation Plan (as defined below) includes a list of national companies and subsidiaries of national companies, including certain of the Issuer's subsidiaries, which have been identified as companies to be privatised.

- *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 (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. 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.
- *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. In particular, 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 the transportation of crude oil.

Key Information on the Securities

What are the main features of the Securities?

The Issue............. CHF 80,000,000 3.25% Notes due 2023 to be consolidated and form a single series with the Original Notes. The Further Notes will be consolidated and form a single series with the Original Notes on the Consolidation Date, i.e. 10 July 2019, and until such time will be represented by a temporary ISIN, Common Code and Swiss Security Number, as follows:

Temporary ISIN until Consolidation Date: CH0479222108	ISIN from Consolidation Date: CH0448036266
Temporary Common Code until Consolidation Date: 200558570	Common Code from Consolidation Date: 191792343
Temporary Swiss Security Number until Consolidation Date: 47.922.210	Swiss Security Number from Consolidation Date: 44.803.626

Issue Price .... 104.238% of the principal amount of the Notes (plus an amount equal to the accrued interest on the Further Notes from, and including, 5 December 2018 to, but excluding, the Issue Date, *i.e.*, 31 May 2019, of the Further Notes).

Issue Date .... 31 May 2019

Final Redemption Date (Maturity Date)..................... 5 December 2023; redemption at par.

Interest Rate and Payment Dates .... 3.25% *per annum* will be payable annually in arrear on 5 December in each year, commencing on 5 December 2019.

Interest on the Further Notes will accrue from 5 December 2018.

Guarantees .... The Further Notes are subject to Guarantees. See "*—Is there a Guarantee attached to the Securities*".

Ranking .... The Further Notes will constitute direct, general, unconditional, unsubordinated and (subject to *Terms and Conditions of the Further Notes—Condition 3 (Negative Pledge*) unsecured obligations of the Issuer which ranks, and will rank, *pari passu*, without any preference among themselves, with all other unsubordinated and unsecured 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 obligations of each Guarantor under the Guarantees constitute joint and several, direct, general, unconditional, unsubordinated and (subject to *Terms and Conditions of the Further Notes—Condition 3 (Negative Pledge)*) unsecured obligations of each Guarantor which rank, and will rank, *pari passu*, without preference, among themselves, with all other unsubordinated and unsecured 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 .

Negative Pledge... Each of the Issuer and the Guarantors have agreed not to create, incur, assume or permit to arise or subsist any Security Interest upon their assets or revenues or those of Material Subsidiaries (other than Permitted Security Interests).

Covenants........... Each of the Issuer and Guarantors have agreed to certain covenants, including, without limitation, covenants with respect to limitations on changes in business and disposals of assets and limitations on merger or consolidation.

Form of Further Notes .... The Further Notes will be in bearer form and, on issue will be represented by a Further Global Note, without interest coupons, which will be deposited with SIS on or around the Issue Date. The Further Global Note will be exchangeable in certain limited circumstances in whole, but not in part (free of charge to the holder), for Further Notes in definitive form with interest coupons attached. Noteholders will not have the right to request the printing and delivery of Further Notes in definitive form. Interests in the Further Global Note will be subject to certain restrictions on transfer.

Optional Redemption .... Following the occurrence of the Issuer ceasing to be controlled by the Government or any Guarantor ceasing to be a subsidiary of the Issuer or otherwise controlled by the Government, the Issuer, will give notice in accordance with the Conditions within 30 days of such event, with a copy to the Trustee, and at the option of the holder of any Note (including any Further Note), redeem such Note on the sixtieth day after notice thereof has been given by the Issuer to the Noteholders at 100% of its principal amount together with interest accrued to such date.

Tax Redemption . The Notes (including the Further Notes) may be redeemed at the option of the Issuer in whole, at their principal amount, together with interest accrued to the date fixed for redemption, in the event of certain changes in taxation in Kazakhstan.

Withholding Taxes................... All payments by the Issuer under the Notes (including the Further Notes) will be made without the imposition of any withholding taxes. According to the laws in effect on the date of this Prospectus, payments of interest from the Issuer to Noteholders will not be subject to withholding tax on interest so long as the Notes (including the Further Notes) are, as at the date of accrual of interest, listed on the official list of the AIX. In the event that any taxes, duties, assessments or governmental charges are imposed, levied, collected, withheld or assessed by Kazakhstan or any political subdivision or any authority thereof or therein having the power to tax on payments of principal and interest in respect of the Notes (including payments by the Guarantors under the Guarantees), the Issuer or (as the case may be) the Guarantors will, subject to certain exceptions and limitations, pay such Additional Amounts to the holder of any Note (including any Further Note) as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction on account of any such taxes been required.

Governing Law ... The Further Notes and the Trust Deed (including the Guarantees) and any non-contractual obligations arising out of, or in connection with, the Further Notes and the Trust Deed will be governed by, and construed in accordance with, English law.

Substitution .... The Trust Deed also permits the Trustee to agree, without the consent of the Noteholders, to the substitution of certain other entities in place of the Issuer as principal obligor under the Trust Deed and the Notes or in place of any Guarantor as guarantor of the Issuer's payment obligations under the Trust Deed and the Notes.

Listing / Trading. Application will be made for listing of the Further Notes on the SIX Swiss Exchange. The Further Notes will be provisionally admitted to trading on the SIX Swiss Exchange on 28 May 2019. The last trading day is expected to be the same as the Original Notes, *i.e.*, 1 December 2023. Application has also been made for the Further Notes to be admitted to the official list of the AIX and the Further Notes are expected to be admitted on 31 May 2019. This Prospectus has been approved by the AIX on 28 May 2019.

Trustee................ BNY Mellon Corporate Trustee Services Limited.

Swiss Paying Agent.................... Deutsche Bank AG Zurich Branch.

Yield.................... 2.25% as at the Issue Date. This is not an indication of future yield.

Ratings................ The Original Notes were rated BBB- by Fitch and Baa3 by Moody's and it is expected that the rating of the Notes will be the same immediately after the issuance of the Further Notes. The

	Issuer's current long-term debt ratings by Moody's, S&P and Fitch are Baa3 (stable), BB- (stable) and BBB- (stable), respectively. 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.

Where will the Securities be traded?

Selling Restrictions..........	The Further Notes have been offered to the public in Switzerland and Kazakhstan (subject to applicable laws and regulations). The offering and sale of Further Notes is subject to applicable laws and regulations and the Further Notes may not be sold in other jurisdictions, including without limitation the United Kingdom and the EEA, other than in compliance with applicable laws and regulations. The Further Notes and the Guarantees have not and will not be registered under the Securities Act or the securities laws of any state of the United States and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons.
Clearing...............	SIX SIS Ltd, Olten, Switzerland.

Is there a Guarantee attached to the Securities?

The Guarantees...	Pursuant to the Guarantees, each Guarantor has unconditionally and irrevocably guaranteed (or, in the case of a person becoming a Guarantor pursuant to the provisions of the Conditions 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 (including the Further Notes) and the Trust Deed.
The Guarantors ..	Joint Stock Company "Kaztemirtrans" ("**Kaztemirtrans**"), is a joint stock company organised in the Republic of Kazakhstan, with business identification number 031040000572, having its registered office at 10 Konaev Street, Nur-Sultan 010000, Republic of Kazakhstan. Kaztemirtrans is the registered owner of the majority of the Group's freight rail cars. KTZFT is a joint stock company organised in the Republic of Kazakhstan, with business identification number 031040001799, having its registered office at 6 Konaev Street, Nur-Sultan 010000, Republic of Kazakhstan. KTZFT's principal activity is railway freight transportation. Passenger Transportation is a joint stock company organised in the Republic of Kazakhstan, with registration number 11894-1901-AO and business identification number 020540000922, having its registered office at 6 Konaev Street, Nur-Sultan 010000, Republic of Kazakhstan. Passenger Transportation's principal activity is the provision of railway passenger transportation services. Joint Stock Company "Vagonservice" ("**Vagonservice**"), is a joint stock company organised in the Republic of Kazakhstan, with registration number 15605-1901-AO and business identification number 040240005450, having its registered office at 6 Konaev Street, Nur-Sultan 010000, Republic of Kazakhstan. Vagonservice's principal activity is the provision of rental, maintenance and scheduled repair services. Joint Stock Company "Suburban Transportation" ("**Suburban Transportation**"), is a joint stock company organised in the Republic of Kazakhstan, with registration number 15606-1901-AO and business identification number 040240005351, having its registered office at 6 Konaev Street, Nur-Sultan 010000, Republic of Kazakhstan. Suburban Transportation's principal activity is the provision of railway suburban passenger transportation services.
Relevant key Financial Information..........	Each of the Guarantors' accounts are consolidated with the audited consolidated financial statements of the Issuer, which are included in this Prospectus. The Prospectus, with the inclusion of the Annual Financial Statements (as defined below) prepared in accordance with IFRS, gives an accurate picture of the financial performance of both the Issuer and the Guarantors for the purpose of assessing the Guarantors' ability to fulfil their commitments under the Guarantee.

What are the key risks that are specific to the Guarantors?

Each of the Guarantors is a subsidiary of the Issuer or another Guarantor and forms part of the same corporate group. Accordingly, the risks applicable to the Issuer also apply to the Guarantors. See *"—Key Information About the Issuer—What are the key risks that are specific to the Issuer*".

What are the key risks that are specific to the Securities?

- *The Further Notes will be fungible with the Original Notes on and from the Consolidation Date.* In order to comply with certain US restrictions on the offer of the Further Notes, the Further Notes will only be consolidated and form a single series with the Original Notes on the Consolidation Date. As such, purchasers of the Further Notes should be aware that, until the Consolidation Date, the Further Notes will trade separately from the Original Notes and are not fungible with the Original Notes until such time.

- *The Further Notes and the Guarantees are structurally subordinated to the indebtedness of the Guarantors' subsidiaries and to the indebtedness of the Issuer's subsidiaries other than the Guarantors.* Each Guarantee is exclusively an obligation of the Guarantors. Accordingly, Noteholders do not have any claim as a creditor against any of the Issuer's subsidiaries that are not Guarantors, and the Further Notes are effectively subordinated in right of payment to all of the debt and other obligations of the subsidiaries of the Issuer that are not Guarantors and the debt and other obligations of the subsidiaries of the Guarantors in the event of bankruptcy or insolvency.

- *The Further Notes are subject to modification, waivers and substitution.* The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders.

- *Delisting of the Notes (including the Further Notes) from the official list of the AIX may subject gains and interest payments on the Notes (including the Further Notes) to tax in the Republic of Kazakhstan.* In order for payments of interest due on the Notes (*including the Further Notes)* and gains realised by the Noteholders in relation to disposal, sale, exchange or transfer of the Notes (*including the Further Notes)* to be exempt from Kazakhstan withholding tax, it will be necessary for the Notes (including the Further Notes) to be admitted to the official list of the AIX as at the interest date or the date of such disposal, sale, exchange or transfer of the Notes. No assurance can be given that the Notes will remain admitted to the official list of the AIX as at each Interest Payment Date or during the term of the Notes, or that there will be no material change in tax and securities laws in Kazakhstan.

- *The Original Notes are, and the Further Notes will be, listed on the AIX and benefit from an exemption on withholding tax which is untested in practice.* The Issuer believes that payments of interest on the Further Notes will be exempt from withholding and income taxes due to the favourable treatment available for securities admitted to the official list of the AIX under the Financial Center Law in effect as of the date of this Prospectus. However, practice is not yet fully developed.

- *The AIX has very short history of operations.* The AIX was launched in July 2018. There can be no assurance that the AIX will attract a sufficient number of market participants and issuers to ensure acceptable trading volumes in the foreseeable future or at all.

- *It may be difficult to effect service of legal process and enforce judgments obtained outside of Kazakhstan against the Issuer and its Guarantors and their respective management.* Each of the Issuer and the Guarantors is a joint stock company organised under the laws of Kazakhstan and a substantial part of their businesses, assets and operations are located in Kazakhstan. In addition, a substantial majority of their directors and executive officers reside in Kazakhstan and substantially all of their assets are located in Kazakhstan. 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.

- *Insolvency laws in Kazakhstan may not be as favourable to holders of the Further 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 laws of Kazakhstan. Kazakhstan bankruptcy laws may prohibit the Issuer and the Guarantors from making payments pursuant to the Notes or, as the case may be, the Guarantee under certain circumstances.

- *Noteholders may be subject to exchange rate risks and exchange controls.* The Issuer will pay principal and interest on the Further Notes in Swiss Francs. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit other than Swiss Francs. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Swiss Franc 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. As a result, investors may receive less interest or principal than expected, or no interest or principal.

- *The market price of the Further Notes may be volatile.* The market price of the Further 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 analysts and the actual or expected sale of a large number of Further Notes.

Key information on the admission to trading

Under which conditions and timetable can I invest in this Security?

Listing and Trading................	Application will be made for the listing of the Further Notes on the SIX Swiss Exchange. The Further Notes will be provisionally admitted to trading on the SIX Swiss Exchange on 28 May 2019. Application has also been made for the Further Notes to be admitted to the official list of the AIX and the Further Notes are expected to be admitted on 31 May 2019.

Joint Lead Managers.............	UBS AG, Gazprombank (Switzerland) Ltd and JSC SkyBridge Invest.
Terms of Appointment of Joint Lead Managers.............	The Joint Lead Managers have, pursuant to a Subscription Agreement dated 28 May 2019 (the "**Subscription Agreement**"), agreed on a several (and not joint) basis with the Issuer and the Guarantors, subject to the satisfaction of certain conditions, to subscribe to the Further Notes in the principal amount as set out opposite their respective names in the Subscription Agreement. The Issuer (failing whom the Guarantors) has agreed to pay to the Joint Lead Managers an underwriting commission.
Selling Restrictions	The Further Notes have been offered to the public in Switzerland and Kazakhstan (subject to applicable laws and regulations). The offering and sale of Further Notes is subject to applicable laws and regulations and the Further Notes may not be sold in other jurisdictions, including without limitation the United Kingdom and the EEA, other than in compliance with applicable laws and regulations. The Further Notes and the Guarantees have not and will not be registered under the Securities Act or the securities laws of any state of the United States and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons.
Offer Period	Concurrently with the placement of the Further Notes outside Kazakhstan.
Methods of payment for the Further Notes.......	According to AIX regulations.
Notification process for applicants	Prior to the start of the bookbuilding process the AIX will issue a market notice setting out, among other things, the main terms and conditions of the bookbuilding and settlement procedures in connection with the offering through AIX, the yield range and the related responsibilities of the AIX trading members.
Estimated Expenses..............	The expenses in connection with the admission of the Further Notes to the official list of the AIX and to trading on the AIX are expected to be U.S.$5,000 in connection with the review of the Prospectus.

Why is this Prospectus being produced?

This Prospectus has been produced in connection with the application for the listing of the Further Notes on the SIX Swiss Exchange and for the Further Notes to be admitted to the official list of the AIX.

Reasons for the Issuance /Use of Proceeds	The net proceeds from the issue of the Further Notes are expected to amount to approximately CHF 83,792,391.50 (approximately U.S.$84.16 million at the CHF/U.S.$ exchange rate published by Swiss National Bank as at 27 May 2019, U.S.$0.9942 per CHF 1.00) after deduction of fees and expenses related to the offering. The issuance is being made, and the net proceeds of the issue of the Further Notes will be used by the Issuer for, refinancing the CHF 100 million Eurobonds due 2019 issued in 2014. As the issuance of the Further Notes are to refinance existing debt, the issuance is not expected to have a material impact on the level of debt of the Issuer and will lengthen the Issuer's debt maturity profile.
Methods of payment for the Further Notes.......	According to AIX regulations.
Conflicts of interest.................	No person involved in the offering has any interest in the offering, which is material to the offering.
Estimated Expenses..............	The expenses in connection with the admission of the Further Notes to the official list of the AIX and to trading on the AIX are expected to be U.S.$5,000 in connection with the review of the Prospectus.

GENERAL INFORMATION

Presentation of Financial and Other Information

Financial Statements

The independent auditors of the Group, Deloitte, LLP, issued an unqualified independent auditor's report dated 13 March 2019 relating to the Group's audited consolidated financial statements as at and for the year ended 31 December 2018, which include comparative data as at and for the year ended 31 December 2017 (the "**2018 Financial Statements**") and an unqualified independent auditor's report dated 13 March 2018 relating to the Group's consolidated financial statements as at and for the year ended 31 December 2017, which include comparative data as at and for the year ended 31 December 2016 (the "**2017 Financial Statements**" and, together with the 2018 Financial Statements, the "**Annual Financial Statements**"). The Annual Financial Statements included in this Prospectus have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standard Board.

Deloitte, LLP's independent auditor's report in respect of the 2018 Financial Statements appears on page F-5 of this Prospectus and Deloitte, LLP's independent auditor's report in respect of the 2017 Financial Statements appears on page F-77 of this Prospectus. Unless otherwise indicated, the financial information presented herein is extracted without material adjustment from the Annual Financial Statements and the notes thereto contained in this Prospectus beginning on page F-1.

The Annual Financial Statements have been prepared on a going concern basis. This assumes the sale of assets and settlement of liabilities in the normal course of business for the foreseeable future. As at 31 December 2018, the current liabilities of the Group exceeded its current assets by KZT 251,239 million. Moreover, loss for the year ended 31 December 2018 amounted to KZT 86,455 million, which is primarily attributed to foreign exchange losses of KZT 112,798 million arising from borrowings in foreign currencies. As at 31 December 2018, the Group reclassified a long-term borrowing of KZT 46,238 million as a current liability due to its failure to meet one of the financial covenants stipulated under the loan agreement with HSBC France (debt to equity ratio). After the reporting date, the Group received a waiver letter to change the ratio threshold value to 1.53 (as compared to 1.35) as at 31 December 2018, although this was not reflected in the year-end position as it was received after year-end. The Group was in compliance with the reset ratio threshold value as at 31 December 2018. Historically, the Group financed major investment projects using funds from the Government and through borrowings, in addition to cash from operating activities. For the year ended 31 December 2018, cash flows from operating activities amounted to KZT 155,628 million. As at 31 December 2018, Group borrowings of KZT 175,164 million were payable within 12 months, including the HSBC France loan of KZT 46,238 million reclassified as current. The Group's management ("**Management**") has assessed its need for cash, including scheduled debt repayments and development plans. In assessing 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, its capital expenditure commitments, as well as expected increases in 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 Annual Financial Statements. See Note 2 and the audit report to the 2018 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 Annual Financial Statements attached as F- pages to this Prospectus reflect all Guarantor- and non-Guarantor companies consolidated within the Group. As at and for the years ended 31 December 2018 and 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

As a result of negotiations held in April and May 2018, the Group and Patentes Talgo S.L.U. failed to reach a mutual agreement on the additional terms of a purchase and sale transaction proposed by Patentes Talgo S.L.U. in respect of Tulpar-Talgo LLP and Patentes Talgo S.L.U. refused to complete the purchase. On 14 May 2018, the Group returned an advance payment of KZT 8,958 million (€23 million) previously received from Talgo Kazajstan S.L.U. as part of the proposed transaction in May 2015. The purchase and sale agreement for the interest in Tulpar-Talgo LLP was terminated on 13 July 2018.

In September 2018, Remlocomotiv JSC, a subsidiary, and Transmasholding JSC signed an agreement to sell Tulpar-Talgo LLP to Transmasholding JSC. As at 31 December 2018, Tulpar-Talgo LLP ceased to meet the criteria of IFRS 5, as the parties did not agree on certain conditions of the purchase and sale agreement for a 99.99926% interest in Tulpar-Talgo LLP and agreed to cancel the agreement. As a result, the Group ceased classification of Tulpar-Talgo LLP as held for sale and reclassified its results of operations from discontinued operations to continuing operations.

As a result of this reclassification, comparative information for 2017 and as at 31 December 2017 and 1 January 2017 was restated in the 2018 Financial Statements.

In addition, the Group revised the prior year classification of current assets recognised for distribution to the shareholder from assets for the benefit of the shareholder to assets classified as held for sale and for distribution to the shareholder within the consolidated statement of financial position, since the assets initially constructed for the benefit of the shareholder and the assets held for distribution are of the same nature and, respectively, were included in this line item; and revenue from the lease of wagons, the provision of mainline railway services and locomotive haulages, and freight forwarding services from the freight transportation line to the other revenue line within the consolidated statement of profit or loss and other comprehensive income, since these types of revenue are transportation related, but do not represent transportation itself, and respectively, were excluded from the freight transportation line item. Accordingly, comparative amounts for 2017 and as at 31 December 2017 and 1 January 2017 have been restated in the 2018 Financial Statements to bring these results in line with the presentation used in the 2018 Financial Statements.

This restatement has not resulted in a material impact on the consolidated statement of cash flows. However, profit for the year and adjustments for depreciation and amortisation line items have been adjusted by KZT 45 million, which relates to a depreciation adjustment for 2017 as a result of application of IFRS 5 requirements for the assets ceased to be classified as held for sale.

As a result of the foregoing, financial information as at and for the year end 31 December 2017 in this Prospectus has been taken from the 2018 Financial Statements.

See Note 5 to the 2018 Financial Statements for further 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.

Non-IFRS Measures

In this Prospectus, the Group uses the following metrics in the analysis of its business and financial position, which the Issuer considers to constitute Alternative Performance Measures ("**APMs**").

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 Prospectus 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. 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 for monitoring certain aspects of its operating cash flow and liquidity. Management believes 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 Prospectus 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 may 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 Consolidated 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.

Third-Party Information

Statistical data and other information appearing in this Prospectus relating to the railway industry in the Republic of 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 management's knowledge and experience of the markets in which the Company operates). In the case of the third-party 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 Prospectus is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official, public and other third-party information. See "*Risk Factors—Risk Factors Relating to the Republic of Kazakhstan—The Group cannot ensure the accuracy of official statistics and other data in this Prospectus published by Kazakhstan authorities*".

The Issuer confirms that, where information included in the Prospectus 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.

Information on Websites

The websites of the Issuer, the Guarantors or any other member of the Group do not form any part of this Prospectus. No reliance may be placed for any purposes whatsoever on the information contained on the websites of any member of the Group or on the completeness or accuracy of any of them. No representation or warranty, express or implied, is made or given by or on behalf of the Issuer or any of its subsidiaries, shareholders, directors, officers or employees or any other person as to the accuracy, completeness or fairness of the information or opinions contained on the Group's websites. Accordingly, no member of the Group, any of their respective financial advisers, affiliates, advisers, representatives or any other person shall have any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of the Group's websites or their contents or otherwise.

Certain Definitions and Terminology

In this Prospectus, references to a particular "**Condition**" are references to the relevant Condition set out under "*Terms and Conditions of the Further Notes*".

In this Prospectus, "**turnover**" refers to the amount of freight or number of passengers transported, as the case may be, multiplied by the distance such freight or passengers, as the case may be, are transported. Turnover is measured in "**tonne-kilometres**", which is equal to the weight in tonnes of material transported multiplied by the number of kilometres the material is transported, or "**passenger-kilometres**", which is equal to the number of passengers transported multiplied by the number of kilometres the passengers are transported. References in this Prospectus to "**km**" refer to kilometres.

Currency Information

In this Prospectus, references to "**Tenge**" or "**KZT**" are to Kazakhstan Tenge, the official currency of Kazakhstan, references to "**U.S. Dollars**" or "**U.S.$**" are to U.S. Dollars, references to "**CHF**" are to Swiss Francs and references to "**Euro**" or "**€**" are to the lawful currency of the member states of the European Union that have adopted the single currency in accordance with the Treaty Establishing the European Community, as amended.

Rounding Adjustments

Certain figures included in this Prospectus 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.

Availability of Documents

Copies (and English translations where the documents in question are not in English) of the following documents may be inspected at, and are available from, the offices of Deutsche Bank AG Zurich Branch, the Swiss Paying Agent, at Uraniastrasse 9, CH-8001 Zurich (phone: +41 44 227 3781, e-mail: swiss.transaction@list.db.com), during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) so long as the Notes are listed on the SIX Swiss Exchange and on the AIX:

(a) the prospectus issued in respect of the Original Notes dated 04 December 2018, this Prospectus and any supplements thereto;

(b) the Agency Agreement;

(c) the Trust Deed (including the Guarantees);

(d) the 2018 Financial Statements and 2017 Financial Statements, including in each case, the audit report relating to such financial statements;

(e) the constitutive documents of each of the Issuer and the Guarantors; and

(f) copies of the authorisations listed below.

Authorisations

Each of the Issuer and the Guarantors has obtained all necessary consents, approvals and authorisations in Kazakhstan in connection with its entry into, and the performance of its obligations under the documents to be entered into by the Issuer and the Guarantors in relation to the Guarantees or the issue of the Further Notes. The execution of the documents to be entered into by the Issuer and the Guarantors in relation to the Guarantees or the issue of the Further Notes does not require separate approval by the management of the Issuer or the Guarantors, but is covered by a general management approval. The issue of the Further Notes and the execution of documents to be entered into by it in relation to the Guarantees or the Further Notes was approved by a resolution of the Board of Directors of the Issuer dated 17 September 2018 and by resolution of the Management Board of the Issuer dated 14 May 2019 and by resolutions of the Management Board of each of Kaztemirtrans (dated 14 May 2019), KTZFT (dated 29 April 2019) and Passenger Transportation (dated 13 May 2019), and by resolutions of the Board of Directors of each of Vagonservice (dated 14 May 2019) and Suburban Transportation (dated 14 May 2019).

No consents, approvals, authorisations or orders of any governmental authorities are required by the Issuer under the laws of Kazakhstan for the issue of, and performance of its obligations under, the Further Notes and no consents, approvals, authorisations or orders of any governmental authorities are required by either of the Guarantors under the laws of Kazakhstan for the extension of, and performance of their obligations under, the Guarantees.

No Material Change

Save as disclosed in this Prospectus, since 31 December 2018 there has been no material change or any development involving a prospective material adverse change in the assets and liabilities, financial position or profits and losses of the Issuer, the Guarantors or the Group.

Recent Developments

Save as disclosed in this Prospectus (including the documents incorporated by reference herein), there has been no significant change in the Issuer's, the Guarantors' or the Group's business since 31 December 2018.

Litigation

There is no litigation or other legal or administrative or arbitration proceedings against or affecting the Issuer, the Guarantors or any of their respective subsidiaries, current or pending or, to the best of the knowledge and belief of the Issuer and the Guarantors, threatened before any court, tribunal, arbitration panel or agency where these are of material importance to the Issuer's and the Guarantor's assets and liabilities or profits and losses.

Trustee

BNY Mellon Corporate Trustee Services Limited (the "**Trustee**"), will act as trustee for the Noteholders in accordance with the terms of an English-law governed Trust Deed.

Noteholders may remove the Trustee by Extraordinary Resolution passed at a meeting of Noteholders, subject to certain conditions more fully discussed in "*Terms and Conditions of the Further Notes*".

The Trustee may retire at any time on giving at least 30 days' notice in writing to the Issuer and the Guarantors of its intention so to do provided there remains a Trustee in place after such retirement.

A new Trustee may be appointed by the Issuer, subject to approval by an Extraordinary Resolution at a meeting of Noteholders.

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes (including the Further Notes) to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails or neglects to do so within a reasonable period and such failure or neglect is continuing.

For more detailed discussion of the role of the Trustee and the conditions in which the Trustee may be replaced, see the Trust Deed.

Representative

In accordance with Article 43 of the listing rules of SIX Swiss Exchange, the Issuer has appointed UBS AG as representative to lodge the listing application in respect of the Further Notes with SIX Exchange Regulation.

Contractual Patents and Licences

The Issuer believes that it is not dependent on any contractual patents and licences save for a licence to transport hazardous materials and perform certain types of survey works, including engineering and geodetic works, a licence for the performance of certain types of construction-assembly works; a licence for the performance of certain types of project activities; a licence authorising activity in connection with the acquisition, storage, usage, distribution, transportation, realisation and utilisation of certain controlled chemicals, or "precursors".

The Guarantors believe that they are not dependent on any contractual patents and licences.

Swiss Paying Agent

Payments in respect of the Notes (including the Further Notes) and coupons will be made only at the Swiss Paying Agent's offices in Switzerland. For the purpose of the Notes (including the Further Notes), the Issuer has, under the Agency Agreement, appointed Deutsche Bank AG Zurich Branch as paying agent in Switzerland (the "**Swiss Paying Agent**").

Publication

So long as the Further Notes are listed on SIX Swiss Exchange and on the AIX and so long as the rules of SIX Swiss Exchange or the AIX so require, all notices in respect of the Further Notes will be validly given, (i) by means of electronic publication on the website of SIX Swiss Exchange at www.sixexchangeregulation.com/publications/published_notifications/official_notices_en.html and the website of the AIX at www.aix.kz or (ii) otherwise in accordance with the regulations of SIX Swiss Exchange and the AIX.

Language

The language of this prospectus 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.

No Material Contracts

None of the Issuer, the Guarantors nor any member of the Group has entered into any material contracts outside the ordinary course of its business which could result in it being under an obligation or entitlement that is material to their ability to make payments under the Notes (including the Further Notes).

Certain Additional Information regarding the terms and conditions of the offer of Further Notes

The below table sets out certain additional information regarding the terms and conditions of the offer of the Further Notes as required by the AIFC Rules № FR0003 of 2017.

Categories of potential investors to which the Securities are offered	The Further Notes have been offered to the public in Switzerland and Kazakhstan (subject to applicable laws and regulations). The offering and sale of Further Notes is subject to applicable laws and regulations and the Further Notes may not be sold in other jurisdictions, including without limitation the United Kingdom and the EEA, other than in compliance with applicable laws and regulations.
Offer Period	Concurrently with the placement of the Further Notes outside Kazakhstan.
Methods of payment for the Further Notes	According to AIX regulations.
Proposed date for allotment of Securities	Allocations are expected to be released on or around the pricing date. Settlement is expected to be on or around Issue Date.
Notification process for applicants	Prior to the start of the bookbuilding process the AIX will issue a market notice setting out, among other things, the main terms and conditions of the bookbuilding and settlement procedures in connection with the offering through AIX, the yield range and the related responsibilities of the AIX trading members.
Procedure for the exercise of any pre-emption rights	Not applicable.
Terms of Appointment of Joint Lead Managers	The Joint Lead Managers have, pursuant to the Subscription Agreement, agreed on a several (and not joint) basis with the Issuer and the Guarantors, subject to the satisfaction of certain conditions, to subscribe to the Further Notes in the principal amount as set out opposite their respective names in the Subscription Agreement. The Issuer (failing whom the Guarantors) has agreed to pay to the Joint Lead Managers an underwriting commission.

RESPONSIBILITY STATEMENT

The Issuer and the Guarantors, having made all reasonable enquiries, accept responsibility for this Prospectus (in accordance with Section 69 of the AIFC Framework Regulations № 18 of 2018 and Part 1 of the AIFC Market Rules № FR0003 of 2017 and the listing rules of the SIX Swiss Exchange) and confirm that this Prospectus complies with the requirements set out in Section 69 of the AIFC Framework Regulations № 18 of 2018 and Part 1 of the AIFC Market Rules № FR0003 of 2017 and contains all information which is material in the context of the issue and offering of the Further Notes, that the information contained in this Prospectus is correct to the best of their knowledge and that no material facts or circumstances have been omitted.

The Issuer and the Guarantors have extracted substantially all of the information contained in this Prospectus concerning the Kazakhstan transport market and its competitors, which may include estimates or approximations, from publicly available information, including press releases and public filings made under various securities laws. In addition, some of the information contained in this Prospectus has been extracted from official data published by Government agencies and internationally reliable sources, such as the World Bank and the International Monetary Fund. The Issuer and the Guarantors confirm such information has been accurately reproduced and is able to ascertain from the information published by such third parties that no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used. The Issuer and the Guarantors accept responsibility for correctly extracting such information from its sources and confirms that such information has been correctly extracted from its sources. However, the Issuer and the Guarantors have relied on the accuracy of such information without carrying out an independent verification. The official data published by Kazakhstan Government and local authorities may be less complete and less reliable than similar data published in other countries. Official statistics may also be compiled on a different basis than that used in Western countries. Any discussion of matters related to Kazakhstan in this Prospectus may, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The accuracy of some official data released by the Government may be questionable.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Further Note or the Guarantees shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve an adverse change, in the condition (financial or otherwise) of the Issuer and/or the Guarantors since the date of this Prospectus.

Joint Stock Company "National Company Kazakhstan Temir Zholy", as Issuer

By: Dair Kusherov
Title: CFO
Address: 6 Konaev Street
Nur-Sultan 010000
Republic of Kazakhstan
Date: 28 May 2019

Joint Stock Company "Kaztemirtrans", as Guarantor

By:
Title:
Address: 10 Konaev Street
Nur-Sultan 010000
Republic of Kazakhstan
Date:

Joint Stock Company "KTZ-Freight Transportation", as Guarantor

By:
Title:
Address: 6 Konaev Street
Nur-Sultan 010000
Republic of Kazakhstan
Date:

Joint Stock Company "Passenger Transportation", as Guarantor

By:
Title:
Address: 6 Konaev Street
Nur-Sultan 010000
Republic of Kazakhstan
Date:

RESPONSIBILITY STATEMENT

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The Issuer and the Guarantors have extracted substantially all of the information contained in this Prospectus concerning the Kazakhstan transport market and its competitors, which may include estimates or approximations, from publicly available information, including press releases and public filings made under various securities laws. In addition, some of the information contained in this Prospectus has been extracted from official data published by Government agencies and internationally reliable sources, such as the World Bank and the International Monetary Fund. The Issuer and the Guarantors confirm such information has been accurately reproduced and is able to ascertain from the information published by such third parties that no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used. The Issuer and the Guarantors accept responsibility for correctly extracting such information from its sources and confirms that such information has been correctly extracted from its sources. However, the Issuer and the Guarantors have relied on the accuracy of such information without carrying out an independent verification. The official data published by Kazakhstan Government and local authorities may be less complete and less reliable than similar data published in other countries. Official statistics may also be compiled on a different basis than that used in Western countries. Any discussion of matters related to Kazakhstan in this Prospectus may, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The accuracy of some official data released by the Government may be questionable.

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Joint Stock Company "National Company Kazakhstan Temir Zholy", as Issuer

By:
Title:
Address: 6 Konaev Street
Nur-Sultan 010000
Republic of Kazakhstan
Date:

Joint Stock Company "Kaztemirtrans", as Guarantor

By: Bachyt Rachmatulina
Title: Deputy General Director on Finance
Address: 10 Konaev Street
Nur-Sultan 010000
Republic of Kazakhstan
Date: 28 May 2019

Joint Stock Company "KTZ-Freight Transportation", as Guarantor

By: Askar Macsytov
Title: Deputy General Director on Economics and Financ
Address: 6 Konaev Street
Nur-Sultan 010000
Republic of Kazakhstan
Date: 28 May 2019

Joint Stock Company "Passenger Transportation", as Guarantor

By: Arman Sultanov
Title: General Director
Address: 6 Konaev Street
Nur-Sultan 010000
Republic of Kazakhstan
Date: 28 May 2019

Joint Stock Company "Vagonservice", as Guarantor

By: Galibek Amanbayev
Title: General Director
Address: 6 Konaev Street
Nur-Sultan 010000
Republic of Kazakhstan
Date: 28 May 2019

Joint Stock Company "Suburban Transportation", as Guarantor

By: Sultan Tabynbayev
Title: General Director
Address: 6 Konaev Street
Nur-Sultan 010000
Republic of Kazakhstan
Date: 28 May 2019

The distribution of this Prospectus and the offer or sale of the Further Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Guarantors and the Joint Lead Managers to inform themselves about and to observe any such restrictions. The Further Notes and the Guarantees have not been and will not be registered under the Securities Act and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons. Further information with regard to restrictions on offers and sales of the Further Notes and the distribution of this Prospectus is set out under "*Subscription and Sale*".

Further Notes in bearer form are subject to United States tax law requirements and, subject to certain exceptions, may not be offered, sold or delivered within the United States or to U.S. persons. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and the Treasury Regulations promulgated thereunder.

No person is authorised to provide any information or make any representation not contained in this Prospectus and any information or representation not contained in this Prospectus must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantors, the Trustee or the Joint Lead Managers. The delivery of this Prospectus at any time does not imply that the information contained in it is correct as at any time subsequent to its date. The websites of the Issuer and its subsidiaries do not form any part of the contents of this Prospectus.

None of the Issuer, the Guarantors, the Joint Lead Managers or any of the respective representatives makes any representation to any offeree or purchaser of the Further Notes, regarding the legality of an investment by such offeree or purchaser under relevant investment or similar laws. Each investor should consult with their own advisors as to the legal, tax, business, financial and related aspects of any purchase of the Further Notes.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Further Notes or possess this Prospectus. Any consents or approvals that are needed in order to purchase any Further Notes must be obtained by such prospective purchaser. The Issuer, the Guarantors and the Joint Lead Managers are not responsible for compliance with these legal requirements. The appropriate characterisation of any Further Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase such Further Notes, is subject to significant interpretative uncertainties. No representation or warranty is made as to whether or the extent to which any Further Notes constitute a legal investment for prospective investors whose investment authority is subject to legal restrictions. Such prospective investors should consult their legal advisors regarding such matters.

The Joint Lead Managers and their respective affiliates may perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non-public market financing for, and enter into derivatives transactions with, the Issuer, the Guarantors or any of their respective affiliates (including the shareholder of the Issuer).

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE JOINT LEAD MANAGERS AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS PROSPECTUS, AND NOTHING CONTAINED IN THIS PROSPECTUS IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION, WHETHER AS TO THE PAST OR THE FUTURE. NONE OF THE JOINT LEAD MANAGERS ASSUMES ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED IN THIS PROSPECTUS.

EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN ANY FURTHER NOTES ISSUED UNDER THIS PROSPECTUS MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF THE ISSUER AND THE GROUP 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 WHICH MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT.

THE FURTHER NOTES AND THE GUARANTEES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF FURTHER NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

THE JOINT LEAD MANAGERS RESERVE THE RIGHT TO REJECT ANY OFFER TO PURCHASE THE FURTHER NOTES, IN WHOLE OR IN PART, AND TO SELL TO ANY PROSPECTIVE INVESTOR LESS THAN THE FULL AMOUNT OF FURTHER NOTES SOUGHT BY SUCH INVESTOR. THE JOINT LEAD MANAGERS AND CERTAIN RELATED ENTITIES MAY ACQUIRE A PORTION OF THE FURTHER NOTES FOR THEIR OWN ACCOUNTS.

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FORWARD-LOOKING STATEMENTS

Certain statements included herein may constitute "forward-looking statements". These statements relate to future events or the Group's future financial performance, which involve known and unknown risks, uncertainties and other factors that may cause the Group's actual results, levels of activity, performance or achievements to be materially different from those expressed or implied in any forward-looking statements. In some cases, such statements 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.

Prospective investors should be aware that forward-looking statements are not guarantees of future performance and that the Group's actual results of operations, financial condition and the development of the industry in which it operates may differ significantly from those predicted or suggested by the forward-looking statements contained in this Prospectus. In addition, even if the Group's results of operations, financial condition and business and the development of the industry in which it operates are consistent with the forward-looking statements contained in this Prospectus, those results or developments may not be indicative of results or developments in subsequent periods.

Factors that could cause actual results to differ materially from the Group's expectations are contained in cautionary statements in this Prospectus and 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. The sections of this Prospectus entitled "*Risk Factors*" contains a discussion of the factors that the Issuer and the Guarantors believe are material and that could affect the Group's future performance and the industry in which it operates.

The above list of important factors is not exhaustive. When relying on forward-looking statements, prospective investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Issuer and the Group operate. Such forward-looking statements speak only as at the date on which they are made, and are not subject to any continuing obligations under the listing rules of the SIX Swiss Exchange. The Issuer and the Guarantors are not obliged to, and do not intend to, update or revise any forward-looking statements made in this Prospectus whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to the Issuer, the Guarantors or any persons acting on their behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of Further Notes should not place undue reliance on these forward-looking statements.

ENFORCEMENT OF FOREIGN JUDGMENTS & CIVIL LIABILITIES

Each of the Issuer and the Guarantors is a joint stock company organised under the laws of Kazakhstan, and all of their officers and certain of their directors and other persons referred to in this Prospectus are residents of Kazakhstan. All or a substantial portion of the assets of the Issuer and each Guarantor are located in Kazakhstan. As a result, it may not be possible (i) to effect service of process upon the Issuer, the Guarantors' 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 (including the Further Notes) or the Trust Deed in the courts of England and Wales.

The Notes (including the Further Notes), the Agency Agreement and the Trust Deed are governed by the laws of England and Wales, and the Issuer and the Guarantors have agreed in the Notes (including the Further Notes), the Agency Agreement and the Trust Deed that any disputes arising thereunder will be 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 Further Notes*"), to the exclusive jurisdiction of English courts. See Condition 22 (*Governing Law, Jurisdiction and Arbitration*). The Civil Procedure Code of Kazakhstan, which became effective on 1 January 2016, provides that Kazakhstan courts should recognise and enforce foreign court judgments only if such recognition and enforcement is provided for by Kazakhstan legislation or international treaties ratified by the Parliament of the Republic of Kazakhstan (the "**Parliament**"), 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 that 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 (including the Further Notes), the Trust Deed and the Agency Agreement are subject to arbitration or, at the discretion of the Trustee, a Noteholder or the Paying Agent, to the exclusive jurisdiction of English courts. Such one-sided alternative dispute resolution provisions providing the Trustee/ the Paying Agent (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" (№ 488-V, dated 8 April 2016) (the "**Arbitration Law**") was signed by the President of Kazakhstan 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 provisions in the Arbitration Law, which may have implications (as described below) in respect of the arbitration provisions contained in the Notes (including the Further Notes), the Agency Agreement 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 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 (including the Further Notes), the Agency Agreement 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. All of 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 (including the Further Notes), the Agency Agreement and the Trust Deed.

- Article 44.1 of the Arbitration Law provides that disputes between Kazakhstan individuals and/or legal entities must be resolved in accordance with Kazakhstan laws. Although the Arbitration Law largely remains untested, Management believes that the literal interpretation of Article 44.1 of the Arbitration Law suggests that Kazakhstan laws should only apply to arbitration proceedings between Kazakhstan individuals and/or legal entities.

Given that there is no well-developed practice in Kazakhstan on the application of the Arbitration Law, 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 Further Notes and the Guarantee—It may be difficult to effect service of legal process and enforce judgments obtained outside of Kazakhstan against the Issuer and Guarantors' and their respective management.*"

In February 2010, 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 state-owned companies, such as the Issuer and 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 or the Guarantors', including in relation to the Notes (including the Further 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 (including the Further Notes) or the Guarantees, 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).

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following summary consolidated financial information as at and for the years ended 31 December 2018, 31 December 2017 and 31 December 2016 has been extracted from the Annual Financial Statements, all of which are included elsewhere in this Prospectus.

Prospective investors should read the following summary consolidated financial information in conjunction with the information contained in "Presentation of Financial and Other Information", "Risk Factors", "Capitalisation", "Operating and Financial Review of the Group" and "Business of the Group" as well as the Annual Financial Statements, together, in each case, with the related notes thereto appearing elsewhere in this Prospectus.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the year ended 31 December			
	2018[(1)]	**2018**	**2017[(2)]**	**2016**
	(unaudited) (U.S.$ millions)	*(KZT millions)*		
Continuing operations				
Revenue				
Freight transportation	2,210	849,036	749,571	688,204
Passenger transportation	219	84,219	81,886	80,134
Government grants	54	20,751	20,460	22,529
Other revenue	235	90,168	61,196	32,245
Total revenue	**2,718**	**1,044,174**	**913,113**	**823,112**
Cost of sales	(2,130)	(818,448)	(721,330)	(658,853)
Gross profit	**588**	**225,726**	**191,783**	**164,259**
General and administrative expenses	(254)	(97,554)	(86,681)	(76,444)
Assets impairment	(16)	(6,009)	(3,752)	(2,168)
Other profit or losses, net	7	2,595	3,631	3,586
Finance income	21	8,215	7,886	6,325
Finance costs	(269)	(103,534)	(97,714)	(85,418)
Foreign exchange (loss)/gain	(293)	(112,515)	(7,408)	20,863
Share of profit of associates and joint ventures	9	3,481	2,138	670
Gain from disposal of shares in associates, joint ventures and subsidiaries not qualifying as discontinued operations	22	8,333	8,396	9,748
(Loss)/profit before income tax	**(185)**	**(71,262)**	**18,279**	**41,421**
Income tax (expense)/benefit	(6)	(2,314)	(6,144)	4,763
(Loss)/profit for the year from continuing operations	**(191)**	**(73,576)**	**12,135**	**46,184**
Discontinued operations				
(Loss)/profit for the year from discontinued operations	(34)	(12,879)	776	(4,907)
(Loss)/profit for the year	**(225)**	**(86,455)**	**12,911**	**41,277**
Items that will subsequently be reclassified to profit or loss:				
Remeasurement of employee benefit obligations	**(3)**	(1,167)	(1,554)	4,107
Items that may be reclassified to profit or loss in subsequent periods:				
Net fair value loss on cash hedging instruments	**(37)**	(14,026)	(3,479)	4,417
Foreign exchange difference on the transition of foreign operations	**3**	1,049	841	(487)
Other comprehensive loss for the year	**(37)**	(14,144)	(4,192)	8,037
Total comprehensive loss / income for the year	**(262)**	**(100,599)**	**8,719**	**49,314**

Notes:

(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 2018 of KZT 384.20 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.

(2) The comparative information has been restated as a result of change in classification of assets held for sale (discontinued operations) and other reclassifications. The 2017 figures are taken from the 2018 Financial Statements. See "*General Information—Presentation of Financial and Other Information—Financial Statements—Changes in Classification Affecting Comparative Information*" and Note 5 to the 2018 Financial Statements.

Statement of Financial Position Data

	As at 31 December			
	2018(1)	2018	2017(2)	2016(2)
	(unaudited) (U.S.$ millions)	*(KZT millions)*		
Property, plant and equipment	7,135	2,741,395	2,664,406	2,531,256
Total non-current assets	7,535	2,894,852	2,803,770	2,669,657
Other current assets	148	56,890	51,215	39,214
Cash and cash equivalents	173	66,606	81,169	53,478
Total current assets	790	303,581	347,014	365,691
Total assets	**8,325**	**3,198,433**	**3,150,784**	**3,035,348**
Total equity	**2,969**	**1,140,835**	**1,258,482**	**1,167,929**
Non-current borrowings(3)	3,185	1,223,508	1,184,719	1,098,118
Total non-current liabilities	3,911	1,502,778	1,445,147	1,354,362
Current borrowings(4)	460	176,841	94,886	141,562
Total current liabilities	1,444	554,820	447,155	513,057
Total liabilities	**5,356**	**2,057,598**	**1,892,302**	**1,867,419**

Notes:

(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 2018 of KZT 384.20 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.

(2) The comparative information has been restated as a result of change in classification of assets held for sale (discontinued operations) and other reclassifications. The 2017 figures are taken from the 2018 Financial Statements. See "*General Information—Presentation of* Financial *and Other Information—Financial Statements—Changes in Classification Affecting Comparative Information*" and Note 5 to the 2018 Financial Statements.

(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 year ended 31 December			
	2018[1]	2018	2017[2]	2016
	(unaudited) (U.S.$ millions)	*(KZT millions)*		
Net cash flows from operating activities	405	155,628	182,110	149,445
Net cash flows used in investing activities	(421)	(161,782)	(234,217)	(225,940)
Net cash flows from financing activities	(26)	(10,106)	70,079	71,939
Net increase/(decrease) in cash and cash equivalents	(42)	(16,260)	17,972	(4,555)
Cash and cash equivalents at the beginning of the year	220	84,384	67,085	74,904
Effect of foreign exchange rate changes on the balance of cash and cash equivalents	0	122	(673)	(3,263)
Effect of changes in allowance for expected credit losses	(0)	(23)	—	—
Cash and cash equivalents at the end of the year	178	68,223	84,384	67,085

Notes:

(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 2018 of KZT 384.20 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.

(2) The comparative information has been restated as a result of change in classification of assets held for sale (discontinued operations) and other reclassifications. The 2017 figures are taken from the 2018 Financial Statements. See "*General Information—Presentation of Financial and Other Information—Financial Statements—Changes in Classification Affecting Comparative Information*" and Note 5 to the 2018 Financial Statements.

RISK FACTORS

The Issuer and the Guarantors believe that the following factors may affect their ability to fulfil their respective obligations under the Notes and the Guarantee, as applicable. Some of these factors are contingencies which may or may not occur and the Issuer and the Guarantors do not express any view on the likelihood of any such contingency occurring or not occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Notes and the Guarantee are also described below. If any of the risks described below actually materialises, each of the Group member's business, prospects, financial condition, cash flows or results of operations could be materially adversely affected. If this were to happen, the trading price of the Notes could decline or the Issuer could be unable to pay interest, principal or other amounts on or in connection with any Notes, and the Guarantors could be unable to fulfil their respective obligations under the Guarantee.

The Issuer and the Guarantors believe that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes, or of the Guarantors to otherwise perform their respective obligations under the Guarantee, as applicable, may occur for other reasons that may not be considered significant risks by the Group based on information currently available to them or for reasons which they may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making an 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 Issuer'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 Passenger Transportation's rolling stock of passenger coaches In addition, the Group has in the past received concessional rate loans and capital contributions from Samruk-Kazyna. For example, in 2017, the Issuer issued: (i) 66,852 shares to Samruk-Kazyna in return for capital of KZT 66,852 million, which was used to finance the construction of a ferry complex in the Kuryk port; and (ii) 27,000 shares to Samruk-Kazyna for which assets and land use rights in respect of two plots of land (valued at KZT 2,323 million) were received. In 2018, the Issuer issued 290,037 shares to Samruk-Kazyna for which 51 open wagons with a total market value of KZT 290 million were received, and, in 2016, the Issuer also issued shares to Samruk-Kazyna and used the proceeds to finance various projects, including the construction of the Zhezkazgan-Beineu railway line and the development of the Astana railway junction.

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 Issuer as a monopoly and a 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 year ended 31 December 2018, revenue from Government grants was KZT 20,751 million, as compared to KZT 20,460 million for 2017 and KZT 22,529 million for 2016. The increase of KZT 291 million, or 1.4% for the year ended 31 December 2017, as compared to the year ended 31 December 2016 was primarily due to increases in subsidies in respect of suburban routes.

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 or a sufficient level of support from the Government. In addition, there can be no assurance that Government support, if any, will be given in a timely fashion. Moreover, 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 4.1% for 2018, 4.0% for 2017 and 1.0% for 2016. For the year ended 31 December 2018, the Group's freight transportation revenue increased by 13.3% to KZT 849,036 million, as compared to KZT 749,571 million for 2017, accounting for 81.3% of total consolidated revenue in 2018 and 82.1% of total consolidated revenue in 2017. For the year ended 31 December 2018, the Group's passenger transportation revenue increased by 2.8% to KZT 84,219 million from KZT 81,886 million for 2017, accounting for 8.1% and 9.0%, respectively, of total consolidated revenue. There can be no assurance that Kazakhstan's economy and, in turn, the Group's freight transportation and passenger transportation 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 Euro, 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 16.3% and 16.0%, by volume, of the Group's freight transportation in 2018 and 2017, respectively.

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 Issuer, may cause the Issuer to engage in business practices that conflict with the Issuer'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 Issuer and 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.

The Notes (including the Further Notes) are not guaranteed by the Government.

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

The Government, which indirectly controls the Issuer, may cause the appointment or removal of members of the Issuer's management team or require the Issuer 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 Issuer and, therefore, is in a position to appoint and remove, or influence the appointment and removal of, the members of management of the Issuer and its subsidiaries. According to the Issuer's Charter, while the Board of Directors of the Issuer 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. For example, on 20 November 2018, Samruk-Kazyna approved the appointment of Mr. Mynbayev as Chairman of the Management Board of the Issuer. Since July 2002, the Issuer 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, four of the nine members of the Issuer's Board of Directors are 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 Issuer's subsidiaries, which have been identified as companies to be privatised. The Issuer has disposed of 21 assets, liquidated nine Group companies and reorganised two Group companies pursuant to the 2016 Complex Privatisation Plan. The Issuer currently anticipates that two Group companies will be privatised in 2019.

The 2016 Complex Privatisation Plan and a resolution of the Board of Directors of the Issuer 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 Passenger Transportation. However, after carrying out a pre-sale review of Kaztemirtrans and Passenger Transportation, 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. 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, as well as compliance with applicable covenants. 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 Issuer, which, in turn, may have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations. See also "*Risk Factors Relating to the Republic of Kazakhstan—Kazakhstan is in a period of political transition*" and "*Risk Factors Relating to the Republic of Kazakhstan—The outcome of the implementation of further market based economic reforms is uncertain*".

A potential initial public offering by Samruk-Kazyna of a minority stake in the Issuer (not to exceed 49%) is also contemplated in 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 then-Prime Minister of Kazakhstan, concluded that any privatisation of the Issuer 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 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 Government's 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 that the Group does not conduct hedging activities in respect of market fuel price increases.

Fuel and lubricants accounted for 14.7%, 12.4% and 11.0% respectively, of the Group's total cost of sales in 2018, 2017 and 2016, respectively. 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 factors 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 Tenge relative to the U.S. Dollar 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.$1.00. In August 2015, the NBK announced the adoption of a free-floating exchange rate and medium-term inflation targeting policy, which resulted in a 26.2% depreciation against the U.S. Dollar. As at 31 December 2018, the official KZT/U.S.$ exchange rate reported by the NBK was KZT 384.20 per U.S.$1.00, as compared to KZT 332.33 per U.S.$1.00 as at 31 December 2017 and KZT 333.29 per U.S.$1.00 as at 31 December 2016. As at 15 May 2019, the official KZT/U.S.$ exchange rate reported by the NBK was KZT 379.7 per U.S.$1.00.

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 31 December 2018, 2017 and 2016, 52.5%, 56.8% and 64.8%, 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 years ended 31 December 2018 and 2017, the Group recorded foreign exchange losses (excluding discontinued operations) of KZT 112,515 million and KZT 7,408 million, respectively.

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 financing vehicle that is 62%-owned by the Issuer and 28%-owned and 10%-owned by Kaztemirtrans and KTZFT, respectively, and is incorporated in Russia, issued its RUB 15.0 billion 8.75% Notes due 2022, guaranteed by the Issuer, which has increased the Group's exposure to any future devaluation of the Tenge against the Russian Rouble. As at 31 December 2018, the official KZT/RUB exchange rate reported by the NBK was KZT 5.52 per RUB 1.00, as compared to KZT 5.78 per RUB 1.00 as at 31 December 2017 and KZT 5.43 per RUB 1.00 as at 31 December 2016. As at 15 May 2019, the official KZT/RUB exchange rate reported by the NBK was KZT 5.81 per U.S.$1.00.

There can be no assurance that there will not be further devaluations 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 year ended 31 December 2018, 23.3% of total revenue was denominated in Swiss Francs, as compared to 22.9% in 2017 and 25.8% in 2016. 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 31 December 2018, the official KZT/CHF exchange rate reported by the NBK was KZT 390.41 per CHF 1.00, as compared to KZT 340.61 per CHF 1.00 as at 31 December 2017, and KZT 328.14 per CHF 1.00 as at 31 December 2016. As at 15 May 2019, the official KZT/CHF exchange rate reported by the NBK was KZT 376.84 per U.S.$1.00. On occasion, the Group may look to hedge its foreign currency exposure. For example, in June 2014 and December 2018 (the Original Notes), the Group also issued Swiss Franc-denominated Eurobonds, which are listed on the SIX Swiss Exchange and the Kazakhstan Stock Exchange ("**KASE**") and on the SIX Swiss Exchange and AIX, respectively, and are used by the Company as hedging instruments. The Further Notes will also be denominated in Swiss Francs. 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, the Swiss Franc 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 2018 and 2017, total freight turnover in Kazakhstan by type of transportation was: (i) 283.1 billion tonne-kilometres (47.5%) and 262.1 billion tonne-kilometres (47.2%), respectively, by railway; (ii) 138.8 billion tonne-kilometres (23.3%) and 129.8 billion tonne-kilometres (23.4%), respectively, by pipeline; (iii) 172.3 billion tonne-kilometres (28.9%) and 161.8 billion tonne-kilometres (29.1%), respectively, by road; (iv) 1.4 billion tonne-kilometres (0.2%) and 1.6 billion tonne-kilometres (0.3%), respectively, by water; and (v) 0.06 billion tonne-kilometres (0.0%) and 43.0 million tonne-kilometres (0.01%), respectively, by air. Although the Group is the national transport and logistics operator, the Issuer'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 the transportation of 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 Issuer 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, decreased from 0.5% in 2016 to 0.4% in 2017 and 0.4% in 2018. Transportation of oil and oil products accounted for approximately 14.9% of the Group's total revenue from freight transportation in 2018 (as compared to 17.2% in 2017 and 19.8% in 2016).

While freight turnover by road decreased from 29.1% of total transportation in 2017 to 28.9% in 2018, 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 that is open access to the mainline railway network is granted, reduce such customers' reliance on the Group's railcars. Measures to open the carriage of goods by rail to private cargo companies are being considered (and a pilot project us currently being conducted by two private carriers), which, if implemented, could subject the Group to increased competition.

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 generally was not 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. The Altynkol station located at the Kazakhstan-China border, which was commissioned in December 2012 to help mitigate this, has processed more than 420,000 TEUs since 2016. 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 2018, there were five 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 and a crash involving a passenger train in June 2018 in the Zhambyl region. Such accidents may increase the expenditures required to maintain and repair the Group's infrastructure.

The Group's property, plant and equipment, which is mainly represented by infrastructure and rolling stock, comprises 86% of the Group's total assets. Due to the existence of impairment indicators, in particular, slower growth rate in transit freight transportation compared to the Group's development plan, the Group performed an impairment assessment for its property, plant and equipment as at 31 December 2018 (see Note 4 to the 2018 Financial Statements). In addition, the Group identified one cash-generating unit to which assets relate, which requires significant management judgement. The recoverable amount of the property, plant and equipment was determined through calculating its value in use based on the Group's 2019-2023 development plan. Calculation of the value in use reflects Management's estimations of the future cash flows derived from the assets, the expectations about the amount or timing of those future cash flows, and other factors. The value in use is sensitive to the small changes in key assumptions. As a result of the foregoing, in connection with the audit of the 2018 Financial Statements, the Group's auditors identified the Group's assessment of potential impairment of property, plant and equipment as a key audit matter, performing additional procedures primarily focused on a critical evaluation of key estimations and judgements made and conclusions reached by Management. There can be no assurance that Management will be able to make the same estimations and judgements in future periods or that the Group's auditors will consider such estimations and judgements to continue to be appropriate

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.

Railway industry 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 postponed 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 206 billion for the year ended 31 December 2018, KZT 242 billion for the year ended 31 December 2017 and KZT 321 billion for the year ended 31 December 2016. KTZFT's capital expenditure was KZT 52 billion for the year ended 31 December 2018, KZT 27 billion for the year ended 31 December 2017 and KZT 39.8 billion for the year ended 31 December 2016. 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 *"Operating and Financial Review of the Group—Liquidity and Capital Resources—Capital Expenditure"*.

For the year ended 31 December 2018, 5% and 4% of cash paid for capital expenditures were funded by sources obtained from the Government and from financial institutions, respectively, as compared to 16% and 20%, respectively, in 2017 and

41% and 16%, respectively, in 2016. 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 current and future obligations as they come due and to provide for planned capital expenditures. See "*Selected Consolidated Financial Information and Operating Data*"

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 and 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 subject to testing by reference to reporting dates in 2016, 2017 and 2018. See "*—The Group's operations are restricted by its loan covenants and failure to comply with such covenants could have a material adverse effect on the Group*". The Issuer also postponed certain capital expenditure projects as a result of the Tenge devaluation.

As at 31 December 2018, the Group's current assets were KZT 303,581 million (as compared to KZT 347,014 million as at 31 December 2017 and KZT 365,691 million as at 31 December 2016), while its current liabilities were KZT 554,820 million (as compared to KZT 447,155 million as at 31 December 2017 and KZT 513,057 million as at 31 December 2016). Accordingly, the Group's current liabilities exceeded its current assets by KZT 251,239 million as at 31 December 2018, KZT 100,141 million as at 31 December 2017 and KZT 147,366 million as at 31 December 2016. See "*—The Group's auditors have identified the Group's ability to continue as a going concern as a key audit matter.*"

Although the Issuer's current liquidity ratio has improved since December 2015, it remains below 1:1. If the revenue of the Group were to decrease in future periods, the Group may be unable to meet its working capital requirements and could result in further covenant breaches, which could lead to defaults and cross-defaults and 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 Issuer 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 Issuer 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 Issuer and KTZFT are regulated by the Committee for Regulation of Natural Monopolies, Protection of Competition and Consumers Rights (the "**Natural Monopoly Committee**"). The Natural Monopoly Committee regulates the activities of the Issuer 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 "*Operations and Financial Review of the Group—Factors and Trends Affecting Financial Condition and Results of Operations—Tariffs and Government Grants*".

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 come due or provide for planned capital expenditures, including implementing the development strategy for 2015-2025, which was adopted by the Issuer's Board of Directors in November 2015, subsequently amended in February 2016 and is in the process of being further amended (amendments to the Development Strategy were submitted to the Board of Directors in September 2018 and are expected to be considered for approval in the second half of 2019) (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 Issuer 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 are 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. One of the most restrictive of these financial ratio tests requires the maintenance of an interest coverage ratio of 2.0 or more and a ratio of Debt to Equity of 1.35 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 EBITDA (as defined in the Debt and Financial Stability Management Policy) of less than or equal to 3.75; (ii) EBITDA (as defined in the Debt and Financial Stability Management Policy) 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 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. See "*Terms and Conditions of the Further Notes*".

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 EBITDA ratio (as defined in the relevant loan agreement). See "*Selected Consolidated Financial and Other Information of the Issuer*". In each of 2016, 2017, 2018 and 2019, the Issuer agreed consecutive one-time amendments or waivers with certain of its creditors in respect of non-compliances with the financial covenants set out in its loan and guarantee agreements. See "*Operating and Financial Review of the Group—Liquidity and Capital resources—Borrowings*". For example, in February 2019, the Group received a waiver from HSBC France to reset the threshold value of the adjusted debt to equity ratio (as defined in the relevant loan agreement) in its facility agreement as at 31 December 2018 to 1.53 (from 1.35). The group was in compliance with this reset ratio as at 31 December 2018. Certain of the amendments or waivers cover the testing of the financial covenants only at 31 December 2018 and will have to be extended or renewed thereafter in respect of any 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, in 2018, agreed changes to its covenant package with certain lenders. In addition, on 19 October 2018, the Company announced that each of Passenger Transportation, Vagonservice and Suburban Transportation would be added as additional guarantors under its outstanding Eurobonds in order to be in compliance with the guarantor threshold tests set out therein. The addition of the guarantors became effective 30 days from the release of the announcement.

There can be no assurance that the Group will be able to comply with the covenants and restrictions set out in its loan, guarantee and other agreements and, if not, that it will be able to extend or obtain new amendments or waivers for 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, guarantee and other agreements. Moreover, any such breach would likely trigger cross default provisions in the Group's financing agreements (including the Original Notes and the Further Notes) 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 Issuer 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 (viii) 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 Issuer, may cause the appointment or removal of members of the Issuer's management team or require the Issuer 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 Group's auditors have identified the Group's ability to continue as a going concern as a key audit matter.

The Annual Financial Statements 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 and cash flows from operations, borrowings, available credit facilities, its capital expenditure commitments, as well as expected tariffs, currency exchange rates and other risks facing the Group. As at 31 December 2018, the Group's current liabilities exceeded its current assets by KZT 251,239 million. Historically, the Group has financed major investment projects using funds from the Government and through borrowings, in addition to cash from operating activities. For the year ended 31 December 2018, cash flows from operating activities amounted to KZT 155,628 million. As at 31 December 2018, Group borrowings of KZT 175,164 million were payable within 12 months, including the HSBC France loan of KZT 46,238 million reclassified as current.

The Group's loans and borrowings include certain financial covenants. See "*—The Group's operations are restricted by its loan covenants and failure to comply with such covenants could have a material adverse effect on the Group*".

Management has assessed its need for cash, including for the scheduled 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 2018 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 and conclusions reached by Management. These procedures included, *inter alia*, examining the classification of assets and liabilities, analysing Management's evaluation of the principles of going concern and their plans to settle current liabilities, analysing current and expected events and conditions (including financial and operating items, which could cast doubt on the Group's ability to continue as a going concern), 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 downside scenarios affecting the Group's liquidity and its ability to settle obligations, including the ability of the Group to generate a sufficient level of cash flows from operating activities to serve and settle its borrowings, 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, analysing the terms of the loan agreements and related covenants, recalculating financial covenants for mathematical accuracy, examining the waivers received from creditors with respect to non-application and reset of the financial covenants as at 31 December 2018, including examining the compliance with those reset covenants, evaluating external matters that could be an indicator of adverse conditions and events, and assessing the completeness and adequacy of the information disclosed in the Group's Financial Statements.

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 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 Issuer aims to increase the volume of transit container traffic seven-fold, to 2.0 million twenty-foot equivalent units ("**TEU**") by 2020 and the Issuer 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 Issuer 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 Issuer 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 entered into force on 1 January 2018. The EEU is expected to continue to strengthen Kazakhstan's economic relations with Russia going forward. 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 into, Kazakhstan. The volumes of such shipments vary based on economic conditions in Kazakhstan and the countries bordering Kazakhstan, as well as the demand for commodities and other products produced in Kazakhstan. 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 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, therefore, result in its customers choosing alternative means of transportation. Such system-related problems could also 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. While the Issuer has implemented a single information exchange system for the railway industry in Kazakhstan, which is integrated with certain neighbouring countries (including Russia, Uzbekistan, the Kyrgyz Republic and Azerbaijan) and other types of transportation and additional services such as customs and forwarding agents, this is not yet integrated with the system used by the Chinese railway (although work is currently underway to integrate the system in China). 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, have been implemented (for example, the Group operates AS MESPLAN (a system that automatically coordinates the Group's monthly data with customer information systems and which is linked to the single information exchange system) or are at the implementation stage (for example, a project aimed at controlling the progress of the transportation process from the workstations dispatcher unit) There can be no assurance, however, that the Group will be able successfully to continue to implement such advanced technologies or upgrade its computer systems, or that any systems that have been implemented will continue to operate successfully. Any such failure 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

Issuer 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, such events 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, 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 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 events 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 United Kingdom, the EU, 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, the EU and 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 the Notes (including the Further Notes) or other securities issued by the Issuer and some potential investors may forgo the purchase of future 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, 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 impose 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 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. The loss or diminution in the services of key personnel, an inability to attract and retain additional qualified personnel could have a material adverse effect on the Group's business, prospects, financial condition, cash flows or results of operations.

The Group has entered into collective bargaining agreements.

A total of 13 collective bargaining agreements have been reached between the Group and its employees for 2018-2020, 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 2018-2020. The vast majority of the Group's employees are members of the Trade Union. There can be no assurance, however, that any collective bargaining agreements will be concluded in respect of any future period 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. 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.

Kazakhstan is in a period of political transition

In February 2019, the Government resigned and a new Government was approved by the Kazakhstan parliament, which included Mr. Mamin appointed as Prime Minister and other significant cabinet changes including the Ministers of the National Economy, Labour, Education and Infrastructure. In addition, a new head of the NBK was appointed.

On 19 March 2019, President Nazarbayev, until then Kazakhstan's only president, announced that he was standing down as President of Kazakhstan. On 20 March 2019, Mr. Kassym-Jomart Tokayev, then-Speaker of the Senate was sworn in as President of Kazakhstan. Former President Nazarbayev remains the official "national leader" of Kazakhstan, Head of

Kazakhstan's Security Council and leader of the Nur Otan political party, which holds more than 80% of seats in the Kazakhstan parliament. President Nazarbayev's eldest daughter was unanimously elected to replace President Tokayev as Speaker of the Senate. Following President Nazarbayev's decision to step down, the Kazakhstan parliament voted to rename Astana, Kazakhstan's capital city, Nur-Sultan, in his honour. Police detained opposition supporters staging small-scale rallies in Almaty and Astana following former-President Nazarbayev's resignation and the renaming of the capital.

On 9 April 2019, President Tokayev called snap presidential elections (originally scheduled for 2020) for 9 June 2019 noting that "*In order to secure social and political accord, confidently move forward, and deal with socio-economic development tasks, it is necessary to eliminate any uncertainty*".

Under former-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 the last quarter of 2016, former-President Nazarbayev announced planned constitutional reforms that contemplated a distribution of authority among governmental bodies. The law amending the constitution was promulgated by former-President Nazarbayev on 10 March 2017 and provided 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 before, there can be no assurance that the current succession will result in a smooth transfer of office and economic policies.

If the future president elected at the upcoming presidential elections has a different political outlook, the business regime in Kazakhstan could change. In addition, it remains unclear how great a role former-President Nazarbayev will continue to play in determining the future policies and direction of Kazakhstan.

Political instability in Kazakhstan or changes to its property, tax or regulatory regimes or other changes, resulting from a new administration, change of political direction or otherwise, 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.

Companies located in emerging markets such as Kazakhstan may be particularly susceptible to such disruptions in the international and domestic capital markets, 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. 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. See "*—Sanctions imposed on Russia could have an indirect adverse impact on Kazakhstan's economy*."

Investors should also note that emerging economies such as Kazakhstan's are subject to rapid change and that the information set out in this Prospectus 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 Further 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.

Any "contagion" effect in response to events occurring in one emerging market or region may adversely affect the political and economic situation in Kazakhstan.

Investors' reactions to events occurring in one emerging market or region sometimes appear to demonstrate a "contagion" effect, in which an entire region or class of investment is disfavoured by investors. If such a "contagion" effect occurs, Kazakhstan could be adversely affected by negative economic, security or financial developments in other emerging market countries or regions.

Kazakhstan has been adversely affected by "contagion" effects in the past, including global events, such as the Eurozone crisis and the global financial crisis. No assurance can be given that it will not be affected by similar events in the future.

Since mid-August 2018, the Turkish Lira has significantly declined against the U.S. Dollar and other currencies, as Turkey has adopted new economic and political policies and faced U.S. sanctions. These events have triggered investor concerns and calls for changes in the Turkish central bank's monetary policy. On 29 August 2018, in response to the depreciation in the Turkish Lira, Moody's downgraded 20 Turkish financial institutions. In September 2018, the Turkish central bank raised its benchmark interest rate to 24%. In each of January and March 2019, the Turkish central bank announced that this benchmark interest rate would be retained at the same level.

Since April 2018, investor concerns have risen in response to the significant decline in the value of the Argentine Peso against the U.S. Dollar and continued rise of inflation rates in Argentina. In response, the Argentinian government has announced austerity measures, including increased taxes on exports and the closer of a number of government ministries, and Argentina's central bank has raised interest rates to 60%. Argentina has also sought support in the form of a U.S.$50 billion loan from the IMF.

There can be no assurance that Kazakhstan will not be affected by the negative economic conditions in Turkey or Argentina, or elsewhere, if a "contagion" effect occurs.

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 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.

See also "*—Kazakhstan is in a period of political transition*".

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.*" 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, in 2017 to reflect an assumed world oil price of U.S.$45 per barrel for 2018 (which was subsequently revised up to U.S.$50 per barrel in February 2017) and again in April 2018 to reflect an assumed world oil price in 2018, 2019 and 2020 of U.S.$55 per barrel. 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, 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.

The budget for 2018-2020 (the "**2018-2020 Budget**") was adopted on 30 November 2017 and amended on 27 April 2018, to reflect macroeconomic indicators for this period (such as to reflect an assumed world oil price in 2018, 2019 and 2020 of U.S.$55 per barrel). The 2018-2020 Budget allocates KZT 1,618.9 billion for transport and communications during the 2018-2020 period, of which KZT 572.6 billion is to be allocated in 2018. On 31 October 2018, the Parliament approved a draft budget for 2019-2021 (the "**2019-2021 Budget**"), which prioritises, among other things, the development of agriculture, digitalisation of the economy and development of transport infrastructure and the social sphere. The 2019-2021 Budget allocates KZT 1,756.1 billion for transport and communications during the 2019-2021 period, of which KZT 614.8 billion is to be allocated in 2019. In March 2019, the Ministry of Finance of Economy amended the draft 2019-2021 Budget, *inter alia*, to increase funds to certain social welfare initiatives.

Kazakhstan's economy and finances have experienced, 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 1.0% in 2016, 4.0% in 2017 and 4.1% 2018. The IMF forecasts real GDP growth to be 3.7% in 2018 and 3.1% in 2019.

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 Issuer) to limit their cash and cash equivalents (including deposits) in international banks. The Issuer 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 Issuer, compliance with this policy could increase the Issuer'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 Issuer'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. 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.

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

The Law of Kazakhstan "On Currency Regulation and Currency Control" (the "**Currency Law**") 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.

On 2 July 2018, the then-President signed a new Law on Currency Regulation and Currency Control (the "**New Currency Law**") that will replace the current Currency Law with effect from 1 July 2019. The New Currency Law, while retaining the Government's power to impose restrictions under the special currency regime, also provides for a new power of the NBK to restrict the conversion of the Tenge into foreign currency. Specifically, under the New Currency Law, the NBK would have the right to allow resident legal entities to convert Tenge into foreign currency only for certain specified purposes (to be determined by the NBK). In order for Kazakhstan to remain in compliance with its membership obligations under the charter of the IMF, the new currency regime cannot restrict residents from repaying foreign currency-denominated obligations. The NBK has not yet invoked the provisions of these amendments. Accordingly, it is unclear how any implementation of the special currency regime, as well as the New Currency Law, would ultimately impact the Group. 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.

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 IMF, inflation was 13.6%, 8.5% and 7.1% in 2015, 2016 and 2017, respectively. Inflation is forecasted by the IMF to be 6.0% in 2018 and 5.2% in 2019. 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. Given the further sanctions imposed by the United States in 2018, it is unlikely that these adverse conditions will improve in the near future.

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. In 2017, the member states of the EEU approved a new customs code, which entered into force on 1 January 2018. The EEU is expected to continue to strengthen Kazakhstan's economic relations with Russia going forward. In 2018, based on actual trade flows, Kazakhstan's imports from Russia accounted for 76.5% of Kazakhstan's total imports, and its exports to Russia accounted for approximately 30.9% of its total exports, as compared to 39.2% and 9.4% in 2017. In addition, a significant amount of the natural gas transported through Kazakhstan's natural gas pipeline system is transported to Russia or from one part of Russia to another through Kazakhstan's territory.

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.

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 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 Issuer'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 1 January 2019, 399 assets had been sold pursuant to the 2016 Complex Privatisation Plan for aggregate consideration of KZT 64.7 billion, including 21 companies that had been members of the Group. See "*—Risk Factors Relating to the Group— The Government, which indirectly controls the Issuer, may cause the appointment or removal of members of the Issuer's management team or require the Issuer 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 Issuer'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 Issuer 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. S&P and Moody's confirmed Kazakhstan's sovereign credit rating in March 2019 and October 2018, respectively. Any further changes to Kazakhstan's outlook or a rating downgrade may result in changes to the outlook or ratings of the Issuer.

For example, in February 2016, in line with the change of outlook to the sovereign rating, S&P revised its outlook on the Issuer's long-term foreign currency rating from stable to negative. Similarly, however, Moody's changed its outlook on the Issuer's long-term foreign currency rating from negative to stable in July 2017, and S&P changed its outlook on the Issuer'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 Issuer'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 a 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, January 2009 and January 2018 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 more developed among the countries of the 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.

On 27 December 2017, the Government adopted a new Tax Code (the "**2017 Tax Code**"). The majority of the provisions of the 2017 Tax Code took effect on 1 January 2018, including a 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 2017 Tax Code further provides that, from 1 January 2020, all amendments to the 2017 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 whether the 2017 Tax Code would have a material adverse effect on the Group.

The Further Notes may be redeemed prior to maturity for tax reasons.

In the event that the Issuer or the Guarantors would be obliged to increase the amounts payable in respect of the Further Notes due to any change in or amendment to the laws or regulations of Switzerland or Kazakhstan, as the case may be, 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 Further Notes in accordance with the Terms and Conditions of the Further Notes. As with the optional redemption feature of the Further Notes referred to above, it may not be possible for an investor in the Further Notes to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Further Notes and this may only be possible at a significantly lower rate. See Condition 8(b) (*Redemption for Tax Reasons*).

Kazakhstan has a less developed securities market than Switzerland, 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 Switzerland, 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 Switzerland, 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 Switzerland, 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 124 out of 180 countries in Transparency International's 2018 Corruption Perceptions Index. Kazakhstan's score in the 2018 index was 31 (with 1 the most corrupt score and 100 being the least corrupt). Kazakhstan's business climate and competitive indicators are also negatively affected by obstacles to access to credit and difficulties in resolving insolvency. In the World Bank's Doing Business Survey 2019, Kazakhstan ranked 28 out of 190 countries for ease of doing business, while Kazakhstan ranked 59th out of 140 countries in the World Economic Forum 2018 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 Prospectus published by Kazakhstan authorities.

Official statistics and other data published by Government 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 other countries. Neither the Issuer nor the Group has independently verified such official statistics and other data and any discussion of matters relating to Kazakhstan in this Prospectus 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 Prospectus has been extracted from official Government sources and was not prepared in connection with the preparation of this Prospectus. See "*General information—Third-Party Information*".

In addition, certain information contained in this Prospectus 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 Prospectus. See "*General information—Third-Party Information*".

Risk Factors Relating to the Further Notes and the Guarantees

The Further Notes will be fungible with the Original Notes on and from the Consolidation Date.

The Further Notes are issued pursuant to clause 17 of the Trust Deed and are intended to be consolidated and form a single series with the Original Notes. However, in order to comply with certain US restrictions on the offer of the Further Notes, the Further Notes will only be consolidated and form a single series with the Original Notes on the Consolidation Date. As such, purchasers of the Further Notes should be aware that, until the Consolidation Date, the Further Notes will trade separately from the Original Notes and are not fungible with the Original Notes until such time. On the Consolidation Date, the Further Notes will automatically be assigned the same ISIN, common code and Swiss Security Number applicable to the Original Notes and will trade as one series thereafter.

The Further Notes and the Guarantees are structurally subordinated to the indebtedness of the Guarantors' subsidiaries and to the indebtedness of the Issuer's subsidiaries other than the Guarantors.

Each Guarantee is exclusively an obligation of the Guarantors. The Guarantors' subsidiaries and associates are separate and distinct legal entities and they have no obligation to pay any amounts due under the Further Notes or the Guarantee or to make any funds available for that purpose, whether by dividends, distributions, loans or other payments. Accordingly, Noteholders do not have any claim as a creditor against any of the Issuer's subsidiaries that are not Guarantors, and the Further Notes are effectively subordinated in right of payment to all of the debt and other obligations of the subsidiaries of the Issuer that are not Guarantors and the debt and other obligations of the subsidiaries of the Guarantors in the event of the bankruptcy or insolvency of any such company.

The right of the Issuer or any of the Guarantors to receive any assets of any of its respective subsidiaries in the event of its bankruptcy, liquidation or reorganisation will be effectively subordinated to the claims of the creditors of that subsidiary, including trade creditors. In addition, to the extent that the Issuer or a Guarantor is a creditor of any of its subsidiaries or associates, the rights of the Issuer or such Guarantor, as the case may be, as a creditor are subordinate to any security interest in the assets of the Issuer's or the Guarantor's subsidiaries or associates and any indebtedness of those entities senior to that held by the Issuer or the respective Guarantor. As at 31 December 2018, the Guarantors had KZT 283.9 billion of total liabilities (excluding intercompany liabilities), and the Issuer had KZT 1,504.9 billion of total liabilities (excluding intercompany liabilities). Collectively, the Guarantors accounted for 31.12% of the Group's total assets and 86.62% of its revenue, in the year ended 31 December 2018, and the Issuer together with the Guarantors, on a standalone basis, accounted for 89.24% of the Group's total assets, and 87.35% of its revenue, in the year ended 31 December 2018. Although all of the Guarantors' assets are controlled, either directly or indirectly, by the Issuer, the structural subordination risk will become more significant as the Group effectuates the restructuring in accordance with the Government's 2016 Complex Privatisation Plan. See "*—Risk Factors Relating to the Group—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." and "*Business of the Group—Ongoing Restructuring and Initiatives*".

The Further Notes are subject to modification, waivers and substitution.

The Conditions 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 - See Condition 14.

The Conditions also provide that 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 the Further Notes), which is of a formal, minor or technical nature or is made to correct a manifest error; (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 the Further Notes) which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders; or (iii) the substitution of another company as principal debtor under the Notes (including the Further Notes) in place of the Issuer, or the substitution of another company as guarantor of the Notes (including the Further Notes) in place of a Guarantor, in the circumstances described in Condition 14.

Delisting of the Notes (including the Further Notes) from the official list of the AIX may subject gains and interest payments on the Notes (including the Further Notes) to tax in the Republic of Kazakhstan.

In order for payments of interest due on the Notes (including the Further Notes) and gains realised by the Noteholders in relation to disposal, sale, exchange or transfer of the Notes (including the Further Notes) to be exempt from Kazakhstan withholding tax, in accordance with the Constitutional Law of the Republic of Kazakhstan "On Astana International Financial Centre" № 438-V, dated 7 December 2015, it will be necessary for the Notes (including the Further Notes) to be admitted to the official list of the AIX as at the interest date or the date of such disposal, sale, exchange or transfer of the Notes (including the Further Notes).

Application has been made for the admission of the Further Notes to the official list of the AIX. It is expected that the admission of the Further Notes to the official list of the AIX will become effective on or about 31 May 2019. No assurance can be given that the Further Notes will remain admitted to the official list of the AIX as at each Interest Payment Date or during the term of the Further Notes, or that the tax and securities laws in the Republic of Kazakhstan will not change materially, resulting in such tax relief no longer being available.

In case of delisting of the Notes (including the Further Notes) from AIX, 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% or 20% 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 (including the Further 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 holders of Notes (including the Further Notes) 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.

An active trading market for the Further Notes may not develop and any trading market that does develop may be volatile.

The trading market for the Further Notes will be influenced by economic and market conditions in the Republic of Kazakhstan and, to varying degrees, by interest rates, currency exchange rates and inflation rates in other countries, such as the United States, the European Union Member States and elsewhere. The Further Notes have been provisionally admitted to trading on the SIX Swiss Exchange on 28 May 2019, application will be made for the listing of the Further Notes on the SIX Swiss Exchange and for the Further Notes to be admitted to the official list of the AIX. There can be no assurance that any such listings will be obtained or, if such listings are obtained, that an active trading market for the Further Notes will develop or be sustained. If a market does develop, the Investors may not be able to sell their Further Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. The Further Notes may trade at a discount to their offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the economic and political condition of the Republic of Kazakhstan. In addition, the liquidity of any market for the Further Notes will depend on the number of holders of the Notes, the interest of securities dealers in making a market in the Notes and other factors. Accordingly, there can be no assurance as to the development or liquidity of any active trading market for the Further Notes.

The Original Notes are, and the Further Notes will be, listed on the AIX and benefit from an exemption on withholding tax which is untested in practice

The Issuer believes that payments of interest on the Further Notes will be exempt from withholding and income taxes due to the favourable treatment available for securities admitted to the official list of the AIX under the Financial Center Law in effect as of the date of this Prospectus (as further described in "*Taxation—Kazakhstan Taxation*"). However, there is no established practice in Kazakhstan on enforcement of the Financial Center Law and the above exemption has not been tested in practice. Therefore, no assurance can be given that the Kazakhstan tax authorities will take a similar view and apply the exemption to payments of interest on the Further Notes, or that the Financial Center Law in Kazakhstan will not change materially, resulting in such tax relief no longer being available. The Issuer and the Guarantors have agreed in the Conditions to pay Additional Amounts (as defined in Condition 10) in respect of any withholding tax that may be applicable to the Noteholders (subject to certain exceptions described in Condition 10 (see *"Terms and Conditions of the Further Notes—Taxation"*).

The AIX has very short history of operations.

The AIX was launched in July 2018, and therefore, has a very short history of operations. There can be no assurance that the AIX will attract a sufficient number of market participants and issuers to ensure acceptable trading volumes in the foreseeable future or at all. Moreover, the technological platform of AIX remains untested given the early stages of its operations. Accordingly, market participants, issuers and other involved parties may experience technical difficulties with various aspects of AIX's operations, such as quotation and trading information and settlement. Any of these events could adversely affect the price of the Notes (including the Further Notes) and the ability to trade the Notes (including the Further Notes) at all on the AIX.

Trading in the clearing systems is subject to minimum denomination requirements.

The Further Notes will initially only be issued, in global form and held through the clearing systems. Interests in the Further Global Note representing the Further Notes will trade in book-entry form only, and Further Notes in definitive form will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of the Further Notes. Payments of principal, interest and other amounts owing on or in respect of the Further Global Note representing the Further Notes will be made to Deutsche Bank AG Zurich Branch, as Swiss Paying Agent, who will make payments to the clearing systems for distribution to the Noteholders. Thereafter, these payments will be credited to accounts of participants who hold book-entry interests in the Further Global Note representing the Further Notes and credited by such participants to indirect participants. After payment to the Intermediary for the clearing systems, none of the Issuer, the Guarantors or the Trustee will have any responsibility or liability for the payment of interest, principal or other amounts to the owners of the book-entry interests. Accordingly, if an investor owns a book-entry interest, it must rely on the procedures of the clearing systems, and if an investor is not a participant in the clearing systems, on the procedures of the participant through which the investor holds its interest, to exercise any rights and obligations of a holder of Further Notes under the Trust Deed.

Noteholders may be subject to exchange rate risks and exchange controls.

The Issuer will pay principal and interest on the Further Notes in Swiss Francs. 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 Swiss Francs. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Swiss Franc 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 the Swiss Franc would decrease: (i) the Investor's Currency-equivalent yield on the Further Notes; (ii) the Investor's Currency-equivalent value of the principal payable on the Further Notes; and (iii) the Investor's Currency-equivalent market value of the Further 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.

The Further Notes are subject to interest rate risks.

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

Insolvency laws in Kazakhstan may not be as favourable to holders of the Further 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 laws may prohibit the Issuer and the Guarantors from making payments pursuant to the Notes or, as the case may be, 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 Further Notes or, as the case may be, 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 a 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 in transactions, which are significantly different from the transactions entering into during the year before the institution of bankruptcy or rehabilitation proceedings. Since 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 Guarantors and their respective management.

Each of the Issuer and the Guarantors is a joint stock company organised under the laws of Kazakhstan and a substantial part of their businesses, assets and operations are located in Kazakhstan. In addition, a substantial majority of their 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 elsewhere outside Kazakhstan upon the Issuer, the Guarantors' or on such directors or executive officers. 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 Foreign Judgments & Civil Liabilities*".

In February 2010, the Parliament passed legislation amending Kazakhstan law to provide for certain immunities to Government entities, including national companies, such as the Issuer and the Guarantors, 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 Further 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 laws, waived any immunity that may be attributed to it in respect of the Notes (including the Further Notes) or the Guarantees, 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 of Kazakhstan. 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 provisions in the Arbitration Law which may have implications (as described below) in respect of the arbitration provisions contained in the Notes (including the Further 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 there is no well-developed practice in Kazakhstan on the application of the Arbitration Law, there can be no assurance that Kazakhstan courts would support the interpretation of the Arbitration Law set out in "*Enforcement of Foreign Judgments & 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 (including the Further Notes) and the Trust Deed, there is a risk that an LCIA award in a proceeding related to the Notes (including the Further 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 (including the Further Notes) and the Trust Deed cannot be resolved by arbitration. Furthermore, an event of default could occur under the Notes (including the Further Notes) and the Trust Deed to the extent that the Issuer's and/or any Guarantor's obligations under the Notes (including the Further Notes) and/or the Trust Deed to settle disputes by arbitration in the LCIA and/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).

The market price of the Further Notes may be volatile.

The market price of the Further 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 Further 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 Further 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 Further Notes.

USE OF PROCEEDS

The net proceeds from the issue of the Further Notes are expected to amount to approximately CHF 83,792,391.50 (approximately U.S.$84.16 million at the CHF/U.S.$ exchange rate published by Swiss National Bank as at 27 May 2019, U.S.$0.9942 per CHF 1.00) after deduction of fees and expenses related to the offering.

The net proceeds of the issue of the Further Notes will be used by the Issuer for refinancing the CHF 100 million Eurobonds due 2019 issued in 2014.

CAPITALISATION

The following table sets out the current indebtedness and capitalisation of the Issuer as at 31 December 2018. The following table should be read in conjunction with "*Selected Consolidated Financial and Other Information of the Issuer*", "*Operating and Financial Review of the Group*" and the Annual Financial Statements and the related notes thereto.

	As at 31 December 2018
	(KZT millions)
Non-current liabilities	
Borrowings	1,207,113
Deferred tax liabilities	226,338
Employee benefit obligations	31,948
Finance lease liabilities	16,395
Other non-current liabilities	20,984
Total non-current liabilities	**1,502,778**
Current liabilities	
Borrowings	175,164
Trade accounts payable	140,222
Other taxes payable	9,738
Employee benefit obligations	2,797
Finance lease liabilities	1,677
Contract liabilities	69,010
Constructive obligation for the benefit of the Shareholder	5,582
Other current liabilities	68,418
Liabilities directly associated with assets classified as held for sale	82,212
Total current liabilities	**554,820**
Equity	
Share capital	1,062,635
Additional paid-in capital	290
Hedging reserve	(56,579)
Foreign currency translation reserve	5,892
Retained earnings	102,243
Equity attributable to the Shareholder	1,114,481
Non-controlling interests	26,354
Total equity	**1,140,835**
Total Capitalisation(1)	**2,643,613**

Note:

(1) Calculated as the sum of non-current liabilities plus total equity.

SELECTED CONSOLIDATED FINANCIAL AND OTHER INFORMATION OF THE ISSUER

The following selected consolidated financial information as at and for the years ended 31 December 2018, 31 December 2017 and 31 December 2016 has been extracted from the Annual Financial Statements, which are included elsewhere in this Prospectus.

Prospective investors should read the following selected consolidated financial information and other information in conjunction with the information contained in "*Presentation of Financial and Other Information*", "*Risk Factors*", "*Capitalisation*", "*Operating and Financial Review of the Group*" and "*Business of the Group*" as well as the Annual Financial Statements, together, in each case, with the related notes thereto, all of which appear elsewhere in this Prospectus.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the year ended 31 December			
	2018[(1)]	2018	2017[(2)]	2016
	(unaudited) *(U.S.$ millions)*	*(KZT millions)*		
Continuing operations				
Revenue				
Freight transportation	2,210	849,036	749,571	688,204
Passenger transportation	219	84,219	81,886	80,134
Government grants	54	20,751	20,460	22,529
Other revenue	235	90,168	61,196	32,245
Total revenue	**2,718**	**1,044,174**	**913,113**	**823,112**
Cost of sales	(2,130)	(818,448)	(721,330)	(658,853)
Gross profit	**588**	**225,726**	**191,783**	**164,259**
General and administrative expenses	(254)	(97,554)	(86,681)	(76,444)
Assets impairment	(16)	(6,009)	(3,752)	(2,168)
Other profit or losses, net	7	2,595	3,631	3,586
Finance income	21	8,215	7,886	6,325
Finance costs	(269)	(103,534)	(97,714)	(85,418)
Foreign exchange (loss)/gain	(293)	(112,515)	(7,408)	20,863
Share of profit of associates and joint ventures	9	3,481	2,138	670
Gain from disposal of shares in associates, joint ventures and subsidiaries not qualifying as discontinued operations	22	8,333	8,396	9,748
(Loss)/profit before income tax	**(185)**	**(71,262)**	**18,279**	**41,421**
Income tax (expense)/benefit	(6)	(2,314)	(6,144)	4,763
(Loss)/profit for the year from continuing operations	**(191)**	**(73,576)**	**12,135**	**46,184**
Discontinued operations				
(Loss)/profit for the year from discontinued operations	(34)	(12,879)	776	(4,907)
(Loss)/profit for the year	**(225)**	**(86,455)**	**12,911**	**41,277**
Items that will subsequently be reclassified to profit or loss:				
Remeasurement of employee benefit obligations	**(3)**	(1,167)	(1,554)	4,107
Items that may be reclassified to profit or loss in subsequent periods:				
Net fair value loss on cash hedging instruments	**(37)**	(14,026)	(3,479)	4,417
Foreign exchange difference on the transition of foreign operations	**3**	1,049	841	(487)
Other comprehensive loss for the year	**(37)**	(14,144)	(4,192)	8,037
Total comprehensive loss / income for the year	**(262)**	**(100,599)**	**8,719**	**49,314**

Notes:

(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 2018 of KZT 384.20 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.

(2) The comparative information has been restated as a result of change in classification of assets held for sale (discontinued operations) and other reclassifications. The 2017 figures are taken from the 2018 Financial Statements. See "*General Information—Presentation of Financial and*

Other Information—Financial Statements—Changes in Classification Affecting Comparative Information" and Note 5 to the 2018 Financial Statements.

Statement of Financial Position Data

	As at 31 December			
	2018[1]	**2018**	**2017[2]**	**2016[2]**
	(unaudited) (U.S.$ millions)		*(KZT millions)*	
Property, plant and equipment	7,135	2,741,395	2,664,406	2,531,256
Total non-current assets	7,535	2,894,852	2,803,770	2,669,657
Other current assets	148	56,890	51,215	39,214
Cash and cash equivalents	173	66,606	81,169	53,478
Total current assets	790	303,581	347,014	365,691
Total assets	**8,325**	**3,198,433**	**3,150,784**	**3,035,348**
Total equity	**2,969**	**1,140,835**	**1,258,482**	**1,167,929**
Non-current borrowings[3]	3,185	1,223,508	1,184,719	1,098,118
Total non-current liabilities	3,911	1,502,778	1,445,147	1,354,362
Current borrowings[4]	460	176,841	94,886	141,562
Total current liabilities	1,444	554,820	447,155	513,057
Total liabilities	**5,356**	**2,057,598**	**1,892,302**	**1,867,419**

Notes:

(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 2018 of KZT 384.20 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.

(2) The comparative information has been restated as a result of change in classification of assets held for sale (discontinued operations) and other reclassifications. The 2017 figures are taken from the 2018 Financial Statements. See "*General Information—Presentation of* Financial *and Other Information—Financial Statements—Changes in Classification Affecting Comparative Information*" and Note 5 to the 2018 Financial Statements.

(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 year ended 31 December			
	2018[1]	2018	2017[2]	2016
	(unaudited) *(U.S.$ millions)*	*(KZT millions)*		
Net cash flows from operating activities	405	155,628	182,110	149,445
Net cash flows used in investing activities	(421)	(161,782)	(234,217)	(225,939)
Net cash flows from financing activities	(26)	(10,106)	70,079	71,939
Net increase/(decrease) in cash and cash equivalents	(42)	(16,260)	17,972	(4,555)
Cash and cash equivalents at the beginning of the year	220	84,384	67,085	74,904
Effect of foreign exchange rate changes on the balance of cash and cash equivalents	0	122	(673)	(3,263)
Effect of changes in allowance for expected credit losses	(0)	(23)	—	—
Cash and cash equivalents at the end of the year	178	68,223	84,384	67,085

Notes:

(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 2018 of KZT 384.20 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.

(2) The comparative information has been restated as a result of change in classification of assets held for sale (discontinued operations) and other reclassifications. The 2017 figures are taken from the 2018 Financial Statements. See "*General Information—Presentation of Financial and Other Information—Financial Statements—Changes in Classification Affecting Comparative Information*" and Note 5 to the 2018 Financial Statements.

Non-IFRS Measures and Financial Ratios

See *"General Information—Presentation of Financial and Other Information—Non-IFRS Measures"* 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 year ended 31 December			
	2018[1]	**2018**	**2017[2]**	**2016[2]**
	(U.S.$ millions, except ratios)	*(KZT millions, except ratios)*		
Group EBITDA[3][4]	671	257,637	215,022	234,527
Current ratio[5]...........................	—	0.55	0.80	0.73
Coverage ratio[6]........................	—	2.49	2.21	2.75
Adjusted debt[7]..........................	3,770	1,448,289	1,306,064	1,266,973
Total guarantees for third parties[8]	125	47,940	26,459	27,293
Adjusted debt to equity ratio[9]...	—	1.27	1.04	1.08
Adjusted debt to Group EBITDA ratio[5][10]....................	—	5.62	6.07	5.40
Group EBITDA margin[4][11]......	—	24.7%	23.5%	28.5%
Gross profit[12]...........................	588	225,726	191,783	164,259
Net debt[13]	3,596	1,381,683	1,224,895	1,213,495
Net debt/ Group EBITDA[4][14] ..	—	5.36	5.77	5.19

Notes:

(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 2018 of KZT 384.20 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.

(2) The comparative information has been restated as a result of change in classification of assets held for sale (discontinued operations) and other reclassifications. The 2017 figures are taken from the 2018 Financial Statements. See "*General Information—Presentation of Financial and Other Information—Financial Statements—Changes in Classification Affecting Comparative Information*" and Note 5 to the 2018 Financial Statements.

(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 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 year ended 31 December			
	2018[1]	2018	2017[2]	2016
	(U.S.$ millions)	*(KZT millions)*		
Profit/loss for the period/year from continuing operations	(192)	(73,577)	12,135	46,184
Income tax expense	(6)	(2,314)	(6,144)	4,763
Finance costs	(270)	(103,534)	(97,714)	(85,418)
Finance income	21	8,215	7,886	6,325
Depreciation and amortisation[2]	315	121,065	106,915	114,013
Extraordinary items[3]	(293)	(112,515)	—	—
Group EBITDA	**671**	**257,637**	**215,022**	**234,527**

Notes:

(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 2018 of KZT 384.20 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.

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

(3) Extraordinary items consists of foreign exchange losses due to material devaluations of the Tenge in 2018 (from KZT 332.33 per U.S.$1.00 on 1 January 2018 to KZT 384.2 per U.S.$1.00 on 31 December 2018).

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 year ended 31 December			
	2018[1]	2018	2017	2016
	(U.S.$ millions, except ratios)	*(KZT millions, except ratios)*		
Group EBITDA	671	257,637	215,022	234,527
Finance costs	269.5	103,534	97,714	85,418
Coverage ratio	**—**	**2.49**	**2.20**	**2.75**

Notes:

(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 2018 of KZT 384.20 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 year ended 31 December		
	2018(1)	**2018**	**2017**	**2016**
		(unaudited)		
	(U.S.$ millions, except ratios)	*(KZT millions, except ratios)*		
Total Loans	642	246,704	371,209	468,339
Total debt securities issued	2,956	1,135,573	893,511	771,341
Total finance lease liabilities	47	18,072	14,885	—
Total guarantees in favour of third parties	125	47,940	26,459	27,293
Adjusted debt	3,770	**1,448,289**	**1,306,064**	**1,266,973**
Group EBITDA(2)	**671**	**257,637**	**215,022**	**234,527**
Adjusted debt to Group EBITDA ratio(2)	**—**	**5.62**	**6.07**	**5.40**

Notes:

(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 2018 of KZT 384.20 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.

(2) 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 year ended 31 December		
	2018(3)	**2018**	**2017**	**2016**
	(U.S.$ millions, except ratios)	*(KZT millions, except ratios)*		
Group EBITDA(2)	671	257,637	215,022	234,527
Total revenue	2,718	1,044,174	913,113	823,112
Group EBITDA margin	—	24.7%	23.5%	28.5%

Notes:

(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 2018 of KZT 384.20 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.

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

Net debt

Net debt is a non-IFRS 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 31 December			
	2018[1]	**2018**	**2017**	**2016**
	(U.S.$ millions)	*(KZT millions)*		
Adjusted debt[2]	3,769	1,448,289	1,306,064	1,266,973
Cash and cash equivalents	173	66,606	81,169	53,478
Net debt	**3,596**	**1,381,683**	**1,224,895**	**1,213,495**

Notes:

(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 2018 of KZT 384.20 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.

(2) 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 year ended 31 December			
	2018[1]	**2018**	**2017**	**2016**
	(U.S.$ millions, except ratios)	*(KZT millions, except ratios)*		
Net debt[2]	3,596	1,381,683	1,224,895	1,213,494
Group EBITDA	671	257,637	215,022	234,527
Net debt / Group EBITDA ratio	—	**5.36**	**5.7**	**5.17**

Notes:

(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 2018 of KZT 384.20 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.

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

OPERATING AND FINANCIAL REVIEW OF THE GROUP

The following review is intended to assist in the understanding and assessment of the trends and significant changes in, as well as the factors affecting, the Group's results of operations and financial condition. Historical results may not be indicative of future performance. This discussion is based on the Annual Financial Statements and should be read in conjunction with the Annual Financial Statements, including the notes thereto, and other information appearing elsewhere in this Prospectus. This discussion includes forward-looking statements that, by their nature involve risk and uncertainties. The Group's actual results could differ materially from those discussed in such forward-looking statements. Certain factors that may cause such a difference are described under "Risk Factors" and "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 Issuer was established by a decree of the Government, which, through its wholly-owned management company, Samruk-Kazyna, owns all of the outstanding shares of the Issuer. As Kazakhstan's national railway company, the Issuer 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, 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 Investments and Development.

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), President Nazarbayev 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 Issuer'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 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 year ended 31 December 2018, the Group had overall freight turnover of 219.9 billion tonne-kilometres, reflecting a 6.6% increase from 206.3 billion tonne-kilometres for 2017. The Group's freight turnover (including freight transported in third-party wagons hauled by the Group, calculated in accordance with data published by the Statistics Committee) accounted for 61.94% of all freight turnover in Kazakhstan by all modes of transport (excluding pipelines) for the year ended 31 December 2018, as compared to 61.88% for the year ended 31 December 2017. For the year ended 31 December 2018, the Group's freight transportation revenue increased by 13.3% to KZT 849,036 million, as compared to KZT 749,571 million for 2017, accounting for 81.3% of total consolidated revenue in 2018 and 82.1% of total consolidated revenue in 2017.

For the year ended 31 December 2018, revenue from export freight transportation accounted for 21.0% of total freight transportation revenue, as compared to 33.4% from domestic freight transportation, 28.7% from transit freight transportation, 11.3% from import freight transportation and 5.6% from other freight transportation (as compared to 21.1%, 34.0%, 27.9%, 11.8% and 5.2%, respectively, for 2017 and 18.3%, 26.5%, 30.9%, 10.5% and 13.8%, respectively, for 2016). See "*Business of the Group—Transportation Services—Freight Transportation*".

For the year ended 31 December 2018, the Group had a passenger turnover of 14.9 billion passenger-kilometres, reflecting a decrease of 1.9% from 15.2 billion passenger-kilometres for 2017. For the year ended 31 December 2018, the Group's passenger transportation revenue increased by 2.8% to KZT 84,219 million from KZT 81,886 million for 2017, accounting for 8.1% and 9.0%, respectively, of total consolidated revenue. See "*Business of the Group—Transportation Services—Passenger Transportation*".

As at 31 December 2018, the assets of the Group included:

- 16,060.8 km of operational rail track, of which 4,237.5 km were electrified tracks;
- 834 stations and operating points, including: (i) six distributing stations, where trains are linked or unlinked and locomotives are changed; (ii) 73 freight stations, where freight can be processed; (iii) 67 division stations, where transit freight can be processed; and (iv) 687 wayside stations, where trains can be temporarily idled to make way for passing trains;
- 1,692 locomotives;
- 54,485 freight cars;
- 2,412 passenger cars;
- 20,471 track switches; and
- one seaport (Kuryk port)

As at 31 December 2018, the assets of the Group under trust management included:

- five airports (three of these trust management arrangements were subsequently terminated in February 2019 in respect of International Airport Aktobe JSC, International Airport Atyrau JSC and Airport Pavlodar JSC following the expiration of the relevant trust management agreements); and
- one seaport (Aktau seaport).

See "*Business of the Group—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 state of 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) Group acquisitions, 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 is 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 2015 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 4.1% for 2018, 4.0% for 2017 and 1.0% for 2016. 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 31 December 2018, the official KZT/U.S.$ exchange rate reported by the NBK was KZT 384.20 per U.S.$1.00, as compared to KZT 332.33 per U.S.$1.00 as at 31 December 2017 and KZT 333.29 per U.S.$1.00 as at 31 December 2016. 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 Issuer's financial position and results of operations.

The future stability of the Kazakhstan economy is part 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 2018, the total volume of freight transported by the Group was 282.9 million tonnes, and total freight turnover was 219.9 billion tonne-kilometres, as compared to 272.1 million tonnes and 206.3 billion tonne-kilometres, respectively, in 2017. The Group's freight turnover (including freight transported in third-party wagons hauled by the Group, calculated in accordance with data published by the Statistics Committee) accounted for 61.94% of all freight turnover in Kazakhstan by all modes of transport (excluding pipelines) for the year ended 31 December 2018, as compared to 61.88% for the year ended 31 December 2017.

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 31 December 2018, 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 directly and indirectly 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, President Nazarbayev ordered all state-owned companies, including the Issuer, 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 2018, following the President's October message in which the minimum monthly wage of an unskilled labourer was set at KZT 42,500, and again, in January 2019, 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 31 December 2018, 2017 and 2016, 52.5%, 56.8% and 64.8%, 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 2018, the Group recorded a foreign exchange loss (excluding discontinued operations) of KZT 112,515 million, as compared to a foreign exchange loss of KZT 7,408 million for 2017, which were primarily due to exchange rate differences on liabilities mainly represented by loans and bonds.

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 NBK (after rounding adjustment) for the periods indicated:

Period ended	Period Average[(1)]	Period-end
	(KZT per U.S.$1.00)	
Year ended 31 December 2016	343.99	333.29
Year ended 31 December 2017	326.08	332.33
Year ended 31 December 2018	344.90	384.20

Note:

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

On 15 May 2019, the KZT/U.S.$ exchange rate, as reported by the NBK, was KZT 379.7 per U.S.$1.00. 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*".

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 issued its RUB 15.0 billion 8.75% Notes due 2022, guaranteed by the Issuer. The issuance of this bond is in line with Management's aim to reduce its hard currency position, in order to move 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 31 December 2018, the official KZT/RUB exchange rate reported by the NBK was KZT 5.52 per RUB 1.00, as compared to KZT 5.78 per RUB 1.00 as at 31 December 2017 and KZT 5.43 per RUB 1.00 as at 31 December 2016. The Group maintains 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 been, and in the future these reserves may continue to be, insufficient to offset foreign currency losses.

The Group generates Swiss Franc-denominated revenue from its freight transit based on the CIS Tariff Agreement (as defined below). As at 31 December 2018, the official KZT/CHF exchange rate reported by the NBK was KZT 390.41 per CHF 1.00, as compared to KZT 340.61 per CHF 1.00 as at 31 December 2017 and KZT 328.14 per CHF 1.00 as at 31 December 2016. For the year ended 31 December 2018, 23.3% of total revenue was denominated in Swiss Francs, as compared to 22.9% in 2017 and 25.8% in 2016. 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 and 5 December 2018 (the Original Notes), which are listed on the SIX Swiss Exchange and the KASE and the SIX Swiss Exchange and the AIX, respectively.

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 revenue that the Group generates. In the years ended 31 December 2018, 2017 and 2016, oil and oil products accounted for 14.9%, 17.2% and 19.8%, respectively, of the Group's total freight 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 Issuer 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, decreased from 0.5% in 2016 to 0.4% in 2017 and 0.4% in 2018.

Although, according to data published by the Statistics Committee, the freight turnover by pipeline increased by 23.3% in 2018, as compared to 2017, according to the Issuer's internal data, the transportation of crude oil from oil fields to oil refineries in Kazakhstan by railways accounted for only 1.0% of all crude oil transported in Kazakhstan during this period.

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 rail 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 periods of refinery closures for repairs and other things. 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 97.0% of the Group's total volume of transported oil and oil products for the year ended 31 December 2018, as compared to 96.7% and 95.9% in 2017 and 2016, respectively.

The following table sets forth certain information regarding the Group's freight revenue derived from the transportation of specific oil and oil products as a percentage of total freight revenue derived from the transportation of oil and oil products for the years ended 31 December 2018, 2017 and 2016:

	For the year ended 31 December		
	2018	**2017**	**2016**
	(*As a % of total freight revenue derived from the transportation of oil and oil products*)		
Crude oil	0.0	5.0	1.0
Diesel fuel	5.0	1.0	8.0
Kerosene	1.0	3.0	1.0
Petroleum	4.0	1.0	6.0
Residual fuel oil	1.0	1.0	2.0
Other light oil products	1.0	1.0	2.0
Other oil products	4.0	5.0	2.0

Domestic transportation of coal, which accounted for 15.0%, 15.3% and 19.8% of the Group's total freight revenue generated from the transportation of coal for the years ended 31 December 2018, 2017 and 2016, respectively, is directed to the industrial sector and to public utility companies 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 companies for coal are mostly driven by seasonal demand. The Issuer 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 21.0%, 21.3% and 19.5% of the Group's total freight revenue generated from the transportation of coal for the years ended 31 December 2018, 2017 and 2016, 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 producers are from time-to-time subject to Russian competition, 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 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 Issuer 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 Issuer intends to participate in the development of this methodology.

Transit freight, which accounted for 28.7%, 27.9% and 30.9% of the Group's total freight transportation revenue for the years ended 31 December 2018, 2017 and 2016, respectively, are typically set by the Issuer 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 or otherwise, 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 Single Economic Space (the "**SES**") established by Belarus, Kazakhstan and Russia in July 2011, 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 does not charge the optional additional tariff. 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 31 December 2018, the unified freight tariff (excluding VAT) ranged from approximately KZT 1,053 per tonne per 1,000 km (for coal) to KZT 11,412 per tonne per 1,000 km (for crude oil).

Freight tariffs increased overall by an average of 4% in 2016, by an average of 5% in 2017 and by an average of 6.8% in 2018, including a 4.0% increase in tariffs for railway network access and a 10.0% increase in tariffs for locomotive haulage services. 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 2019 and 2020. The Issuer expects future increases of the locomotive haulage tariff and the freight and commercial services tariff to be determined based on then applicable rates of inflation and has held preliminary discussions with the Natural Monopoly Committee regarding proposed increases to the haulage tariff, Government subsidised passenger tariff and commercial passenger tariff to take effect in 2019 (although there can be no assurance that such tariff increases will be introduced). See "*Risk Factors—Risk Factors Relating to the Group—The position of the Issuer 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 profit or loss and other comprehensive income under the line item "Government grants". The level of grants received by the Group changes periodically. For the year ended 31 December 2018, revenue from Government grants was KZT 20,751 million, as compared to KZT 20,460 million for 2017 and KZT 22,529 million for 2016. The increase of KZT 291 million, or 1.4% for the year ended 31 December 2018, as compared to the year ended 31 December 2017 was primarily due to increases in subsidies in respect of suburban routes. See "*Business of the Group—Transportation Services—Passenger Transportation*" and "*Risk Factors—Risk Factors Relating to the Group— The Government, which indirectly controls the Issuer, may cause the appointment or removal of members of the Issuer's management team or require the Issuer to privatise certain of its assets.*"

Cost of Fuel

Fuel and lubricants accounted for 14.7%, 12.4% and 11.0% respectively, of the Group's total cost of sales in 2018, 2017 and 2016, respectively. 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*", "*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*".

Acquisitions, Restructurings and Privatisations

The Issuer has made several acquisitions and disposals since 1 January 2015, which have had, and are expected to continue to have, an effect on the Issuer's results of operations, although no single acquisition accounted for more than 10% of the Issuer'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 million. Net assets of the disposed group were KZT 28,322.2 million.

- In September 2018, Remlocomotiv JSC, a subsidiary, and Transmasholding JSC signed an agreement to sell Tulpar-Talgo LLP to Transmasholding JSC. As at 31 December 2018, Tulpar-Talgo LLP ceased to meet the criteria of IFRS 5, as the parties did not agree on certain conditions of the purchase and sale agreement for a 99.99926% interest in Tulpar-Talgo LLP and agreed to cancel the agreement. As a result, the Group ceased classification of Tulpar-Talgo LLP as held for sale and reclassified its results of operations from discontinued operations to continuing operations. See Note 5 to the 2018 Financial Statements.

- In March 2018, as part of the 2016 Complex Privatisation Plan, a purchaser was identified for a 100% stake in M. Tynyshpayev Kazakh Academy of Transport and Communications JSC. On 17 April 2018, the Group entered into a sale and purchase agreement in respect of the sale. As at 30 June 2018, assets and liabilities of this entity were included in a disposal group classified as held for sale. The sale completed in September 2018.

- In December 2016, the first stage of a tender process was completed in respect of the disposal by the Issuer of a 26% interest (less one share) in "Transtelecom JSC". The second stage of the tender was completed on 10 February 2017, where a buyer was identified and a sale price agreed. An application was submitted to the Ministry of Investments and Development of Kazakhstan in May 2017. The consideration for the sale is KZT 9.0 billion. In April 2018, the Issuer entered into a sale and purchase agreement. The Group expects the sale to be completed by the end of 2019.

- 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 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. In July 2017, KTZ Express registered the transfer of its 49% interest to COSCO-Shipping (China). On 21 December 2017, KTZ Express received payment of the outstanding amount of U.S.$3 million.

- In 2018, the Group sold a 25% interest in Elektrovoz Kurastyru Zauyty LLP for KZT 8,301 million.

In 2016, the Group approved a list of 47 of the Issuer'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 Issuer 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 Passenger Transportation. Thirty-seven Group companies are also identified as potentially 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 31 December 2018, the Group had completed the sale of shares and interests in the following subsidiaries to third parties: Lokomotiv Krasstyru Zauyty JSC, KTZE - Khorgos Gateway LLP, Elektrovoz Krastyru Zauyty LLP, Bas-Balhash 2004, Transport Service Center JSC, Mac-Ekibastuz LLP, Rauan Burabai LLP, Regional Forward Logistics LLC, Astyk Trans JSC, Magistral - Kyzmeti LLP, JV KazElektroPrivod LLP, "Temir Zhol Electrification" LLP, JSC " Kazakh Academy of Transport and Communications named after M. Tynyshpayev" and its eight subsidiaries. The Issuer anticipates that two Group companies will be privatised in 2019. Thus far, the Issuer has disposed of 21 assets, liquidated nine Group companies and reorganised two Group companies under the 2016 Complex Privatisation Plan.

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 JSC Khorgos International Centre of Cross-border Cooperation (the trust management agreement was subsequently terminated in March 2019 due to the expiry of the agreement), Kokshetau Aircompany, Petropavlovsk International Airport, Astana International Airport, Kostanay International Airport, Shymkent Airport, Aktobe International Airport, Atyrau International Airport, Pavlodar Airport and Aktau seaport. Pursuant to these arrangements, the Group's role, which is exercised through KTZ Express (save for in relation to Aktau seaport, which is managed by the Issuer and consolidated), is to manage and operate the relevant assets, while the ownership of such assets remains with the State (six of these trust management arrangements were subsequently terminated in respect of International Airport Aktobe JSC, International Airport Atyrau JSC, Airport Pavlodar JSC, Kokshetau Aircompany, Kostanay International Airport and Shymkent Airport).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 the Group—Multimodal Transportation and Logistics Services*".

A potential initial public offering by Samruk-Kazyna of a minority stake in the Issuer (not to exceed 49%) is also contemplated in 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 then-Prime Minister of Kazakhstan, concluded that any privatisation of the Issuer should not take place before 2020. On 28 November 2017, the Board of the Issuer resolved that: (i) any disposal of Kaztemirtrans should occur only as part of any initial public offering of the Issuer; and (ii) Passenger Transportation should only be privatised together with its subsidiaries.

International Trade Volumes from Countries that Border Kazakhstan

According to the Statistics Committee, Kazakhstan's gross foreign trade turnover was U.S.$93,489 billion in 2018, which represents an increase of 16.5%, compared to 2017. From 2017 to 2018, Kazakhstan's exports increased by U.S.$12.4 billion, or 20.5%, while imports increased by U.S.$2,923 million, or 9%. China is a significant contributor to Kazakhstan's foreign trade turnover, accounting for 12.0% of Kazakhstan's exports and 15.9% of Kazakhstan's imports in 2017, according to the Statistics Committee. The Issuer 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

Kazakhstan and Russia, 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. Since 2009, the Russian government has covered 100% of all losses resulting from passenger transportation, while, in Kazakhstan, such losses are only partially subsidised by the Government, and in Kazakhstan, passenger transportation tariffs are also indirectly subsidised from freight transportation revenues. Kazakhstan and Russia 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. Russia has 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 Issuer 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, 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 Issuer provides non-discriminatory access to the network for private carriers. There are 10 private carriers operating passenger transportation activities alongside the national carrier, 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. Since December 2016, Passenger Transportation has entered into seven long-term agreements relating to the subsidisation of passenger transportation with the Transportation Committee of the Ministry of Investments and Development of Kazakhstan, which regulate certain matters, including passenger loading and offloading and potential increases in tariffs. These are valid for the periods: 1 January 2017 to 31 December 2036; 2 April 2018 to 31 December 2037; and 1 July 2018 to 31 December 2037.

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 has adopted new and revised IFRS standards, which became effective as of 1 January 2018, and expects these 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.

Impact of initial application of IFRS 9 Financial Instruments

The Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transitional provisions of IFRS 9 allow an entity to not restate comparative financial information.

The Group has also adopted related amendments to IFRS 7 *Financial Instruments: Disclosures* that were applied to the disclosures for 2018 and to the comparative period.

IFRS 9 introduced new requirements in respect of:

- the classification and measurement of financial assets and financial liabilities;
- impairment of financial assets; and
- general hedge accounting.

Classification and measurement of financial assets

The date of initial application (*i.e.*, the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. The Group has opted for the modified retrospective application at the date of initial application of this standard. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that continued to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. Comparative amounts for 2017 have not been restated, and the aggregate accumulated effect was recognised through the opening balance of retained earnings at 1 January 2018.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Wherein:

- debt instruments 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 amount outstanding, are measured subsequently at amortised cost;
- debt Instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt Instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income ("**FVTOCI**"); and
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss ("**FVTPL**").

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and

- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Group has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment.

Classification and measurement of financial assets

Management reviewed and measured the Group's financial assets that existed as at 1 January 2018, based on the facts and circumstances that occurred on that date, and concluded that the initial application of IFRS 9 had the following impact on the financial assets of the Group from the point of view of their classification and measurement. The table below presents a reconciliation of the classification of financial assets and financial liabilities into the previously applied valuation categories in accordance with IAS 39 against their new valuation categories adopted upon the transition to IFRS 9 as of 1 January 2018. The below table does not include line items not affected by the changes. Therefore, the subtotals and totals cannot be calculated based on the amounts presented below.

	IAS 39		**IFRS 9[(1)]**		**Effect of adoption of IFRS 9**
	Accounting method	**Amount**	**Accounting method**	**Amount**	**Amount**
Financial assets					
		(KZT millions)		*(KZT millions)*	
Other financial assets (including cash in financial institutions and loans given)	Amortised cost (loans and accounts receivable)	39,455	Amortised cost	39,052	(403)
Other non-current assets (including loans to employees, non-current accounts receivable)	Amortised cost (loans and accounts receivable)	89,426	Amortised cost	88,827	(599)
Cash and cash equivalents	Amortised cost (loans and accounts receivable)	81,169	Amortised cost	81,138	(31)
Trade accounts receivable	Amortised cost (loans and accounts receivable)	22,340	Amortised cost	22,335	(5)
Assets held for sale and for distribution to the Shareholder	—	92,642	—	92,614	(28)
Financial liabilities					
Borrowings	Amortised cost	(1,264,720)	Amortised cost	(1,269,225)	(4,505)
Financial guarantee contract liabilities net of deferred tax effect of KZT 834 million	Higher of amortised cost under IAS 39 and provision under IAS 37	(4,194)	Higher of expected credit losses and fair value less any cumulative amount of income	(8,366)	(4,172)
Liabilities directly associated with disposal groups classified as held for sale	Amortised cost	(62,438)	—	(62,622)	(184)
Total effect of IFRS 9 first-time adoption					**(9,927)**

Note:
(1) Line items unaffected by IFRS 9 are not included.

Impairment of financial assets

The Group's portfolio of financial instruments includes the following five types of financial assets, in respect of which the Group recognises expected credit losses, as provided for by IFRS 9:

- trade accounts receivable;
- amounts in credit institutions;
- loans issued;
- other accounts receivable;

- loans to employees.

The Group has revised its methodology for impairment losses calculations in accordance with IFRS 9 for each class of assets mentioned above. The overall effect of changes in the methodology for impairment losses calculation is presented in the table above. The overall effect of impairment of loans to employees is immaterial.

Trade accounts receivable

The Group applies the simplified approach to recognise lifetime expected credit losses for its trade receivables. A default is determined based on the number of days overdue.

The Group reduces the gross carrying amount of accounts receivable if it does not expect to recover them in full or in part. Write-off is as event that leads to derecognition.

Amounts in credit institutions

Amounts in credit institutions include such assets as cash and cash equivalents, short- and long-term financial investments, and restricted cash. Financial assets in the form of amounts in credit institutions fall under the definition of default when they are more than 90 days overdue or due to a credit institution's failure to fulfil its obligations as a result of financial difficulties.

The probability of default of a credit institution is determined based on external ratings.

Loans issued and other accounts receivable

The probability of default on loans issued is determined based on internal ratings, unless external ratings are available. Loans issued fall under the definition of default when they are more than 90 days overdue or due to a credit institution's failure to fulfil its obligations as a result of financial difficulties.

An allowance for expected credit losses on other account receivable is measured similarly to the way it is measured for loans issued.

Financial guarantees

The Group recognises allowances for expected credit losses under the financial guarantee agreement for a period of 12 months or more, based on the change in credit risk since the initial recognition. The expected credit losses are updated at each reporting date to reflect changes in credit risk since the initial recognition of the respective financial instrument.

The consequential amendments to IFRS 7 have also resulted in more extensive disclosures about the Group's exposure to credit risk in the consolidated financial statements.

Critical accounting judgments and estimates used in financial assets impairments

The allowances for expected credit losses are measured based on probability of default and loss given default. The Group uses its judgment concerning these assumptions and inputs used in impairment computations based on the Group's experience, current market conditions and forecast estimates at the end of each reporting period. For the purpose of calculating the expected credit losses, the probability of default of a counterparty is adjusted for the expected future macroeconomic indicators.

Accounting for modifications or exchanges of debt liabilities that do not result in derecognition

Gains or losses on modifications of financial liabilities at amortised cost are recognised in profit or loss. A gain or loss is determined as the difference between the original cash flows and the present value of the estimated future cash flows discounted using an initial effective interest rate of the financial instrument.

Hedge accounting

The Group will continue to apply IAS 39 for hedge accounting with respect to cash flows from transit freight transportation services, as permitted by transitional provisions in IFRS 9.

IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 since 1 January 2018. Based on the analysis of the Group's regular revenue streams for the year ended 31 December 2017, the terms of individual contracts and based on the facts and circumstances existing at that date, the application of the new standard starting from 1 January 2018 did not have a material impact on the 2018 Financial Statements, save for the requirement to provide more detailed disclosure. Accordingly, comparative amounts for 2017 and the opening balance as at 1 January 2018 were not restated.

The Group recognises revenue to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue is recognised less VAT and rebates.

As a result of the application of IFRS 15, the Group recognised a contract liability initially attributed to a preliminary consideration received from customers, in the Contract Liabilities line item of the consolidated statement of financial position as at 31 December 2018. As at 31 December 2017, contract liabilities related to a consideration from customers is recognised in the Other Current Liabilities as advances received and deferred income.

Revenue from freight transportation services

Domestic, international import, international export and international transit freight transportation services

Revenue from freight transportation services is recognised over time. The extent of completion of the freight transportation process is calculated as the ratio of services volume provided as at the reporting date to the total transportation volumes.

The Group provides services on monthly 100% prepayment terms, as agreed in the contracts with carriers. Prepayments received from customers for transportation services not yet rendered are typically short-term and recognised as advances at the date of receipt.

Advances received from customers for domestic, international import, international export and international transit freight transportation services are recognised as deferred income once the transportation has started. Deferred income is credited to revenue of the reporting period as the services are provided.

Pursuant to the Order of the Committee for Regulation of Natural Monopolies, Protection of Competition and Consumers Rights Committee for Regulation of Natural Monopolies, Protection of Competition and Consumers Rights of the Ministry of National Economy of the Republic of Kazakhstan "On the Approval Of a Temporary Decreasing Coefficient For Railway Freight Transportation Tariffs", certain contracts envisage discounts dependent on the volumes of services consumed. Revenues from these services is recognised based on contractual prices less estimated discounts. To estimate the amount of discounts, the Group uses the expected value method.

As at 31 December 2018, the total liability to customers on discounts was estimated at KZT 1,070 million.

Handling rolling stock

The Group recognises revenue from handling services by the extent of completion of the services at the reporting date, as the performance obligation is satisfied over time and the customer simultaneously receives and consumes the benefits of the Group's performance. The extent of completion of the services is calculated as the ratio of transportation volume, provided as at the reporting date to the total transportation volume.

Rolling stock handling services are provided on the basis of prepayment that are recognised as advances.

Revenue recognition from passenger transportation services

Revenue from passenger transportation services is recognised by the extent of completion of transportation at the reporting date. Proceeds from the sale of tickets are recognised as deferred income, which is transferred to revenue from the time of departure of a passenger. Prepayments received from customers for transportation services not yet rendered are recorded within advances at the time of their receipt. Upon receipt of applications for passenger transportation and issuing tickets, advances approximating the expected estimated revenue from the services are transferred to deferred income. Deferred income similarly transferred to revenue upon departure of passengers.

Passenger transportation services are generally completed within several hours or days. An analysis of past experience has shown that passenger transportation in progress at the reporting date is insignificant.

Other revenue

Other revenue includes penalties received, revenues from the sale of goods, materials, scrap metal, loading and unloading services and vehicle servicing.

Other revenue from the provision of services is recognised over time as the services are provided. When a performance obligation is satisfied at a certain period of time (sale of goods, materials and scrap metals), revenue is recognised when 'control' of the goods underlying the particular performance obligation is transferred to the customer.

The Group when accounting for significant contracts under which the period between the transfer of the promised goods or services to the customer and the respective payment exceeds one year, adjusts the transaction price for the time value of money. See Note 3 to the Annual Financial Statements.

New or revised standards issued but not yet effective

A number of new standards, interpretations and amendments to standards entered into force from 1 January 2019. The Group did not adopt early the following standards, interpretations and amendments to standards in its financial statements, which, once adopted, may have a significant effect on the consolidated financial statements:

- IFRS 16 *leases*;
- Amendments to IFRS 9 *Prepayment Conditions with Potential Negative Consideration*;
- Amendments to IAS 28 *Long-term Investment in Associates and Joint Ventures*;
- Annual Improvements to IFRS Standards 2015-2017 Cycle: Amendments to IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*;
- Amendments to IAS 19 Employee Benefits: *Plan Amendment, Curtailment or Settlement*;
- IFRS 10 *Consolidated Financial Statements* and IAS 28 (amendments) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*; and
- IFRIC 23 *Uncertainty Over Income Tax Treatments*.

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. Operating lease (off-balance sheet) and finance lease (on-balance sheet) differences are removed for lessee accounting, and replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

A 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 a finance lease.

Extensive disclosures are required by IFRS 16.

Management expects that the application of IFRS 16 in the future may significantly affect assets and liabilities because it recognised assets as a form of right to use and lease liabilities in relation to agreement in which the Group, except those that meet the criteria of short-term lease or the lease of low-value assets in accordance with IFRS 16.

The preliminary estimated effect of the application of IFRS 16 when using the modified retrospective approach as at 1 January 2019 amounted to KZT 14,758 million for assets and KZT 14,758 million for liabilities.

Management expects that the application of other standards, amendments and interpretations entering into force from 1 January 2019 and after that date will not have a significant effect on the consolidated financial statements during the period of their application.

Consolidated Results of Operations for the Year Ended 31 December 2018, as compared to the Year Ended 31 December 2017

Revenue

For the year ended 31 December 2018, total revenue was KZT 1,044,174 million, as compared to KZT 913,113 million, reflecting an increase of KZT 131,061 million, or 14.4%. This increase was primarily due to a KZT 28,972 million, or 47.3%, increase in other revenue, as well as a KZT 99,465 million, or 13.3%, increase 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 2018 and 2017
	2018	**2017[(1)]**	
	(KZT millions)		*(%)*
Freight transportation	849,036	749,571	13.3
Passenger transportation	84,219	81,886	2.8
Government grants	20,751	20,460	1.4
Other revenue	90,168	61,196	47.3
Total	**1,044,174**	**913,113**	14.4

Note:

(1) Restated. See "*General Information—Presentation of Financial and Other Information—Financial Statements—Changes in Classification Affecting Comparative Information*" and Note 5 to the 2018 Financial Statements. The 2017 figures are taken from the 2018 Financial Statements.

Freight Transportation

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

	For the year ended 31 December		% change between the years ended 31 December 2018 and 2017
	2018	**2017[(1)]**	
	(KZT millions)		*(%)*
Export	178,063	158,203	12.6
Domestic	283,878	254,723	11.4
Transit	243,760	209,217	16.5
Import	95,915	88,719	8.1
Other[(2)]	47,420	38,709	22.5
Total	**849,036**	**749,571**	13.3

Notes:

(1) Restated. See "*General Information—Presentation of Financial and Other Information—Financial Statements—Changes in Classification Affecting Comparative Information*" and Note 5 to the 2018 Financial Statements. The 2017 figures are taken from the 2018 Financial Statements.

(2) 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 2018, revenue from freight transportation was KZT 849,036 million, as compared to KZT 749,571 million in 2017, reflecting an increase of KZT 99,465 million, or 13.3%. This increase was primarily due to an increase in the volume of freight transportation in 2018, as compared to 2017, which was, in turn due to an increase in the volume of domestic, transit and export freight transported in 2018, as well as the increase in the KZT/CHF exchange rate in 2018, which had a positive effect on revenue from transit transportation, which is denominated in Swiss Francs.

Export freight transportation revenue was KZT 178,063 million for the year ended 31 December 2018, as compared to KZT 158,203 million for the year ended 31 December 2017 reflecting an increase of KZT 19,860 million, or 12.6%. This increase was primarily due to the 8.1% increase in the volume of export freight transported in 2018, as compared to 2017.

Domestic freight transportation revenue was KZT 283,878 million for the year ended 31 December 2018, as compared to KZT 254,723 million for the year ended 31 December 2017 reflecting an increase of KZT 29,155 million, or 11.4%. This increase was primarily due to the 4.8% increase in the volume of freight transported within Kazakhstan, as well as an increase in the applicable tariff by an average of 5.3%.

Transit freight transportation revenue was KZT 243,760 million for the year ended 31 December 2018, as compared to KZT 209,217 million for the year ended 31 December 2017 reflecting an increase of KZT 34,543 million, or 16.5%. This increase was primarily due to a 21.7% increase in the volume of transit freight transported, as well as the increase in the KZT / CHF exchange rate (from an average of KZT 330.15 per CHF 1.00 in 2017 to an average of KZT 353.60 per CHF 1.00 in 2018).

Import freight transportation revenue was KZT 95,915 million for the year ended 31 December 2018, as compared to KZT 88,719 million for the year ended 31 December 2017 reflecting an increase of KZT 7,196 million, or 8.1%. This increase was primarily due to increases in the relevant tariff.

Other freight transportation revenue was KZT 47,420 million for the year ended 31 December 2018, as compared to KZT 38,709 million for the year ended 31 December 2017, reflecting an increase of KZT 8,711 million, or 22.5%. This increase was primarily due to the increases in tariffs for additional fees (by an average of 10%) and the volume of services rendered.

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

	For the year ended 31 December		**% change between the years ended 31 December 2018 and 2017**
	2018	**2017**	
	(KZT millions)		*(%)*
Coal	70,710	64,439	9.7
Ore	25,459	19,765	28.8
Oil	3,533	3,015	17.2
Oil products	122,941	130,083	(5.5)
Construction materials	30,791	25,539	20.6
Grain and grain products	27,947	19,282	44.9
Ferrous scrap	5,914	5,700	3.8
Chemicals and sodium carbonate	29,068	26,359	10.3
Chemical and mineral fertilisers	8,462	7,695	10.0
Coloured ore	25,061	21,380	17.2
Nonferrous metals	7,912	7,259	9.0
Ferrous metals	58,915	52,054	13.2
Other(1)	432,323	367,001	17.8
Total	**849,036**	**749,571**	13.3

Notes:

(1) 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 2017, in terms of type of freight transported, was primarily due to increases in revenue from the transportation of other freight. This increases were partially offset by a decrease in revenue from oil products transported in 2018.

Passenger Transportation

The following table sets forth certain information regarding 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 2018 and 2017
	2018	**2017**(1)	
	(KZT millions)		*(%)*
Inter-regional	58,239	54,804	6.3
International	16,841	19,519	(13.7)
Intercity and suburban	2,222	2,089	6.3
Other(2)	6,917	5,474	26.4
Total	**84,219**	**81,886**	2.8

Note:

(1) Restated. See "*General Information—Presentation of Financial and Other Information—Financial Statements—Changes in Classification Affecting Comparative Information*" and Note 5 to the 2018 Financial Statements. The 2017 figures are taken from the 2018 Financial Statements.

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

For the year ended 31 December 2018, revenue from passenger transportation, based on the Group's consolidated figures, was KZT 84,219 million, as compared to KZT 81,886 million for 2017, reflecting an increase of KZT 2,333 million, or 2.8%. This increase was primarily due to increases in tariffs. See "*Business of the Group—Government Regulation and Tariffs—Freight Tariff Regulation and Pricing*".

Government Grants

For the year ended 31 December 2018, revenue from Government grants was KZT 20,751 million, as compared to KZT 20,460 million for 2017, reflecting an increase of KZT 291 million, or 1.4%. This increase was primarily due to increases in subsidies in respect of suburban routes.

Other Revenue

The Group generates other revenue from the sale of goods, which consists primarily of revenue from loading and unloading services, vessel servicing, the sale of inventory and scrap, locomotive haulage and the provision of passenger transportation services. Other revenue also includes revenue from fines charged to customers, which primarily represent revenue generated from the late payment of interest in respect of the late pickup of freight cars and breach of contract.

For the year ended 31 December 2018, other revenue was KZT 90,168 million, as compared to KZT 61,196 million for 2017, reflecting an increase of KZT 28,972 million, or 47.3%. This increase was primarily due to increases in revenue from wagon leasing and, to a lesser extent, from the sale of goods and provision of other services and from fines charged to customers.

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 2018 and 2017
	2018	2017(1)	
	(KZT millions)		(%)
Staff costs, including taxes, contributions and unused vacation provision	266,930	240,736	10.9
Fuels and lubricants	120,476	89,420	34.7
Depreciation and amortisation	114,431	101,677	12.5
Repair and maintenance	99,219	88,006	12.7
Work and services of a production nature	52,485	48,407	8.4
Electricity	45,679	43,893	4.1
Materials and supplies	42,728	45,040	(5.1)
Taxes	20,287	17,338	17.0
Operating lease expenses	15,554	4,559	241.2
Communication services	5,315	4,753	11.8
Employee benefit expenses	4,893	3,528	38.7
Utilities and building maintenance	3,901	3,172	23.0
Business trip expenses	2,810	2,787	0.8
Insurance	2,472	1,589	55.6
Transportation expenses	839	1,116	(24.8)
Other	20,429	25,308	(19.3)
Total	**818,448**	**721,330**	13.5

Note:

(1) Restated. See "*General Information—Presentation of Financial and Other Information—Financial Statements—Changes in Classification Affecting Comparative Information*" and Note 5 to the 2018 Financial Statements. The 2017 figures are taken from the 2018 Financial Statements.

For the year ended 31 December 2018, cost of sales was KZT 818,448 million, as compared to KZT 721,330 million for 2017, reflecting an increase of KZT 97,118 million, or 13.5%. This increase was primarily due to increases in staff costs, including taxes, contributions and unused vacation, fuels and lubricants, repair and maintenance, operating lease expenses and depreciation and amortisation.

Staff costs, including taxes, contributions and unused vacation provision were KZT 266,930 million for the year ended 31 December 2018, as compared to KZT 240,736 million for 2017, reflecting an increase of KZT 26,194 million, or 10.9%. This increase was primarily due to wage increases implemented in 2018. See "*Management and Employees of the Issuer—Employees*".

Fuel and lubricant costs were KZT 120,476 million for the year ended 31 December 2018, as compared to KZT 89,420 million for 2017, reflecting an increase of KZT 31,056 million, or 34.7%. This increase was primarily due to a 6.6% increase in the volume of freight transportation in 2018, as well as increases in market prices of fuel.

Repair and maintenance costs were KZT 99,219 million for the year ended 31 December 2018, as compared to KZT 88,006 million for 2017, reflecting an increase of KZT 11,213 million, or 12.7%. This increase was primarily due to a 6.6% increase in freight turnover, increases in the inflation index (which, in turn, affect the cost of repairs and maintenance works), as well as increases in the number of locomotives in recent years, which, in turn, have resulted in increased maintenance costs.

Depreciation and amortisation was KZT 114,431 million for the year ended 31 December 2018, as compared to KZT 101,677 million for 2017, reflecting an increase of KZT 12,754 million, or 12.5%. This increase was primarily due to costs incurred in connection with the commissioning of new fixed assets.

Operating lease expenses were KZT 15,554 million for the year ended 31 December 2018, as compared to KZT 4,559 million for 2017, reflecting an increase of KZT 10,995 million, or 241.2%. This increase was primarily due to costs incurred as a result of renting railcars.

Gross Profit

As a result of the foregoing, for the year ended 31 December 2018, the Group's gross profit was KZT 225,726 million, as compared to KZT 191,783 million in 2017, reflecting an increase of KZT 33,943 million, or 17.7%.

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 2018 and 2017
	2018	**2017**[(1)]	
	(KZT millions)		*(%)*
Staff costs, including taxes, contributions and provision for unused vacation	41,231	39,028	5.6
Property tax and other taxes	16,583	17,813	(6.9)
Allowances for expected credit losses	7,231	1,841	292.8
Depreciation and amortisations	6,547	5,230	25.2
Consulting, audit and legal services	3,659	3,753	(2.5)
Other third party services	3,215	1,264	154.4
Business trip expenses	1,577	1,434	10.0
Operating lease expenses	1,438	1,407	2.2
Advertising	1,373	1,891	(27.4)
Materials	1,095	689	58.9
Expenses to hold celebrations and cultural events	970	851	14.0
Banking services	928	793	17.0
Utilities and building maintenance	872	840	3.8
Employee benefit expenses and other long-term employee benefits	722	571	26.4
Expenses to maintain social sphere facilities	413	417	(1.0)
Vocational and professional trainings and expenses	364	233	56.2
Insurance	347	275	26.2
Repairs and maintenance	273	260	5.0
Other expenses	8,716	8,091	7.7
Total	**97,554**	**86,681**	12.5

Note:

(1) Restated. See "*General Information—Presentation of Financial and Other Information—Financial Statements—Changes in Classification Affecting Comparative Information*" and Note 5 to the 2018 Financial Statements. The 2017 figures are taken from the 2018 Financial Statements.

For the year ended 31 December 2018, general and administrative expenses were KZT 97,554 million, as compared to KZT 86,681 million for 2017, reflecting an increase of KZT 10,873 million or 12.5%. This increase was primarily due to increases in staff costs, including taxes, contributions and provisions for unused vacations, allowances for expected credit losses and depreciation and amortisation, partially offset by decreases in property tax and other taxes and advertising expenses.

Staff costs, including taxes, contributions and provisions for unused vacations were KZT 41,231 million for the year ended 31 December 2018, as compared to KZT 39,028 million for 2017, reflecting an increase of KZT 2,203 million, or 5.6%. This increase was primarily due to wage increases implemented in 2018

Allowances for expected credit losses were KZT 7,231 million for the year ended 31 December 2018, as compared to KZT 1,841 million for 2017, reflecting an increase of KZT 5,390 million, or 292.8%. This increase was primarily due to the accrual of allowances for expected credit losses on financial assets in accordance with IFRS 9.

Property tax and other taxes were KZT 16,583 million for the year ended 31 December 2018, as compared to KZT 17,813 million for 2017, reflecting a decrease of KZT 1,230 million, or 6.9%. This decrease was primarily due to the decrease in in disposals of assets to state institutions and subsidiaries in 2018, as well as a decrease in the book value of the assets disposed due to depreciation.

Advertising costs were KZT 1,373 million for the year ended 31 December 2018, as compared to KZT 1,891 million for 2017, reflecting a decrease of KZT 518 million, or 27.4%. This decrease was primarily due to extraordinary expenses in 2017 as a result of the advertising in respect of "Astana Expo 2017".

Assets impairment

For the year ended 31 December 2018, impairment of assets was KZT 6,009 million, as compared to KZT 3,752 million for 2017, reflecting an increase of KZT 2,257 million, or 60.2%. The increase in 2018 was primarily due to impairment charges of KZT 4,326 million in respect of long-term advances issued to Patentes Talgo S.L.U., as compared to impairment charges of KZT 874 million in respect of funds from credit institutions and KZT 2,567 million in value added tax cost to be reimbursed in 2017.

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 2018 and 2017**
	2018	**2017**	
	(KZT millions)		*(%)*
Interest income on cash and cash equivalents	1,894	3,444	(45.0)
Interest income on loans issued	819	2,864	(71.4)
Interest income on funds in credit institutes (short-term financial investments)	90	599	(85.0)
Other finance income	5,412	979	452.8
Total	**8,215**	**7,886**	4.2

For the year ended 31 December 2018, finance income was KZT 8,215 million, as compared to KZT 7,886 million for 2017, reflecting an increase of KZT 329 million, or 4.2%. This increase was primarily due to a KZT 4,433 million, or 452.8%, increase in other finance income, which was, in turn, principally a result of income received in an amount of KZT 2,674 million from the sale of bonds issued by Samruk-Kazyna.

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 2018 and 2017**
	2018	**2017**(1)	
	(KZT millions)		*(%)*
Interest expenses on borrowings	90,306	89,312	1.1
Other finance costs	13,228	8,402	57.4
Total	**103,534**	**97,714**	6.0

Note:

(1) Restated. See "*General Information—Presentation of Financial and Other Information—Financial Statements—Changes in Classification Affecting Comparative Information*" and Note 5 to the 2018 Financial Statements. The 2017 figures are taken from the 2018 Financial Statements.

For the year ended 31 December 2018, finance costs were KZT 103,534 million, as compared to KZT 97,714 million for 2017, reflecting an increase of KZT 5,820 million, or 6.0%. This increase was primarily due to increases in other finance costs

Interest expense on borrowings was KZT 90,306 million for the year ended 31 December 2018, as compared to KZT 89,312 million for 2017, reflecting an increase of KZT 994 million, or 1.1%. This increase was primarily due to the KZT 898 million increase in interest on finance lease liabilities as a result of the increase in exposure to finance lease liabilities.

Other finance costs were KZT 13,228 million for the year ended 31 December 2018, as compared to KZT 8,402 million for 2017, reflecting an increase of KZT 4,826 million, or 57.4%. This increase was primarily due to the recognition of a liability under a financial guarantee given to JSC Development Bank of Kazakhstan in respect of a loan received by Astana International Airport JSC in the amount of KZT 6,451 million

Foreign Exchange (Loss)/Gain

For the year ended 31 December 2018, the Group recorded a foreign exchange loss (excluding discontinued operations) of KZT 112,515 million, as compared to a foreign exchange loss of KZT 7,408 million for 2017, which was primarily due to exchange rate differences on liabilities mainly represented by loans and bonds.

Share of Profit of Associates and Joint Ventures

For the year ended 31 December 2018, the Group recorded a share of profit of associates and joint ventures of KZT 3,481 million, as compared to KZT 2,138 million for 2017, reflecting an increase of KZT 1,343 million, or 62.8%. This increase was primarily due to the recognition of KZT 5,309 million in share of profit in respect of United Transportation and Logistics Company-European Railway Alliance JSC ("**UTLC-ERA**"), following its spin-off from United Transportation and Logistics Company JSC (and the distribution of a 33.33% interest in UTLC-ERA to the Group) in April 2018.

Gain from Disposal of Shares in Joint Ventures and Subsidiaries Not Qualifying as Discontinued Operations

For the year ended 31 December 2018, the Group recorded a gain from the disposal of subsidiaries not qualifying as discontinued operations of KZT 8,333 million, as compared to KZT 8,396 million for 2017, reflecting a decrease of KZT 63 million, or 0.8%. The gain in 2018 was primarily due to the sale, in line with the Group's strategy, of the non-core subsidiaries, M. Tynyshpayev Kazakh Transport and Communications Academy JSC, as well as the sale of a 25% interest in joint venture, Elektrovoz Kurastyru Zauyty LLP. The gain in 2017 was primarily due to the sale, in line with the Group's strategy, of non-core subsidiaries, Transport Services Centre JSC, Regional Forward Logistics LLC, Rauan Burabai LLP, Mak-Ekibastuz LLP and Bas Balkhash LLP, as well as the sale of a 50% interest in joint venture, Locomotive Kurastyru Zauyty JSC and of a 50% interest in joint venture, Astyk-Trans JSC. As a result of these sales, in each year, the Group lost control of these subsidiaries and significant influence in these joint ventures.

Other Profit

For the year ended 31 December 2018, other profit was KZT 2,595 million, as compared to KZT 3,631 million for 2017, reflecting a decrease of KZT 1,036 million, or 28.5%.

Loss/(Profit) before Tax

As a result of all of the foregoing, for the year ended 31 December 2018, loss before tax was KZT 71,262 million, as compared to profit before tax of KZT 18,279 million for 2017.

Income Tax (Expense)/Benefit

For the year ended 31 December 2018, income tax expenses from continuing operations were KZT 2,314 million, as compared to KZT 6,144 million for 2017, reflecting a decrease of KZT 3,830 million, or 62.3%. This decrease was primarily due to a KZT 5,487 million, or 97.6%, decrease in deferred income tax expense for the year ended 31 December 2018, as compared to 31 December 2017, which was, in turn, due to the losses before income tax in 2018.

Loss/(Profit) from Continuing Operations

As a result of all of the foregoing, for the year ended 31 December 2018, loss from continuing operations was KZT 73,576 million, as compared to a profit from continuing operations of KZT 12,135 million in 2017.

Loss/(Profit) from Discontinued Operations

For the year ended 31 December 2018, loss from discontinued operations was KZT 12,879 million, as compared to profit from discontinued operations of KZT 776 million in 2017. The loss from discontinued operations in 2018 was primarily due to the write down to the fair value of the disposal group less costs to sell in the amount of KZT 11,049 million, in accordance with IFRS 5. See "*—Acquisitions, Restructurings and Privatisations*".

Loss/(Profit) for the Year

As a result of all of the foregoing, for the year ended 31 December 2018, loss for the year was KZT 86,455 million, as compared to a profit of KZT 12,911 million in 2017.

Consolidated Results of Operations for the Year Ended 31 December 2017, as compared to the Year Ended 31 December 2016

Revenue

For the year ended 31 December 2017, total revenue was KZT 913,113 million, as compared to KZT 823,112 million, reflecting an increase of KZT 90,001 million, or 10.9%. This increase was primarily due to a KZT 28,951 million, or 89.8%, increase in other revenue, as well as a KZT 61,367 million, or 8.9%, increase 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 2017 and 2016
	2017(1)	**2016(2)**	
	(KZT millions)		*(%)*
Freight transportation	749,571	688,204	8.9
Passenger transportation	81,886	80,134	2.2
Government grants	20,460	22,529	(9.2)
Other revenue	61,196	32,245	89.8
Total	**913,113**	**823,112**	10.9

Notes:

(1) Restated. See "*General Information—Presentation of Financial and Other Information—Financial Statements—Changes in Classification Affecting Comparative Information*" and Note 5 to the 2018 Financial Statements. The 2017 figures are taken from the 2018 Financial Statements.

(2) The 2016 figures are taken from the 2017 Financial Statements.

Freight Transportation

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

	For the year ended 31 December		% change between the years ended 31 December 2017 and 2016
	2017(1)	**2016**	
	(KZT millions)		*(%)*
Export	158,203	125,883	25.7
Domestic	254,723	182,070	39.9
Transit	209,217	212,761	(1.7)
Import	88,719	72,362	22.6
Other(2)	38,709	95,130	(59.3)
Total	**749,571**	**688,204**	8.9

Notes:

(1) Restated. See "*General Information—Presentation of Financial and Other Information—Financial Statements—Changes in Classification Affecting Comparative Information*" and Note 5 to the 2018 Financial Statements. The 2017 figures are taken from the 2018 Financial Statements.

(2) 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 2017, revenue from freight transportation was KZT 749,571 million, as compared to KZT 688,204 million in 2016, reflecting an increase of KZT 61,367 million, or 8.9%. This increase was primarily due to an increase in the volume of freight transportation in 2017, as compared to 2016, which was, in turn due to an increase in 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, in 2017.

Transit freight transportation revenue was KZT 209,217 million for the year ended 31 December 2017, as compared to KZT 212,761 million for the year ended 31 December 2016, reflecting a decrease of KZT 3,544 million, or 1.7%. This decrease was primarily due to changes in average tariff rates for types of cargo, which was, in turn, due to the introduction of a unified tariff for the transportation of goods through the Kyrgyz Republic.

Other freight transportation revenue was KZT 38,709 million for the year ended 31 December 2017, as compared to KZT 95,130 million for the year ended 31 December 2016, reflecting a decrease of KZT 56,421 million, or 59.3%. This decrease was primarily due to the provision of auxiliary services to third parties.

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

	For the year ended 31 December		% change between the years ended 31 December 2017 and 2016
	2017	**2016**	
	(KZT millions)		*(%)*
Coal	64,439	57,937	11.2
Ore	19,765	16,868	17.2
Oil	3,015	3,646	(17.3)
Oil products	130,083	132,717	(2.0)
Construction materials	25,539	28,426	(10.2)
Grain and grain products	19,282	18,392	4.8
Ferrous scrap	5,700	4,104	38.9
Chemicals and sodium carbonate	26,359	26,229	0.5
Chemical and mineral fertilisers	7,695	4,391	75.2
Coloured ore	21,380	19,032	12.3
Nonferrous metals	7,259	7,199	0.8
Ferrous metals	52,054	50,056	4.0
Other[(1)]	367,001	319,209	15.0
Total	**749,571**	**688,204**	8.9

Notes:

(1) 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 2017, in terms of type of freight transported, was primarily due to increases in revenue from the transportation of chemical and mineral fertilisers, coal, ore and ferrous scrap, which was, in turn, due to an increase in the volume of chemical and mineral fertilisers and other freight transported, as well as increases in tariffs for services of the mainline railway network in freight traffic by an average of 3.8%. These increases were partially offset by decreases in revenue from the transportation of oil, which were, in turn, in each case, primarily due to a reduction in the volume of crude oil transportation and the tariffs for the transportation of petroleum products, which was primarily due to the introduction of a unified tariff for cargo transportation through the Kyrgyz Republic in January 2017.

Passenger Transportation

The following table sets forth certain information regarding 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 2017 and 2016
	2017[(1)]	**2016**	
	(KZT millions)		*(%)*
Inter-regional	54,804	51,848	5.7
International	19,519	19,961	(2.2)
Intercity and suburban	2,089	2,603	(19.7)
Other[(2)]	5,474	5,721	(4.3)
Total	**81,886**	**80,134**	2.2

Notes:

(1) Restated. See "*General Information—Presentation of Financial and Other Information—Financial Statements—Changes in Classification Affecting Comparative Information*" and Note 5 to the 2018 Financial Statements.

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

For the year ended 31 December 2017, revenue from passenger transportation, based on consolidated figures, was KZT 81,886 million, as compared to KZT 80,134 million for 2016, reflecting an increase of KZT 1,752 million, or 2.2%. This increase was primarily due to a 7% increase in passenger tariffs.

Government Grants

For the year ended 31 December 2017, revenue from Government grants was KZT 20,460 million, as compared to KZT 22,529 million for 2016, reflecting a decrease of KZT 2,069 million, or 9.2%. 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

For the year ended 31 December 2017, other revenue was KZT 61,196 million, as compared to KZT 32,245 million for 2016, reflecting an increase of KZT 28,951 million, or 89.8%. This increase was primarily due to the reclassification of certain revenue in 2017 derived from the lease of wagons, the provision of mainline railway services and locomotive haulages and freight forwarding services as other revenue (rather than freight transportation revenue).

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 2017 and 2016**
	2017(1)	**2016**(2)	
	(KZT millions)		*(%)*
Staff costs, including taxes, contributions and provision for unused vacations	240,736	230,446	4.5
Depreciation and amortisation	101,677	109,123	(6.8)
Fuel and lubricants	89,420	72,176	23.9
Repairs and servicing	88,006	75,480	16.6
Work and services of a production nature	48,407	46,699	3.7
Materials and supplies	45,040	46,062	(2.2)
Electricity	43,893	39,797	10.3
Taxes	17,338	14,183	22.2
Communication services	4,753	3,355	41.7
Operating lease	4,559	1,220	273.7
Employee benefit expenses and other long-term employee benefits	3,528	3,980	(11.4)
Utilities and building maintenance	3,172	2,789	13.7
Business trip expenses	2,787	2,099	32.8
Insurance	1,589	1,309	21.4
Transportation services	1,116	1,029	8.5
Other	25,309	9,106	177.9
Total	**721,330**	**658,853**	9.5

Notes:

(1) Restated. See "*General Information—Presentation of Financial and Other Information—Financial Statements—Changes in Classification Affecting Comparative Information*" and Note 5 to the 2018 Financial Statements. The 2017 figures are taken from the 2018 Financial Statements.

(2) The 2016 figures are taken from the 2017 Financial Statements.

For the year ended 31 December 2017, cost of sales was KZT 721,330 million, as compared to KZT 658,853 million for 2016, reflecting an increase of KZT 62,477 million, or 9.5%. This increase was primarily due to increases in staff costs, including taxes, contributions and provision for unused vacations, fuels and lubricants, repair and servicing, operating lease expenses and other expenses.

Staff costs, including taxes, contributions and provision for unused vacations were KZT 240,736 million for the year ended 31 December 2017, as compared to KZT 230,446 million for 2016, reflecting an increase of KZT 10,290 million, or 4.5%. This increase was primarily due to the 6% increase of the salary of personnel employed by the Group's branches at administrative and production level functions.

Depreciation and amortisation costs were KZT 101,677 million for the year ended 31 December 2017, as compared to KZT 109,123 million for 2016, reflecting a decrease of KZT 7,446 million, or 6.8%. This decrease was primarily due to mainly due to the recalculation of the useful life of the Group's fixed assets.

Fuel and lubricant costs were KZT 89,420 million for the year ended 31 December 2017, as compared to KZT 72,176 million for 2016, reflecting an increase of KZT 17,244 million, or 23.9%, due to increases in the prices for diesel fuel by 25.8% and the volume of transportation in thermal power by 7.5%.

Gross Profit

As a result of the foregoing, for the year ended 31 December 2017, the Group's gross profit was KZT 191,783 million, as compared to KZT 164,259 million in 2016, reflecting an increase of KZT 27,524 million, or 16.8%.

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
	2017(1)	**2016**(2)	**31 December 2017 and 2016**
	(KZT millions)		*(%)*
Staff costs, including taxes, contributions and unused vacation provision	39,028	35,849	8.9
Property tax and other taxes	17,813	12,849	38.6
Depreciation and amortisation	5,230	4,890	7.0
Consulting, audit and legal services	3,753	4,837	(22.4)
Advertising	1,891	769	145.9
Allowances for doubtful debts	1,841	128	1,335.9
Business trip expenses	1,434	1,380	3.9
Operating lease expenses	1,407	1,186	18.6
Other third parties services	1,264	952	32.8
Expenses to hold celebrations and cultural events	851	811	4.9
Utilities and building maintenance	840	760	10.5
Banking services	793	1,040	(23.8)
Materials	689	874	(21.2)
Employee benefit expenses and other long-term employee benefits	571	606	(5.8)
Social sphere objects maintenance	417	469	(11.1)
Insurance	275	239	15.1
Repairs and maintenance	260	195	33.3
Vocational and professional trainings and expenses	233	213	9.4
Charities and sponsorship	—	2	(100)
Other expenses	8,091	8,397	(3.6)
Total	**86,681**	**76,444**	**13.4**

Note:

(1) Restated. See "*General Information—Presentation of Financial and Other Information—Financial Statements—Changes in Classification Affecting Comparative Information*" and Note 5 to the 2018 Financial Statements. The 2017 figures are taken from the 2018 Financial Statements.

(2) The 2016 figures are taken from the 2017 Financial Statements.

For the year ended 31 December 2017, general and administrative expenses were KZT 86,681 million, as compared to KZT 76,444 million for 2016, reflecting an increase of KZT 10,237 million, or 13.4%. This increase was primarily due to increases in allowances for doubtful debts, advertising costs, property tax and other taxes, partially offset by decreases in bank services, consulting, audit and legal services costs and materials expenses.

Allowances for doubtful debts were KZT 1,841 million for the year ended 31 December 2017, as compared to KZT 128 million for 2016, reflecting an increase of KZT 1,713 million, or 1,335.9%. This increase was primarily due to an increase of KZT 2,737 million in reserves for trade receivables and the recovery of a KZT 1,024 million reserve in respect of other doubtful debts.

Advertising costs were KZT 1,891 million for the year ended 31 December 2017, as compared to KZT 769 million for 2016, reflecting an increase of KZT 1,122 million, or 145.9%. This increase was primarily due to expenses in respect of the "Astana Expo 2017".

Consulting, audit and legal services expenses were KZT 3,753 million for the year ended 31 December 2017, as compared to KZT 4,837 million for 2016, reflecting a decrease of KZT 1,084 million, or 22.4%. This decrease was primarily due to the postponement of the implementation of automated systems in line with the Group's operational transformation programme.

Other expenses were KZT 8,091 million for the year ended 31 December 2017, as compared to KZT 8,397 million for 2016, reflecting a decrease of KZT 306 million, or 3.6%. This decrease was primarily due to the implementation of cost saving measures in 2017.

Impairment of assets

For the year ended 31 December 2017, impairment of assets was KZT 3,752 million, as compared to KZT 2,168 million for 2016, reflecting an increase of KZT 1,584 million, or 73.0%. This increase was primarily due to the impairment of KZT 874 million of funds of credit institutions.

Other Profit

For the year ended 31 December 2017, other profit was KZT 3,631 million, as compared to KZT 3,586 million for 2016, reflecting a decrease of KZT 45 million, or 1.3%.

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 2017 and 2016**
	2017(1)	**2016**(2)	
	(KZT millions)		*(%)*
Interest income on cash and cash equivalents	3,444	4,120	(16.4)
Interest income on loans issued	2,864	268	968.7
Interest income on funds in credit institutes (short-term financial investments)	599	1,731	(65.4)
Other finance income	979	206	375.2
Total	**7,886**	**6,325**	24.7

Notes:

(1) Restated. See "*General Information—Presentation of Financial and Other Information—Financial Statements—Changes in Classification Affecting Comparative Information*" and Note 5 to the 2018 Financial Statements. The 2017 figures are taken from the 2018 Financial Statements.

(2) The 2016 figures are taken from the 2017 Financial Statements.

For the year ended 31 December 2017, finance income was KZT 7,886 million, as compared to KZT 6,325 million for 2016, reflecting an increase of KZT 1,561 million, or 24.7% This increase was primarily due to a KZT 773 million, or 375.2% increase in other finance income, which was, in turn, principally a result of finance income on guarantees of KZT 360 million being recognised in 2017. There were no financial guarantees in 2016.

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 2017 and 2016**
	2017	**2016**(1)	
	(KZT millions)		*(%)*
Interest expenses on borrowings	89,312	77,995	14.5
Other finance costs	8,402	7,423	13.2
Total	**97,714**	**85,418**	14.4

Note:

(1) The 2016 figures are taken from the 2017 Financial Statements.

For the year ended 31 December 2017, finance costs were KZT 97,714 million, as compared to KZT 85,418 million for 2016, reflecting an increase of KZT 12,296 million, or 14.4%. This increase was primarily due to increases in interest expense on borrowings.

Interest expense on borrowings was KZT 89,312 million for the year ended 31 December 2017, as compared to KZT 77,995 million for 2016, reflecting an increase of KZT 11,317 million, or 14.5%. This increase was primarily due to fluctuations in interest rates, leading to an increase in expenses related to short term borrowings and the drawdown of new loans under existing loan facilities.

Other finance costs were KZT 8,402 million for the year ended 31 December 2017, as compared to KZT 7,423 million for 2016, reflecting an increase of KZT 979 million, or 13.2%. This increase was primarily due to adjustments to the fair value of financial assistance issued to Astana International Airport JSC in an amount of KZT 3,856 million and costs for restructuring a loan between EBRD, the Company and Kaztemirtrans in an amount of KZT 2,378 million in 2017.

Foreign Exchange (Loss)/Gain

For the year ended 31 December 2017, the Group recorded a foreign exchange loss (excluding discontinued operations) of KZT 7,408 million, as compared to a foreign exchange gain of KZT 20,863 million for 2016. The foreign exchange loss in 2017 was due to the depreciation of the Tenge against international currencies, which resulted in a negative effect on loans and borrowings denominated in foreign currencies. The foreign exchange gain in 2016 related to the strengthening 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.

Share of Profit of Associates and Joint Ventures

For the year ended 31 December 2017, the Group recorded a share of profit of associates and joint ventures of KZT 2,138 million, as compared to KZT 670 million for 2016 reflecting an increase of KZT 1,467 million, or 218.9%. This increase was primarily due to a decrease in losses recognised at Aktobe Rail and Section Mill Plant LLP in 2017 by KZT 3,255 million, as compared to 2016.

Gain from Disposal of Shares in Joint Ventures and Subsidiaries Not Qualifying as Discontinued Operations

For the year ended 31 December 2017, the Group recorded a gain from the disposal of subsidiaries not qualifying as discontinued operations of KZT 8,396 million, as compared to KZT 9,748 million for 2016, reflecting a decrease of KZT 1,352 million, or 13.9%. The gain in 2017 was primarily due to the sale, in line with the Group’s strategy, of non-core subsidiaries, Transport Services Centre JSC, Regional Forward Logistics LLC, Rauan Burabai LLP, Mak-Ekibastuz LLP and Bas Balkhash LLP, as well as the sale of a 50% interest in joint venture, Locomotive Kurastyru Zauyty JSC and of a 50% interest in joint venture, Astyk-Trans JSC. As a result of these sales, in each year, the Group lost control of these subsidiaries and significant influence in these joint ventures. 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, as well as 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.

Profit before Tax

As a result of all of the foregoing, for the year ended 31 December 2017, profit before tax was KZT 18,279 million, as compared to KZT 41,421 million for 2016.

Income Tax (Expense)/Benefit

For the year ended 31 December 2017, income tax expenses from continuing operations were KZT 6,144 million, as compared to income tax benefits of KZT 4,763 million for 2016. This change was primarily due to a KZT 5,620 million deferred income tax expense for the year ended 31 December 2017, as compared to a KZT 6,097 million deferred income tax benefit for the year ended 31 December 2016, which was, in turn, due to the effect of unrecognised deferred tax assets in 2016, as a result of tax losses carried forward and increased deferred tax liabilities arising from fixed assets in 2017.

Profit from Continuing Operations

As a result of all of the foregoing, for the year ended 31 December 2017, profit from continuing operations was KZT 12,135 million, as compared to KZT 46,184 million in 2016.

Profit/(Loss) from Discontinued Operations

For the year ended 31 December 2017, profit from discontinued operations was KZT 776 million, as compared to loss from discontinued operations of KZT 4,907 million in 2016. The profit from discontinued operations in 2017 was primarily due to an increase in profit before tax recognised in respect of JSC “Transtelecom” during this period, which was, in turn, primarily due to an increase in revenue received for the provision of services for the “Astana Expo 2017”.

Profit for the Year

As a result of all of the foregoing, for the year ended 31 December 2017, profit for the year was KZT 12,911 million, as compared to a profit of KZT 41,277 million in 2016.

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 6 to the 2018 Financial Statements and Note 5 to the 2017 Financial Statements.

The following table sets 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 year ended 31 December**								
	2018(1)	**2017**(1)	**2016**(2)	**2018**(1)	**2017**(1)	**2016**(2)	**2018**(1)	**2017**(1)	**2016**(2)
	Total revenue			**Profit/(Loss) before income tax**			**Profit/(Loss) for the year from continuing operations**		
				(KZT millions)					
Freight transportation	920,888	795,476	706,329	(58,823)	17,850	37,277	(61,453)	12,391	43,008
Passenger transportation	108,157	106,096	105,642	(9,236)	2,348	3,400	(8,293)	2,290	2,517
Total reportable segments	**1,029,045**	**901,572**	**811,971**	**(68,059)**	**20,198**	**40,677**	**(69,746)**	**14,681**	**45,525**
Other	15,129	11,541	11,141	(3,203)	(1,919)	744.0	(3,830)	(2,546)	659
Total	**1,044,174**	**913,113**	**823,112**	**(71,262)**	**18,279**	**41,421**	**(73,576)**	**12,135**	**46,184**

Notes:

(1) Restated. See "*General Information—Presentation of Financial and Other Information—Financial Statements—Changes in Classification Affecting Comparative Information*" and Note 5 to the 2018 Financial Statements. The 2017 figures are taken from the 2018 Financial Statements.

(2) The 2016 figures are taken from the 2017 Financial Statements.

Freight Transportation

Total revenue attributable to this segment increased by 15.8% to KZT 920,888 million for the year ended 31 December 2018, as compared to KZT 795,476 million for the year ended 31 December 2017. This increase was primarily due to increases in an increase in the volume of freight traffic by 6.6% and the appreciation of the Swiss Franc by 7.1% in 2018, which resulted in an increase in revenue from transit freight transportation. Loss before income tax attributable to this segment was KZT 58,823 million for the year ended 31 December 2018, as compared to profit before income tax of KZT 17,850 million for the year ended 31 December 2017. This change was primarily due to an increased foreign exchange loss in 2018 of KZT 111,178 million, as compared to KZT 7,788 million in 2017, as well as an increase in cost of sales. Loss for the year from continuing operations attributable to this segment for the year ended 31 December 2018 was KZT 61,453 million, as compared to profit for the year of KZT 12,391 million. This change was primarily due to the increased foreign exchange loss and increase in cost of sales in 2018

Total revenue attributable to this segment increased by 12.6% to KZT 795,476 million for the year ended 31 December 2017, as compared to KZT 706,329 million for the year ended 31 December 2016. This increase was primarily due to increases in volume turnover and Tenge depreciation, which resulted in an increase in revenue from transit freight transportation. Profit before income tax attributable to this segment was KZT 17,850 million for the year ended 31 December 2017, as compared to KZT 37,277 million for the year ended 31 December 2016. This decrease was primarily due to exchange rate fluctuations. Profit for the year from continuing operations attributable to this segment for the year ended 31 December 2017 was KZT 12,391 million, as compared to KZT 43,008 million. This decrease was primarily due to exchange rate fluctuations.

Passenger Transportation

Total revenue attributable to this segment increased by 1.9% to KZT 108,157 million for the year ended 31 December 2018, as compared to KZT 106,096 million for 2017. This increase was primarily due to increases in tariffs. Loss before income tax attributable to this segment was KZT 9,236 million for the year ended 31 December 2018, as compared to profit before income tax of KZT 2,348 million for 2017. This change was primarily due to the increase in cost of sales by KZT 15,995 million. Loss for the year from continuing operations attributable to this segment for the year ended 31 December 2018 was KZT 8,293 million, as compared to a profit of KZT 2,290 million for 2017.

Total revenue attributable to this segment increased by 0.4% to KZT 106,096 million for the year ended 31 December 2017, as compared to KZT 105,642 million for 2016. This increase was primarily due to an increase in turnover**.** Profit before income tax attributable to this segment was KZT 2,348 million for the year ended 31 December 2017, as compared to KZT 3,400 million for the 2016. This decrease was primarily due to there being no disposals of subsidiaries operating in this segment in 2017. Profit for the year from continuing operations attributable to this segment for the year ended 31 December 2017 was KZT 2,290 million, as compared to KZT 2,517 million for 2016. This decrease was primarily due to no disposals of subsidiaries in 2017, as compared to 2016.

Other

Total revenue attributable to other activities increased by 31.1% to KZT 15,129 million for the year ended 31 December 2018, as compared to KZT 11,541 million for the year ended 31 December 2017. This increase was primarily due to an increase in income received for handing cargo. Loss before income tax attributable to other activities was KZT 3,203 million for the year ended 31 December 2018, as compared to profit before income tax of KZT 1,919 million for 2017. The loss before income tax attributable to other activities for the year ended 31 December 2018 was primarily due increases in financial costs by KZT 2,349 million, increases in impairment of assets by KZT 3,998 million, foreign exchange losses of KZT 1,215 million, as compared to a foreign exchange gain in 2017, and increases in share of the loss of associates by KZT 889 million. Loss for the year from continuing operations attributable to other activities was KZT 3,830 million for the year ended 31 December 2018, as compared to KZT 2,546 million, for the year ended 31 December 2017.

Total revenue attributable to other activities increased by 3.6% to KZT 11,541 million for the year ended 31 December 2017, as compared to KZT 11,141 million for the year ended 31 December 2016. This increase was primarily due to increases in revenue from the provision of services to third parties and sales of inventories for the year ended 31 December 2017, as compared to the year ended 31 December 2016. Loss before income tax attributable to other activities was KZT 1,919 million for the year ended 31 December 2017, as compared to profit before income tax of KZT 744 million for 2016. The loss before income tax attributable to other activities for the year ended 31 December 2017 was primarily due to no disposals of shares in joint ventures during 2017 and an increase in loss from associates. Loss for the year from continuing operations attributable to other activities was KZT 2,546 million for the year ended 31 December 2017, as compared to profit of KZT 659 million, for the year ended 31 December 2016. This decrease was primarily due to a KZT 7,099 million decrease in gains from the disposal of shares in joint ventures for the year ended 31 December 2017, as compared to the year ended 31 December 2016.

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 242 billion and KZT 206 billion in 2017 and 2018, respectively, as compared to capital expenditures of KZT 321 billion in 2016.

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, modernisation and upgrades of the Group's railway and logistics infrastructure requires continuing funding*" and "*Risk Factors—Risk Factors Relating to the Group—The Group has historically experienced liquidity problems*".

As at 31 December 2018, the Group's current assets were KZT 303,581 million (as compared to KZT 347,014 million as at 31 December 2017 and KZT 365,691 million as at 31 December 2016), while its current liabilities were KZT 554,820 million (as compared to KZT 447,155 million as at 31 December 2017 and KZT 513,057 million as at 31 December 2016). Accordingly, the Group's current liabilities exceeded its current assets by KZT 251,239 million as at 31 December 2018, KZT 100,141 million as at 31 December 2017 and KZT 147,366 million as at 31 December 2016. Although the Issuer's current liquidity ratio has improved since December 2015, it remains below 1:1. 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 year ended 31 December			**% change between the years ended 31 December**	
	2018(1)	**2017**(1)	**2016**(2)	**2017 and 2018**	**2016 and 2017**
	(KZT millions)			*(%)*	
Net cash flows from operating activities	155,628	182,110	149,445	(14.5)	21.9
Net cash flows used in investing activities	(161,782)	(234,217)	(225,939)	30.9	(3.7)
Net cash flows from financing activities	(10,106)	70,079	71,939	—	(2.6)

Notes:

(1) Restated. See "General Information—Presentation of Financial and Other Information—Financial Statements—Changes in Classification Affecting Comparative Information" and Note 5 to the 2018 Financial Statements. The 2017 figures are taken from the 2018 Financial Statements.

(2) The 2016 figures are taken from the 2017 Financial Statements.

Net Cash Flows from Operating Activities

For the year ended 31 December 2018, net cash flows from operating activities were KZT 155,628 million, as compared to KZT 182,110 million for the year ended 31 December 2017, reflecting a decrease of KZT 26,482 million, or 14.5%. This decrease was primarily attributable to increased interest payments.

For the year ended 31 December 2017, net cash flows from operating activities were KZT 182,110 million, as compared to KZT 149,445 million for the year ended 31 December 2016, reflecting an increase of KZT 32,665 million, or 21.9%. This increase was primarily attributable to the increase in freight transportation revenue, which resulted in increased gross profit.

Net Cash Flows From 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 year ended 31 December 2018, net cash outflows from investing activities were KZT 161,782 million, as compared to KZT 234,217 million for 2017, reflecting a decrease of KZT 72,435 million, or 30.9%. This decrease was primarily due to a decrease in cash flows used in purchases of property, plant and equipment, as well as an increase in cash inflows from proceeds from the disposal of other financial assets.

For the year ended 31 December 2017, net cash flows used in investing activities were KZT 234,217 million, as compared to KZT 225,939 million for 2016, reflecting an increase of KZT 8,278 million, or 3.7%. This increase was primarily due to an interest-free, reimbursable financial injection of KZT 27,500 million provided to related parties, as well as a decrease of KZT 35,844 million, or 13.3%, in cash used in the purchase of property, plant and equipment in 2017, as compared to 2016. The decrease in cash used in the purchase of property, plant and equipment was primarily due to the completion of major infrastructure projects, including the partial implementation of a railway station complex in Astana and a secondary railway line between Almaty and Shu.

Net Cash Flows From Financing Activities

For the year ended 31 December 2018, net cash outflows from financing activities were KZT 10,106 million, as compared to inflows of KZT 70,079 million for 2017. The net cash outflows in 2018 primarily related to cash used in the repayment of borrowings in 2018, which were not fully offset by proceeds from new borrowings (unlike in 2017).

For the year ended 31 December 2017, net cash inflows from financing activities were KZT 70,079 million, as compared to KZT 71,939 million for 2016, reflecting a decrease of KZT 1,860 million, or 2.6%. This decrease was primarily due to a decrease in equity injections in 2017, which was primarily related to a decrease in investment projects requiring capital injections from Samruk-Kazyna, as well as a decrease in net repayments of borrowings and increased proceeds from sales of non-controlling interests in subsidiaries.

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 year ended 31 December		
	2018	**2017**	**2016**
		(*KZT millions*)	
Freight transportation	195,784	220,908	273,763
Passenger transportation	751	19,212	34,827
Other	9,846	1,884	12,669
Total capital expenditures	**206,381**	**242,004**	**321,259**

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.

For the year ended 31 December 2018, the Group's most significant capital expenditures included: construction of railway lines (KZT 4.9 billion); modernisation and renewal of railway rolling stock and the locomotive fleet (KZT 88.9 billion); modernisation of track superstructure (KZT 98.9 billion); construction of a secondary rail line between Almaty and Shu (KZT 2.8 billion); construction of a ferry complex at Kuryk port (KZT 18.8 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 1.7 billion); development of the Astana railway junction, including the construction of a new railroad complex (KZT 12.6 billion); and renewal and modernisation of existing infrastructure (KZT 3.9 billion)

For the year ended 31 December 2017, the Group's most significant capital expenditures included: construction of railway lines (KZT 5.6 billion); modernisation and renewal of railway rolling stock and the locomotive fleet (KZT 55.1 billion); modernisation of track superstructure (KZT 54.9 billion); construction of a secondary rail line between Almaty and Shu (KZT 12.1 billion); construction of a ferry complex at Kuryk port (KZT 33.7 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 3.1 billion); development of the Astana railway junction, including the construction of a new railroad complex (KZT 69.2 billion); and renewal and modernisation of existing infrastructure (KZT 8.3 billion).

For the year ended 31 December 2016, the Group's most significant capital expenditure included: construction of railway lines (KZT 4.6 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 9.4 billion); construction of a ferry complex at Kuryk port (KZT 8.2 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 71.2 billion); construction of a multi-purpose ice arena in Astana (KZT 6.7 billion); and renewal and modernisation of existing infrastructure (KZT 109.2 billion).

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

	For the year ended 31 December				
	2019(1)	**2020**(1)	**2021**(1)	**2022**(1)	**2023**(1)
			(*KZT millions*)		
Freight transportation	25,581	67,693	116,801	12,759	13,165
Passenger transportation	43,787	41,080	45,891	68,537	68,120
Mainline railway network	73,531	124,164	176,068	185,917	195,270
Other	35,740	16,575	48,717	80,062	87,540
Total capital expenditures	**178,639**	**249,512**	**387,477**	**347,275**	**364,095**

Note:
(1) Estimated. See Forward-looking Statements".

For the year ended 31 December 2019, the Group's budgeted capital expenditures are KZT 178,639 billion, of which KZT 14.3 billion had been expended as at 1 April 2019. The Group's most significant capital expenditures budgeted for in 2019 include:

- construction of a ferry complex at Kuryk port for the operation of multi-purpose passenger and freight ferries (approximately KZT 6.7 billion, of which KZT 1.3 billion had been expended as at 1 April 2019); Kuryk port is an important link in the Trans-Caspian International Corridor, principally for the transhipment 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 95.9 billion, including KZT 4.8 billion in 2015. KZT 24.3 billion in 2016, KZT 50 billion in 2017 and KZT 16.8 billion in 2018. 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. In December 2018, the facilities for the second phase of the launch complex (road crossing) were completed and launched. In 2019, construction is expected to focus on hydraulic structures;

- development of the Astana railway junction, including construction of new railroad complex to connect all regions of Kazakhstan (approximately KZT 6.6 billion, of which KZT 0.3 billion had been expended as at 1 April 2019). 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 80.6 billion, of which KZT 0.0 billion had been expended as at 1 April 2019). This project is being funded by the Group without State assistance; and

- modernisation and renewal of existing infrastructure (approximately KZT 84 billion, of which KZT 12.6 billion had been expended as at 1 April 2019). This project is being funded by the Group without State assistance.

The Group plans to spend a total of KZT 1,527 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;

- renewal of the Group's railway rolling stock and locomotives fleet; and

- upgrading the Group's railway infrastructure.

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 31 December 2018:

	Currency	Maturity	Interest Rate	Current Portion (unaudited)	Non-Current Portion (unaudited)
			(%)	(*KZT millions*)	
Short-term borrowings					
JSC Halyk Bank:					
Loan 1	Tenge	2019	12.00	5,902	—
Loan 2	Tenge	2019	12.00	4,017	—
Loan 3	Tenge	2019	12.00	5,022	—
Loan 4	Tenge	2019	12.00	1,507	—
Loan 5	Tenge	2019	12.00	2,210	—
Loan 6	Tenge	2019	12.00	3,314	—
Loan 7	Tenge	2019	12.00	18,078	—
Loan 8	Tenge	2019	11.50	5,513	—
Loan 9	Tenge	2019	12.00	2,915	—
Loan 10	Tenge	2019	12.00	5,022	—
Total short-term borrowings				**53,499**	—
Long-term borrowings					
Fixed Rate					
Japan Bank for International Cooperation	Japanese Yen	2020	3.00	1,351	1,348
Instituto de Credito Oficial	U.S. Dollars	2021	2.50	841	1,263
JSC Development Bank of Kazakhstan:					
Loan 1	Tenge	2035	1.75	35	2,904
Loan 2	Tenge	2026	7	30	3,025
Loan 3	Tenge	2025	7	1,081	6,448
Samruk-Kazyna:					
Loan 1[(1)]	Tenge	2024	2	260	25,454
Loan 2[(1)]	Tenge	2042	2	543	31,210
Loan 3[(1)]	Tenge	2062	0.10	53	5,882
Loan 4[(1)]	Tenge	2038	0.75	1,325	13,032
Loan 5[(1)]	Tenge	2062	0.10	23	1,912
Loan 6[(1)]	Tenge	2062	0.10	0	238
Loan 7[(1)]	Tenge	2046	0.075	2	1,790
JSC Halyk Bank of Kazakhstan:					
Loan 1	Tenge	2020	8.0-12.0	521	495
Loan 2	Tenge	2020	10.0	3,430	3,362
ATF Bank					
Loan 1	Tenge	2021	16.0-18.0	263	472
Loan 2	Tenge	2021	16.0	816	1,566
HSBC France	Euro	2024	3.04-4.8	58,808	—
Debt Securities					
U.S.$1.1 billion Eurobonds due 2042	U.S. Dollars	2042	6.95	(734)[(2)]	442,532
CHF 100 million Eurobonds due 2019	CHF	2019	2.59	39,570	—
CHF 185 million Eurobonds due 2022	CHF	2022	3.638	1,387	72,188
RUB 15.0 billion Eurobonds due 2022[(3)]	Russian Rouble	2022	8.75	395	82,366
CHF 170 million Eurobonds due 2023	CHF	2023	3.25	150	64,561
KZT 75.0 billion Bonds due 2024	Tenge	2024	9.25	1,831	75,000
U.S.$780 million Eurobonds due 2027	U.S. Dollars	2027	4.850	1,776	275,198
KZT 25.0 billion Bonds due 2027	Tenge	2027	11%	1,184	25,000

	Currency	Maturity	Interest Rate	Current Portion (*unaudited*)	Non-Current Portion (*unaudited*)
Variable Rate					
KZT 50.0 billion Bonds due 2026	Tenge	2026	Average inflation rate+2.52b.p	3,171	50,000
JSC Development Bank of Kazakhstan:					
Loan 1[(4)]	U.S. Dollars	2023	1.15 * 6-month LIBOR + 1.28%	52	—
Loan 2[(4)]	U.S. Dollars	2022	1.15 * 6-month LIBOR + 5.14%	52	—
EBRD:					
Loan 1[(5)]	Tenge	2026	all in cost+ 3.0%	3,237	14,802
Loan 2[(6)]	U.S. Dollars	2026	LIBOR3m + 3.0%	211	5,070
Total long-term borrowings................				**121,665**	**1,207,113**
Total borrowings..................................				**175,164**	**1,207,113**

Notes:

(1) Loan granted by Samruk-Kazyna to the Group at concessional rates.

(2) The negative amount was due to the fact that the Issuer re-paid the Eurobonds prior to their maturity date and before the reporting date of 31 December 2018.

(3) This issuance was the first placement of bonds by a foreign corporate issuer in Russia. The Notes were issued by the Issuer's finance subsidiary, KTZ Finance Ltd., and were guaranteed by the Issuer.

(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.

The following table sets forth certain information regarding the estimated scheduled maturities of the Issuer's long-term debt as at 31 December 2018, assuming that all credit lines available to the Issuer had been fully-drawn down as at such date:

Year Due	Amount Due[(1)]
	(KZT billions)
2019..	87
2020..	36
2021..	20
2022..	171
2023..	82
2024..	120
2025..	10
2026	57
2027 and after..	1,020[(2)]

Notes:

(1) Amounts due within 12 months of the relevant reporting date.

(2) In particular, the Group's U.S.$780,000,000 4.850% Guaranteed Eurobonds due 2027 are scheduled to mature in 2027 and 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 Issuer, 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. One of the most restrictive of these financial ratio tests requires the maintenance of an interest coverage ratio of 2.0 or more and a ratio of Debt to Equity of 1.35 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 Original Notes do, and the Further 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 EBITDA (as defined in the Debt and Financial Stability Management Policy) of less than or equal to 3.75; (ii) EBITDA (as defined in the Debt and Financial Stability Management Policy) 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 EBITDA ratio (as defined in the relevant loan agreement). See "*Selected Consolidated Financial and Other Information of the Issuer*". In each of 2016, 2017 and 2018, the Issuer 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 testing of financial covenants as at 31 December 2018 and will have to be extended or renewed thereafter in respect of any 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, in 2018, agreed changes to its covenant package with certain lenders. As at 31 December 2017, the Group negotiated with EBRD to reset financial covenant thresholds as to avoid a breach of obligations to creditors. As at 31 December 2018, the Group received waivers related to the non-application of financial covenants under the financial guarantee contracts with JSC Development Bank of Kazakhstan and a loan agreement with EBRD. As at 31 December 2018, the Group reclassified a long-term borrowing of KZT 46,238 million as a current liability due to its failure to meet on of the financial covenants stipulated under the loan agreements with HSBC France (debt to equity ratio). After the reporting date, the Group received a waiver letter to change the ratio threshold value to 1.53 (instead of 1.35) as at 31 December 2018, although this was not reflected in the year-end position as it was received after year-end. The Group is in compliance with the reset ratio threshold value as at 31 December 2018.

In addition, on 19 October 2018, the Company announced that each of Passenger Transportation, Vagonservice and Suburban Transportation would be added as additional guarantors under its outstanding Eurobonds in order to be in compliance with the guarantor threshold tests set out therein. The addition of the guarantors became effective 30 days from the release of the announcement. 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 are 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 issued its RUB 15.0 billion 8.75% Notes due

2022, which are guaranteed by the Issuer. 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 Issuer'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 Issuer'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 Issuer 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 Issuer 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 bond, in an amount of KZT 25 billion, was issued by the Issuer under the Government Financing Bond Programme in October 2017 and a further bond, in an amount of KZT 75 billion, was issued by the Issuer under the Government Financing Bond Programme in September 2018.

Financial and Contingent Liabilities

See Note 31 to the 2018 Financial Statements and Note 29 to the 2017 Financial Statements.

Capital Commitments

As at 31 December 2018, the Group has capital commitments to purchase long rails, freight and passenger electric locomotives and freight and passenger steam locomotives in aggregate amount of KZT 1,459,577 million, as compared to KZT 1,119,544 million as at 31 December 2017.

Other Contractual Obligations

As at 31 December 2018, 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 Shymkent LLP, Odyssey Investments Group LLP and KTZ Express. These agreements stipulate that the Issuer must acquire the minimum volume of freight storage services for 10, 13 and 15 years, respectively.

In 2018, under the agreement dated 20 November 2015, the Group failed to meet the obligations to acquire the minimum volume of freight storage services from Continental Logistics LLC. However, the Group does not expect that it will incur losses in connection with its failure to meet the minimum freight storage services as it has received confirmation that Continental Logistics LLP does not intend to claim in relation to this agreement.

Accordingly, the Group's management believes that as at 31 December 2018 and 31 December 2017, there is no high probability of nonfulfillment of its obligations to acquire minimum freight storage service volumes in the future. See Note 31 to the 2018 Financial Statements and Note 29 to the 2017 Financial Statements.

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 23,081 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.

In March 2018, the Group entered into a guarantee of a principal amount of KZT 22,500 million in favour of JSC Development Bank of Kazakhstan in respect of the performance by Astana International Airport JSC, which is under trust management by the Group, of its obligations under a financing arrangement for the modernisation of the Astana international airport. The guarantee is scheduled to mature in 2033.

In order to avoid non-compliance with respect to obligations to its creditors, the Group received a waiver related to the non-application of financial covenants as at 31 December 2018 under the financial guarantee contracts with JSC Development Bank of Kazakhstan.

Finance Lease

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 Tulpar-Talgo LLP, for a total amount of KZT 18,892 million, a tenor of 20 years and with an interest rate of 1.75% per annum. The concession period for the principal is six years. The finance lease is due to commence in December 2020. KTZ acts as guarantor in respect of Passenger Transportation JSC's liabilities under the lease. See Note 31 to the 2018 Financial Statements.

JSC KTZ Express and Kaztemirtrans entered into finance lease agreements with DBK-Leasing JSC for platform cars and low-sided cars, which are expected to be supplied during 2019. See Notes 18 and 31 to the 2018 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. 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.

In accordance with regulatory documents approved by authorised bodies, procedures are carried out to reduce these risks. The purpose of market risk management is to monitor and control the impact of market risk within acceptable limits.

Capital Risk Management

The Group manages its capital to ensure that it will be able to continue as a going concern, while maximizing the return to Samruk-Kazyna by optimising debt and equity balance. The Group's overall strategy remains unchanged since 2017.

There are no mandatory minimum capital requirements for the Group.

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

Financial Risk Management objectives

Risk management is an essential element of the Group's operations. The Issuer monitors and manages financial risks relating to the Group's operations through internal risk reports, 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.

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 31 December 2018, 5.5% of the Group's total borrowings and debt securities issued were borrowings and debt securities issued with variable interest rates, as compared to 11.6% and 11.4% as at 31 December 2017 and 2016, 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. During 2018, the Group incurred a foreign exchange loss of KZT 112,515 million, of which a significant portion was attributable to borrowings, as compared to KZT 7,408 million in 2017. 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.

For the year ended 31 December 2018, 23.3% of the Group's total revenue was denominated in Swiss Francs, as compared to 22.9% in 2017 and 25.8% in 2016. This Swiss Franc-denominated revenue stream is an important mitigating factor against the negative impact of the devaluations of the Tenge described above.

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 listed on the SIX Swiss Exchange and the KASE and are used as the hedging instruments. As at 31 December 2018, KZT 14,026 million was allocated to other comprehensive income as a result of hedging, as compared to KZT 3,479 million in 2017. In 2018, KZT 167 million was allocated to financial expenses, as compared to KZT 75 million in 2017.

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.

In addition, the Group is exposed to credit risk on financial guarantees provided to banks. The maximum risk of the Group in respect of financial guarantees provided to banks is equal to the maximum amount that the Group is obliged to pay in the event of claims for guarantees (see Note 31 to the 2018 Financial Statements). As at 31 December 2018, the Group recognised liabilities under financial guarantee contracts of KZT 14,588 million.

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 31 December 2018, the Group has credit lines available in Halyk Bank JSC and Citibank of Kazakhstan for a total of KZT 37,878 million.

The Group controls and monitors compliance with the covenants set by Samruk-Kazyna and credit/guarantee agreements on a regular basis. As at 31 December 2017, the Group negotiated with EBRD to reset financial covenant thresholds as to avoid a breach of obligations to creditors. In 2018, the Group received a letter of consent from HSBC France to change the covenant thresholds as of 31 December 2018 and, in February 2019, the Group received a waiver from HSBC France to reset the threshold value of the adjusted debt to equity ratio (as defined in the relevant loan agreement) in its facility agreement as at 31 December 2018 to 1.53 (from 1.35). See "*Operating and Financial Review of the Group—Liquidity and Capital Resources—Borrowings*".

To refinance long-term borrowings received by Kaztemirtrans and KTZFT from Samruk-Kazyna of KZT 75,000.0 million, the Group issued debt securities in Russia of RUB 15 billion. To refinance certain loans, the Group issued and placed bonds of KZT 25,000 million in Kazakhstan and CHF 170 million in Switzerland (the Original Notes).

Critical Accounting Judgments and Key sources of Estimation Uncertainty

The preparation of the Annual Financial Statements in conformity with IFRS requires the Group's management to make judgments and use estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of 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 critical accounting judgments and key sources of estimation uncertainty contained in Note 4 of the Annual Financial Statements.

Critical judgments in applying accounting policies

Control Assessments

Subsidiaries are those entities controlled by the Group. The Group controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns. Consolidation of a subsidiary begins when the Issuer obtains control over the subsidiary and ceases when the Issuer loses control of the subsidiary. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. Losses are attributed to non-controlling interests in full, even if this results in a debit balance. See Note 4 to the 2018 Financial Statements.

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, Khorgos International Border Cooperation Centre JSC ("**Khorgos**") and a number of Kazakhstan airports. The Group did not recognise these entities as subsidiaries and did not consolidate them, as the Group is acting as an agent and does not control these entities, exercising its decision making authority delegated to the Group by the State Property Committee for and on behalf of the State Property Committee and is not entitled to residual returns of those entities. Under the trust management agreement with Samruk-Kazyna, the Group recognised Aktau Sea Commercial Port National Company JSC as a subsidiary. The agreement gives the Group the practical ability to manage the relevant activities of the entity unilaterally. The Group is entitled to any returns from the operations of Aktau Sea Commercial Port National Company JSC.

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

Loans at a Rate Below the Market Interest Rate

The Group receives loans from 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 (amortised cost) of these loans using market rates on governmental long-term treasury bonds with comparable maturities and recognises an adjustment to the loan value (less the related deferred tax) within equity. When no comparable maturities exist, the Group extrapolates the most comparable market rates to the life of the loan received by the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Assets Classified as Held for Sale

In December 2015, the 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. See Note 15 to the 2018 Financial Statements.

Cash-Generating Unit Identification

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

The Government, as the Issuer's ultimate shareholder, has approved a privatisation plan for certain Group entities, which, if implemented, would result in a new interaction mechanism among its various business units. As the Group's restructuring processes have not been completed, these possible developments were not taken into account for impairment testing purposes in 2018. Subsequent changes in the identification of cash-generating unites may affect the carrying value of the Group's assets.

Key sources of estimation uncertainty

Impairment of Property, Plant and Equipment and Intangible Assets

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment 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.

Due to existing impairment indicators, the Group performed an impairment test at 31 December 2018. See Note 4 to the 2018 Financial Statements.

The operational assumptions used in the test reflected expected volumes of transportation services, including transit volumes, based on projected demand and the historical dynamic of transit freight transportations volumes.

The financial assumptions included significant estimates associated with tariff forecasts and growth rates, discounts, and projected KZT /CHF exchange rates. The key long-term assumptions used in the calculation were an annual growth rate of 4% and a discount rate of 11.8%. These assumptions were presented in real terms.

As at 31 December 2018, no impairment has been identified based on the estimated value in use of the Group's property, plant and equipment. However, the value in use estimate is sensitive to the following assumptions: (i) transit freight transportation volumes; (ii) revenue rate on freight transit transportation; (iii) capital costs for replacement and maintenance of the assets; and (iv) the discount rate (WACC).

Adverse changes to planned freight and passenger traffic growth rates due to a general economic trends, tariffs not being sufficiently indexed to inflation, the Tenge's continuing volatility against foreign currencies, government support levels and other future adverse changes may lead to significant impairment losses in the period in which they occur. See Note 4 to the 2018 Financial Statements.

Recoverability of VAT

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

Depreciation of Property, Plant and Equipment and Amortisation of Intangible Assets

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

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 11.25% - 12.81% of additional accruals or overdue taxes. 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 2018. Any difference between the estimated amount and the actual amount paid, if any, could have a significant impact on future operating results.

Business Model Assessment

Classification and measurement of financial assets depends on whether the contract cash flows are used for repayment of the principal amount of debt and interest for unpaid principal amounts, as well as reasons consistent with the objective of the business model.

Significant Increase in Credit Risk

The Group recognises allowance for credit losses for financial instruments in the amount equal to 12 months expected credit losses for stage one assets, or lifetime expected credit losses for stage two or stage three assets. An asset moves to stage two when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

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. In 2018, mineral products accounted for 74.6% 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 in September 2018, growth has strengthened in Kazakhstan supported by higher oil production and increased activity in trade and manufacturing. Exports have also contributed to an improvement of the external current account. Inflation has declined and remained within the target band of the NBK and the NBK has undertaken several interest rate cuts. The IMF further noted that Kazakhstan’s economy is continuing to recover from negative economic shocks experienced since late 2014, with a pick-up of growth in 2017. According to Government statistics, real GDP growth was 1.0% in 2016, 4.0% in 2017 and 4.1% in 2018. The IMF forecasts real GDP growth to be 3.7% in 2018 and 3.1% in 2019, reflecting higher oil production and the effect of fiscal stimulus spending. The IMF’s forecasts unemployment growth to be 5.0% in 2018 and 2019. According to the IMF, inflation was 13.6%, 8.5% and 7.1% in 2015, 2016 and 2017, respectively. Inflation is forecasted by the IMF to be 6.0% in 2018 and 5.2% in 2019. According to the IMF, economic growth in Kazakhstan is expected to remain solid, although there are risk, primarily relating to, *inter alia*, commodity prices, lower export earnings and fiscal revenues, pressures on the Tenge and policy slippages along with slower growth in key trading partners.

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.$1.00. The NBK stated that such devaluation was made in light of the situation in the global financial and commodity markets and the depreciation of the Russian Rouble over the course of 2013 and 2014. In August 2015, the NBK announced the adoption of a free-floating exchange rate, which resulted in a 26.2% depreciation against the U.S. Dollar. As at 31 December 2018, the official KZT/U.S.$ exchange rate reported by the NBK was KZT 384.20 per U.S.$1.00, as compared to KZT 332.33 per U.S.$1.00 as at 31 December 2017 and KZT 333.29 per U.S.$1.00 as at 31 December 2016. 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 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 the Kyrgyz Republic. In 2017, the member states of the EEU approved a new customs code, which entered into force on 1 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 IMF, Kazakhstan’s total external debt declined from 119% to 105% of GDP in 2017. According to statistics published by the IMF, NBK gross reserves increased by U.S.$1 billion in 2017 to U.S.$30.7 billion and are above the adequacy range for a floating exchange rate country.

Economic Programmes and Initiatives

President Nazarbayev 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 Issuer 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, President Nazarbayev 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 Issuer. 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, President Nazarbayev announced a national plan setting out 100 steps to address systemic domestic challenges and to implement the aim of the 2050 Strategy (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 Issuer 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.

In February 2018, President Nazarbayev approved the Strategic Development Plan through 2025 (the "**Strategic Plan 2025**") (which constitutes part of the 2050 Strategy). The Strategic Plan 2025 is aimed at achieving a qualitative and sustainable recovery of the economy, leading to an increase in the living standards to the level of OECD countries.

State Programme for Infrastructure Development

In April 2015, the Government's State Program of Infrastructure Development "Nurly Zhol" for 2015–2019 was approved by President Nazarbayev (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, on 7 December 2017, the Issuer received KZT 16.9 billion in capital injections from Samruk-Kazyna to implement its infrastructure projects at the Kuryk port during 2017.

In July 2018, the Infrastructure Development Programme was updated to reflect the targets set out in President Nazarbayev's 2018 message. See "*—President's January 2018 Message*". President Nazarbayev's 2018 Message also further extended the Infrastructure Development Programme to 2025, with a focus on further development of transport infrastructure.

State Programme for Industrial Innovative Development

In August 2014, the state programme for industrial-innovative development for 2015–2019 was approved by President Nazarbayev (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.

In January 2018, the Ministry of Investments and Development of Kazakhstan developed a draft concept for innovative industrial development in Kazakhstan for the period 2020-2024 (the "**Concept**"), which aims to continue to develop industry in Kazakhstan, with a particular focus on manufacturing.

President's 2017 Message

In January 2017, President Nazarbayev 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, President Nazarbayev 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, President Nazarbayev urged reform of transport infrastructure management, increased service levels and the elimination of administrative barriers. President Nazarbayev also targeted a seven-fold increase in volumes of transit traffic through Kazakhstan to two million containers by 2020.

President's January 2018 Message

In January 2018, President Nazarbayev noted that the Government is focused on eliminating non-physical trade barriers through improvements to the legal framework for multimodal transportation, the creation of a flexible tariff policy for cargo transportation and efforts to deregulate cargo transportation. International agreements, such as the EEU customs code, which entered into force on 1 January 2018 and the Economic and Economic Partnership Agreement, which was signed between the EEU and China in May 2018 have led to improvements in transit time, as well as the opportunity to create and modernise infrastructure and improve transport links. President Nazarbayev noted that work is underway to create an Intergovernmental Agreement regarding the Trans-Asian Railway Network.

President's October 2018 Message

In October 2018, as part of his address to the nation, President Nazarbayev emphasised the importance of export-oriented industrialisation as a central element of economic policy, instructing the Government to allocate an additional KZT 500 billion to support the manufacturing industry and non-commodity exports over the next three years, emphasising that the establishment of a direct investment fund in the non-commodity sector should be considered based on co-investment with foreign investors, and noting that activity to develop Kazakhstan's transport, logistics and other service sectors should be intensified. President Nazarbayev also noted that state organisations, including the Infrastructure Development Programme should focus on the development of transport infrastructure.

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 the 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 Issuer'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 Issuer 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 Issuer'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 2010, the railway system had an operational length of 21,063.9 km, of which 4,237.5 km were electrified tracks. The operational length includes 16,060.8 km of double tracks and 32.3 km 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 32nd 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 2018, there were 1,732 locomotives operating on the mainline railway network. As at 31 December 2018, 1,692 locomotives were owned by the Group.

The following map gives an overview of the reach of the Kazakhstan railway as at the date of this Prospectus:

The following table sets forth certain information regarding the nine mainline railway networks as at and for the year ended 31 December 2018:

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	67.1	4,137
Presnogorkovskaya - Kokshetau - Astana - Dostyk	Connects the Kazakhstan-Russia border to the Kazakhstan-China border	44.4	2,077
Petropavlovsk - Astana - Dostyk	Connects Northern Kazakhstan to the Kazakhstan-China border	40.8	1,914
Tobol - Astana	Connects Northern Kazakhstan to the capital of Kazakhstan	22.1	769
Iletsk - Aktobe - Kandyagash - Arys -Saryagash	Connects Russia to Southern Kazakhstan	27.4	1,753
Semiglavyi Mar - Kandyagash - Ayrs -Lugovaya - Almaty - Aktogay – Dostyk	Connects the Western Kazakhstan-Russia border to the Kazakhstan-China border	55.1	3,385
Saryagash - Arys - Lugovaya - Aktogay - Dostyk	Connects Southern Kazakhstan to the Kazakhstan-China border	35.4	1,835
Diny Nurpeisovoy - Makat - Beineu - Oasis	Connects the Western Kazakhstan-Russia border to the Kazakhstan-Uzbekistan border	8.6	789
Makat - Kandyagash – Nickeltau	Connects the Western Kazakhstan to the northwest portion of the Kazakhstan-Russia border	10.0	605

Note:

(1) Several of the mainline networks overlap and share common tracks. As at 1 January 2019, the Kazakhstan railway system had 21,063.9 km of operational rail track.

Kazakhstan's railway system provides rail access throughout most of the country for transportation of freight within Kazakhstan, transportation of freight from within Kazakhstan to destinations outside of Kazakhstan, transportation of freight from outside of Kazakhstan to destinations within Kazakhstan and transportation of freight that originates outside of Kazakhstan and passes through Kazakhstan en route to its final destination outside of Kazakhstan. 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 Issuer 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 Issuer is tasked with implementing the construction, maintenance and modernisation of the mainline railway network in line with Government programmes regarding the same. Government Resolution № 651 dated 30 June 2008 sets forth that 100% shares of the Issuer 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 Issuer 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 km 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 2017, net freight turnover for select state-owned railway companies was as follows: China National Rail (China) – 26,962 billion tonne-kilometres; Russian Railways (Russia) – 2,491 billion tonne-kilometres; Canadian Pacific Canadian National Railway (Canada) – 381 billion tonne-kilometres; Ukrainian Railways (Ukraine) – 195 billion tonne-kilometres; the Group (Kazakhstan) – 206 billion tonne-kilometres and Deutsche Bahn (Germany) – 93 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. President Nazarbayev 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 targeted that the trade volumes between the EU and China will continue growing to reach U.S.$1 trillion by 2020, and Kazakhstan's target is to transport up to two 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 related infrastructure. The Issuer was established by a decree of the Government, which, through its wholly-owned management company, Samruk-Kazyna, owns all of the outstanding shares of the Issuer. As Kazakhstan's national railway company, the Issuer 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, 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 Investments and Development.

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), President Nazarbayev 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 Issuer'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 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 year ended 31 December 2018, the Group had overall freight turnover of 219.9 billion tonne-kilometres, reflecting a 6.6% increase from 206.3 billion tonne-kilometres for 2017. The Group's freight turnover (including freight transported in third-party wagons hauled by the Group, calculated in accordance with data published by the Statistics Committee) accounted for 61.94% of all freight turnover in Kazakhstan by all modes of transport (excluding pipelines) for the year ended 31 December 2018, as compared to 61.88% for the year ended 31 December 2017. For the year ended 31 December 2018, the Group's freight transportation revenue increased by 13.3% to KZT 849,036 million, as compared to KZT 749,571 million for 2017, accounting for 81.3% of total consolidated revenue in 2018 and 82.1% of total consolidated revenue in 2017.

For the year ended 31 December 2018, revenue from export freight transportation accounted for 21.0% of total freight transportation revenue, as compared to 33.4% from domestic freight transportation, 28.7% from transit freight transportation, 11.3% from import freight transportation and 5.6% from other freight transportation (as compared to 21.1%, 34.0%, 27.9%, 11.8% and 5.2%, respectively, for 2017 and 18.3%, 26.5%, 30.9%, 10.5% and 13.8%, respectively, for 2016). See "*—Transportation Services—Freight Transportation*".

For the year ended 31 December 2018, the Group had a passenger turnover of 14.9 billion passenger-kilometres, reflecting a decrease of 1.9% from 15.2 billion passenger-kilometres for 2017. For the year ended 31 December 2018, the Group's passenger transportation revenue increased by 2.8% to KZT 84,219 million from KZT 81,886 million for 2017, accounting for 8.1% and 9.0%, respectively, of total consolidated revenue. See "*—Transportation Services—Passenger Transportation*".

As at 31 December 2018, the assets of the Group included:

- 16,060.8 km of operational rail track, of which 4,237.5 km were electrified tracks;
- 834 stations and operating points, including: (i) six distributing stations, where trains are linked or unlinked and locomotives are changed; (ii) 73 freight stations, where freight can be processed; (iii) 67 division stations, where transit freight can be processed; and (iv) 687 wayside stations, where trains can be temporarily idled to make way for passing trains;
- 1,692 locomotives;
- 54,485 freight cars;
- 2,412 passenger cars;
- 20,471 track switches; and
- one seaport (Kuryk port)

As at 31 December 2018, the assets of the Group under trust management included:

- five airports (three of these trust management arrangements were subsequently terminated in February 2019 in respect of International Airport Aktobe JSC, International Airport Atyrau JSC and Airport Pavlodar JSC following the expiration of the relevant trust management agreements); and
- one seaport (Aktau seaport).

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

Relationship with the Government

The Government exercises indirect control over the Group through its regulatory and legislative powers. As the Issuer's sole shareholder, Samruk-Kazyna has the exclusive right to, among other things, determine when dividends are paid by the Issuer and elect the Issuer's Board of Directors, as well as the Chairman of the Issuer's Management Board. Four of the nine members of the Issuer's Board of Directors are representatives of Samruk-Kazyna. 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 Issuer'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 Issuer, may cause the appointment or removal of members of the Issuer's management team or require the Issuer to privatise certain of its assets*".

The Issuer's status as a natural monopoly and the status of its subsidiaries, KTZFT and 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 Issuer, may cause the appointment or removal of members of the Issuer's management team or require the Issuer to privatise certain of its assets*." The Issuer also has financial and business relationships with other state-owned companies such as JSC Development Bank of Kazakhstan and JSC NC "KazMunayGas". See "*Transactions with Related Parties*".

A potential initial public offering by Samruk-Kazyna of a minority stake in the Issuer (not to exceed 49%) is contemplated in 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 then-Prime Minister of Kazakhstan, concluded that any privatisation of the Issuer should not take place before 2020. The 2016 Complex Privatisation Plan also identifies certain of the Issuer's subsidiaries to be privatised and the Issuer 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 may be delayed, reduced or discontinued*".

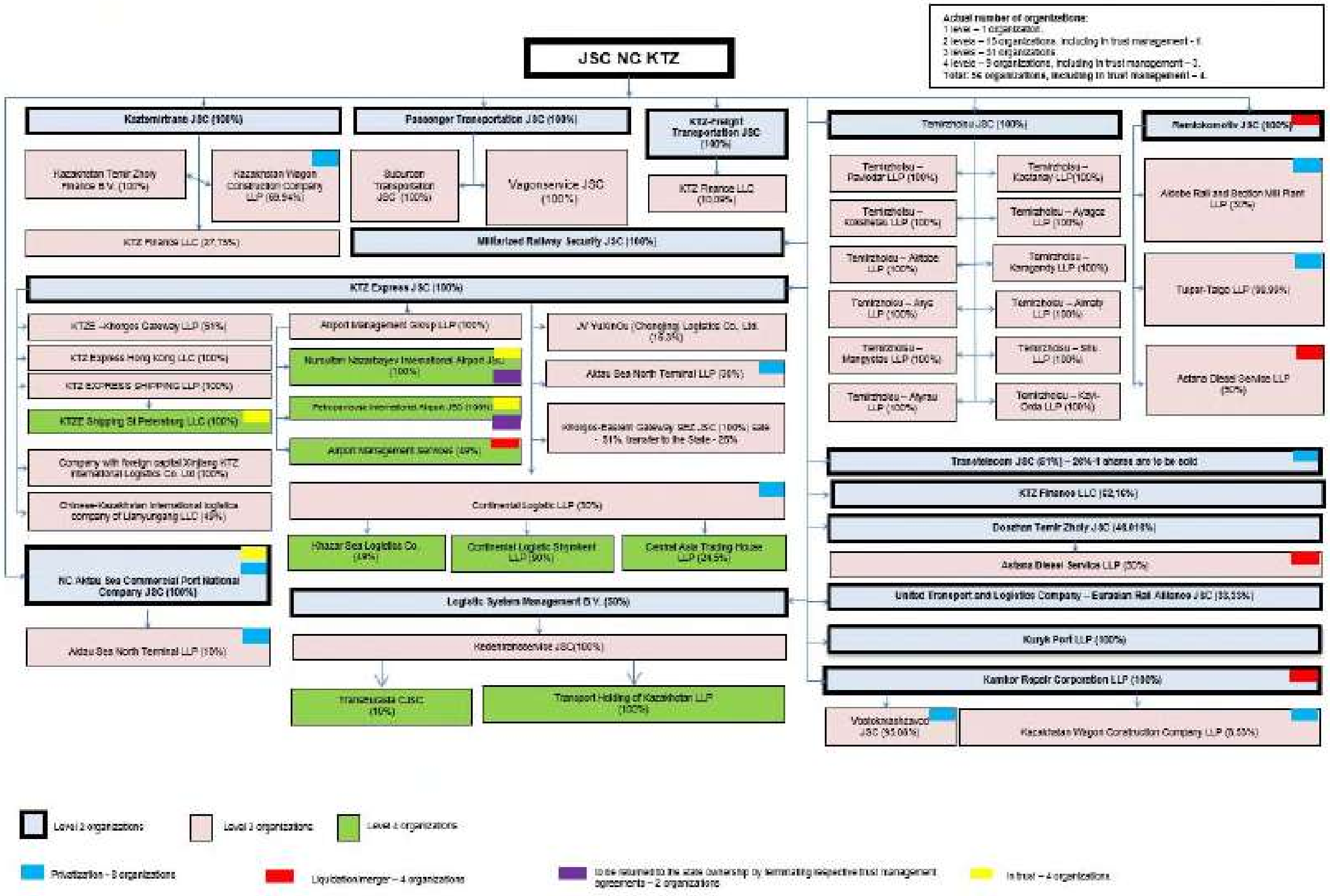
The Issuer

The legal name of the Issuer is Joint Stock Company "National Company "Kazakhstan Temir Zholy". The Issuer 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 Issuer is wholly-owned by the Government through Samruk-Kazyna. See "*Share Capital and Sole Shareholder—Samruk-Kazyna*". The Issuer was established pursuant to Government Resolution № 310 dated 15 March 2002, as amended by Government Resolutions № 313 dated 15 March 2002, № 479 dated 27 April 2002, № 1051 dated 25 September 2002, № 1404 dated 28 December 2002 and № 1389 dated 25 December 2004. The date of incorporation of the Issuer is 15 May 2002, and the Issuer is listed in the Register of Industries Having Strategic Importance and Falling under State Monitoring of Ownership pursuant to the Government Resolution № 810 dated 30 July 2004.

The business address and registered office of the Issuer is 6 Konaev Street, Esil District, Nur-Sultan 010000, 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 1 May 2019:



As at 31 December 2018, the Issuer had the following subsidiaries:

Subsidiary[(1)]	Nature of Activities	Country of residence	Ownership Share (%)
Kaztemirtrans JSC	Freight wagon operation	Kazakhstan	100
Passenger Transportation JSC	Passenger transportation	Kazakhstan	100
KTZ – Freight Transportation JSC	Freight transportation and locomotive haulage	Kazakhstan	100
KTZ Express JSC	Multimodal transportation	Kazakhstan	100
Temirzholsu JSC	Utilities	Kazakhstan	100
Remlocomotive JSC	Rolling stock production	Kazakhstan	100
Transtelecom JSC[(2)]	Telecommunication services	Kazakhstan	51
Militarized Railway Security JSC	Security	Kazakhstan	100
Kamkor Repair Corporation LLP	Machinery production	Kazakhstan	100
Aktau Sea Commercial Port National Company JSC	Vessel loading and unloading work	Kazakhstan	100
Port Kuryk LLP	Transfer of cargo and vessels servicing	Kazakhstan	100
KTZ Finance OJSC	Bond issues to finance projects and the operations of the Group	Russian Federation	62[(3)]

Notes:

(1) The Issuer's subsidiaries do not have any treasury shares.

(2) The sale of a 26% interest in Transtelecom JSC is pending. See "*Operating and Financial Review of the Group—Factors and Trends Affecting Financial Condition and Results of Operations—Acquisitions, Restructurings and Privatisations*".

(3) KTZ Finance OJSC is 28%-owned and 10%-owned by Kaztemirtrans and KTZFT, respectively.

Key Strengths

The Issuer 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. The Group also provides significant domestic passenger transportation services in Kazakhstan, with overall passenger turnover of 14.9 billion passenger-kilometres in 2018. The Group is a significant contributor to the Government's budget, as one of the largest taxpayers in Kazakhstan paying KZT 102.3 billion in taxes in 2018, and is a significant employer in Kazakhstan, employing an average of 130,733 people in 2018. See "*Management and Employees of the Issuer*".

  Kazakhstan is a major producer and exporter of natural resources, with gas and oil accounting for approximately 26.3% of Kazakhstan's GDP in 2018. 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 2016 and 2018, the Group received KZT 203.0 billion in various forms of Government contributions, including KZT 197.5 billion in capital contributions for the realisation of strategic infrastructure projects and KZT 5.5 billion in concessional rate loans from Samruk-Kazyna. In addition, during this period the Group received KZT 63.7 billion in the form of Government grants for the transportation business, and entered into below market rate finance lease contracts for passenger cars with DBK-Leasing JSC for a total amount of KZT 31.4 billion, of which the passenger cars for the amount of KZT 11.5 billion were received by the Group and recognised as property, plant and equipment.

Government grants for the Group's passenger transportation business accounted for 2.0%, 2.2% and 2.7% of total consolidated revenue for years ended 31 December 2018, 2017 and 2016, respectively. In 2016, the Issuer registered for the Government Financing Bond Programme, pursuant to which it has access to up to KZT 200 billion in Government support. See "*Operating and Financial Review of the Group—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 from the Government, which may be delayed, reduced or discontinued.*"

The Group has also received significant financial support from Samruk-Kazyna and the Government for the implementation of strategic Government infrastructure projects. For example, in 2017, the Issuer issued: (i) 66,852 shares to Samruk-Kazyna in return for capital of KZT 66,852 million, which was used to finance the construction of a ferry complex in the Kuryk port; and (ii) 27,000 shares to Samruk-Kazyna for which assets and land use rights in respect of two plots of land (valued at KZT 2,323 million) were received. In 2018, the Issuer issued 290,037 shares to Samruk-Kazyna for which 51 open wagons with a total market value of KZT 290 million were received.

- **Responsibility for Implementing Transport-Related Government Strategy.**

  As the 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 537,400 in 2018 (with the overall aim of increasing freight transportation).

  The Issuer continues to believe that it has the strong support of the Government, which has historically assisted the Issuer by providing financing and strategic support and otherwise played an important role in the expansion of the Group'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 Issuer 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 Issuer 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 Issuer believes that, in the future, it could attract an increasing amount of freight traffic away from these alternative routes.

  An additional development that the Issuer 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 11,000 TEU in 2011 to approximately 201,000 TEU in 2017 and 310,800 TEU in 2018. In the three months ended 31 March 2019, 3.6 million tonnes were transported between Kazakhstan and China, representing a 25% increase as compared to the corresponding period in 2018. In addition, while historically freight transportation from China to the EU has been largely one way (with return routes primarily comprising empty runs), since 2015, return freight transportation from the EU to China has increased. In 2018, 4,128 container trains (excluding container trains to Russia and Belarus) travelled return from China to the EU, a 59% increase as compared to the number of container trains that travelled return routes in the same period of 2017. In addition, if implemented, the Issuer 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. A roadmap for the implementation of a Cooperation Plan between the Chinese and Kazakhstan Governments, is currently being formulated by the Ministry of National Economy of Kazakhstan, with participation from the Issuer. In April 2019, the Issuer attended a fourth meeting of the Joint Working Group on the Organisation of Transportation by Container Transit in China-Europe, which was attended by representatives of the railway administrations of Kazakhstan (the Issuer), China, Belarus, Germany, Mongolia, Poland and Russia. 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 Issuer 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 Issuer 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 Issuer 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 Issuer 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 Issuer 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, 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 transport corridor (Europe, Caucasus, Asia) ("**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. In 2017, the Issuer entered into an investment agreement with Cosco Shipping Corporation and Lianyungang Port on the joint development of SEZ Khorgos pursuant to which Chinese investors were expected to jointly purchase a 49% interest in the Khorgos dry port. In May 2018, it was announced that KTZ Express will operate Cosco Shipping Corporation's container fleet in Kazakhstan and Central Asian countries, as well as in the direction of the Trans-Caspian International transport route. The Issuer 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 Issuer believes give it an advantage over competitors.

Overview of the Business Operations of the Group

The Group provides the following services:

- **Transportation Services**

  The Issuer 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 219.9 billion tonne-kilometres and 206.3 billion tonne-kilometres for the years ended 31 December 2018 and 2017, respectively. For the year ended 31 December 2018, the Group's freight transportation revenue increased by 13.3% to KZT 849,036 million, as compared to KZT 749,571 million for 2017, accounting for 81.3% of total consolidated revenue in 2018 and 82.1% of total consolidated revenue in 2017. See "*—Transportation Services—Freight Transportation*".

  The Issuer provides passenger transportation through its wholly-owned subsidiary Passenger Transportation, which, has 53 international and inter-regional routes. Since 2012, 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 Passenger Transportation, Suburban Transportation, had 67 inter-regional and intercity and suburban routes as at the same date. For the year ended 31 December 2018, the Group had passenger turnover of 14.9 billion passenger-kilometres, reflecting a 1.9% decrease from 15.2 billion passenger-kilometres in 2017, although the Group's passenger transportation revenue increased by 2.8% to KZT 84,219 million for the year ended 31 December 2018 from KZT 81,886 million in 2017, accounting for 8.1% and 9.0%, respectively, of total consolidated revenue. The Group's passenger transportation business is not profitable, although the Group's losses on passenger transportation are reduced 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 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

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 JSC Khorgos International Centre of Cross-border Cooperation (the trust management agreement was subsequently terminated in March 2019 due to the expiry of the agreement), Kokshetau Aircompany, Petropavlovsk International Airport, Astana International Airport, Kostanay International Airport, Shymkent Airport, Aktobe International Airport, Atyrau International Airport, Pavlodar Airport and Aktau seaport (although the trust management agreements for Aktobe International Airport, Atyrau International Airport and Pavlodar Airport were terminated in February 2019, following the earlier termination of the arrangements in respect of each of Kostanay International Airport, Shymkent Airport and Kokshetau Aircompany). Pursuant to these arrangements, the Group's role, which is exercised through KTZ Express (save for in relation to Aktau seaport, which is managed by the Issuer and consolidated), 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 Issuer's Board of Directors approved the Development Strategy. The Development Strategy was further amended by the Board of Directors on 11 February 2016. The Issuer has worked on certain amendments to the Development Strategy to reflect the new development strategy for 2018-2028 expected to be adopted by Samruk-Kazyna by the end of 2018. The amendments to the Development Strategy were submitted to the Board of Directors in September 2018 and are expected to be considered for approval in the second half of 2019.

The Development Strategy targets the transformation of the Issuer 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 Issuer'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.

  In furtherance of this strategic aim, in 2017, as a result of changes to the Group's organisational structure and business processes (in line with the Group's transformation into a national transportation and logistics company), the Issuer won eight times the number of tenders on electronic trading platforms for the organisation of transportation, as compared to 2016, which, in turn, led to the volume of transportation services provided by shuttle trains doubling. In addition, the Issuer has carried out work to create institutional conditions for the development of container transportation within the country and for export. The introduction of rules on wagon and container transportation deregulation provide increased flexibility. In addition, the growth of containerisation for export shipments is expected to expand the geographical reach of Kazakhstan's exports.

- **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.

  The average daily performance of the Group's railcar fleet improved by 19% from 2014 to 2018, which, coupled with an improved pricing environment in the railcar operating market led to improved economic results for Kaztemirtrans in 2018, as compared to 2017.

- **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.

Transit freight transportation revenue was KZT 243,760 million for the year ended 31 December 2018, as compared to KZT 209,217 million for the year ended 31 December 2017, reflecting an increase of KZT 34,543 million, or 16.5%.The volume of container traffic also increased to 573.4 thousand TEU (a 2.2 times increase, as compared to 2016), of which the volume of container traffic in the China-Europe direction increased from 104.6 thousand TEU in 2016 to 310.8 thousand TEU in 2018. Return loads from Europe also increased in 2018 to 45%, as compared to 33% in 2016.

- **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 Passenger Transportation's interaction with third parties, including through the revision of certain maintenance contracts and the recalculation of financial metrics.

  In line with the initiative to increase the efficiency of passenger transportation, the percentage of capacity utilisation rate of passenger railcars was 73.7% in 2018 and 74.0% in 2017, as compared to 73.0% in 2016.

- **Greater Operational Efficiency**, through the optimisation of infrastructure and locomotive facilities expenses in order to capture transit potential. In this respect, in 2015, the Issuer 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. In 2018, the Group established a branch of the Issuer to operate as a project office.
- **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.

- **Increase 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 Issuer'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 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 31 December 2018, the Group had completed the sale of shares and interests in the following subsidiaries to third parties: Lokomotiv Krasstyru Zauyty JSC, Transport Service Center JSC, Regional Forward Logistics LLC, Rauan Burabai LLP, Mak-Ekibastuz LLP, Bas-Balkhash LLP, LLP JV KazElektroPrivod, Magistral - Kyzmeti LLP, "Temir Zhol Electrification" LLP and Astyk Trans JSC. The Issuer anticipates that two Group companies will be privatised in 2019. Thus far, the Issuer has disposed of 21 assets, liquidated nine Group companies and reorganised two Group companies under the 2016 Complex Privatisation Plan.

After carrying out a pre-sale review of Kaztemirtrans and 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 Issuer (not to exceed 49%) is also contemplated in 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 then-Prime Minister of Kazakhstan, concluded that any privatisation of the Issuer should not take place before 2020. On 28 November 2017, the Board of the Issuer resolved that: (i) any disposal of Kaztemirtrans or Passenger Transportation should occur only as part of any initial public offering of the Issuer; and (ii) Passenger Transportation should only be privatised together with its subsidiaries.

The Group's restructuring plans also envisage the establishment of an infrastructure operator within the Group, which is still being considered and will be amended to reflect amendments to the Tax Code and the elimination of cross-subsidies for passenger traffic by freight transportation.

For information regarding the Issuer's disposal of interests in certain subsidiaries, see "*Operating and Financial Review of the Group—Factors and Trends Affecting Financial Condition and Results of Operations—Acquisitions, 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 Government.

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 Issuer. 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 targeted door-to-door delivery services 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 in Kazakhstan 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 Issuer 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 Issuer's principal assets, including passenger and freight cars, locomotives and spare parts for assembly of locomotives;
- introducing an integrated management system, which allows the Issuer 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 Issuer;
- 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 Issuer 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;
- commencing implementation of large-scale measures to improve productivity and lower service costs; and
- implementation of the Issuer's digital railway strategy for the period 2018 until 2022, which is being implemented within the framework of the "Digital Kazakhstan" State Programme. The "Digital Kazakhstan" State Programme was launched by the Government in December 2017 and targets the digital transformation of certain key areas during the period 2018-2022, including: (i) the economy; (ii) transition to digital government; (iii) implementation of the digital silk road; (iv) development of human capital; and (v) transition to an innovation ecosystem.

Transportation Services

Freight Transportation

Freight transportation plays a key role in the Group's business operations. Overall freight turnover for the Group was 219.9 billion tonne-kilometres and 206.3 billion tonne-kilometres for the years ended 31 December 2018 and 2017, respectively. For the year ended 31 December 2018, the Group's freight transportation revenue increased by 13.3% to KZT 849,036 million, as compared to KZT 749,571 million for 2017, accounting for 81.3% of total consolidated revenue in 2018 and 82.1% of total consolidated revenue in 2017.

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

	For the year ended 31 December		% change between the years ended 31 December 2018 and 2017
	2018	**2017**(1)	
	(KZT millions)		*(%)*
Export	178,063	158,203	12.6
Domestic	283,878	254,723	11.4
Transit(2)	243,760	209,217	16.5
Import	95,915	88,719	8.1
Other(3)	47,420	38,709	22.5
Total	**849,036**	**749,571**	13.3

Notes:

(1) Restated. See "*General Information—Presentation of Financial and Other Information—Financial Statements—Changes in Classification Affecting Comparative Information*" and Note 5 to the 2018 Financial Statements. The 2017 figures are taken from the 2018 Financial Statements.

(2) Transit freight 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 year ended 31 December									
	2018					**2017**				
	% 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	29.1	82.5	34.6	76.2	923.8	28.7	78.0	34.2	70.5	903.3
Domestic	59.3	167.6	43.1	94.7	564.6	59.1	160.7	43.8	90.4	562.7
Transit	6.2	17.5	14.3	31.4	1795.1	5.9	16.0	12.5	25.8	1,614.7
Import	5.4	15.3	8.0	17.6	1,151.3	6.4	17.4	9.5	19.5	1,122.4
Total	**100.0**	**282.9**	**100.0**	**219.9**	**777.3**	**100.0**	**272.1**	**100.0**	**206.3**	**758.0**

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. Revenue from transit freight accounted for 28.7% and 27.9% of the Group's revenue from freight transportation in 2018 and 2017, respectively. See "*—Government Regulation and Tariffs—Freight Tariff Regulation and Pricing—Transit Freight Tariffs*" and "*Operating and Financial Review of the Group— Consolidated Results of Operations for the Year Ended 31 December 2018, as compared to the Year Ended 31 December 2017—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 "*Operating and Financial Review of the Group—Factors and Trends Affecting Financial Condition and Results of Operation—Demand for the Transportation of Commodities*".

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

	For the year ended 31 December		% change between the years ended 31 December 2018 and 2017
	2018	2017[(1)]	
	(KZT millions)		*(%)*
Coal	70,710	64,439	9.7
Ore	25,459	19,765	28.8
Oil	3,533	3,015	17.2
Oil products	122,941	130,083	(5.5)
Construction materials	30,791	25,539	20.6
Grain and grain products	27,947	19,282	44.9
Ferrous scrap	5,914	5,700	3.8
Chemicals and sodium carbonate	29,068	26,359	10.3
Chemical and mineral fertilisers	8,462	7,695	10.0
Coloured ore	25,061	21,380	17.2
Nonferrous metals	7,912	7,259	9.0
Ferrous metals	58,915	52,054	13.2
Other[(2)]	432,323	367 001	17.8
Total	**849,036**	**749,571**	13.3

Notes:

(1) Restated. See "*General Information—Presentation of Financial and Other Information—Financial Statements—Changes in Classification Affecting Comparative Information*" and Note 5 to the 2018 Financial Statements. The 2017 figures are taken from the 2018 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 year ended 31 December									
	2018					2017				
	% 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	37.4	105.9	25.3	55.7	526.5	37.9	103.0	26.4	54.5	528.7
Iron ore	16.3	46.1	13.7	30.1	652.9	16.0	43.4	12.7	26.1	601.1
Construction materials	8.0	22.6	6.1	13.3	588.8	8.1	22.1	6.4	13.2	598.3
Oil and oil products	7.8	22.2	9.8	21.5	970.3	8.6	23.3	10.8	22.2	955.4
Grain and grain products	5.5	15.4	12.3	27.0	1,749.8	4.7	12.7	10.1	20.9	1,649.3
Ferrous metals	3.7	10.5	5.5	12.0	1,141.3	3.7	10.1	5.8	12.0	1,182.6
Other	21.3	60.2	27.4	60.2	1,000.3	21.1	57.6	27.8	57.4	997.8
Total	**100.0**	**282.9**	**100.0**	**219.9**	**777.3**	**100.0**	**272.1**	**100.0**	**206.3**	**758.0**

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 31 December 2018, container transportation accounted for 4% of all railway freight turnover of the Group, although the Issuer 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 Issuer 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 Issuer 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 year ended 31 December 2018, the Group had passenger turnover of 14.9 billion passenger-kilometres, reflecting a decrease of 1.9% from 15.2 billion passenger-kilometres for 2017. For the year ended 31 December 2018, the Group's passenger transportation revenue increased by 2.8% to KZT 84,219 million from KZT 81,886 million for 2017, accounting for 8.1% and 9.0%, respectively, of total consolidated revenue. See "*Operating and Financial Review of the Group—Consolidated Results of Operations for the Year Ended 31 December 2018 as compared to the Year Ended 31 December 2017—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 year ended 31 December							
	2018				**2017**			
	% of Total Turnover	**Turnover**	**% of Total Number**	**Number of Passengers**	**% of Total Turnover**	**Turnover**	**% of Total Number**	**Number of Passengers**
	(%)	*(billions of passenger-km)*	*(%)*	*(millions)*	*(%)*	*(billions of passenger-km)*	*(%)*	*(millions)*
Inter-regional	82.5	12.3	70.8	12.6	81.6	12.4	70.1	12.9
International..........	7.4	1.1	7.3	1.3	7.2	1.1	7.1	1.3
Intercity and suburban	3.4	0.5	20.2	3.6	3.9	0.6	20.7	3.8
Trains of foreign railway administrations	6.1	0.9	0.2	0.3	6.6	1.0	1.6	0.3
Total	**100.0**	**14.9**	**100.0**	**17.8**	**100.0**	**15.2**	**100.0**	**18.4**

The Issuer provides passenger transportation through its wholly-owned subsidiary Passenger Transportation, which, as at the date of this Prospectus, has 53 international and inter-regional routes. 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, 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 Passenger Transportation, Suburban Transportation, had 67 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 Passenger Transportation, however it is now expected that the sale will take place as part of any initial public offering of the Issuer.

The Group's passenger transportation business is not profitable. The Group's losses on passenger transportation are reduced 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 Investments and Development 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. 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 Passenger Transportation.

The Government has taken steps in recent years to develop competition in the railway industry. Access to the mainline railway network is open, and the Issuer provides non-discriminatory access to the network for private carriers. There are 10 private carriers operating passenger transportation activities alongside the national carrier, 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. Since December 2016, Passenger Transportation has entered into seven long-term agreements relating to the subsidisation of passenger transportation with the Transportation Committee of the Ministry of Investments and Development of Kazakhstan, which regulate certain matters, including passenger loading and offloading and potential increases in tariffs. These are valid for the periods: 1 January 2017 to 31 December 2036; 2 April 2018 to 31 December 2037; and 1 July 2018 to 31 December 2037.

For the year ended 31 December 2018, revenue from Government grants was KZT 20,751 million, as compared to KZT 20,460 million for 2017 and KZT 22,529 million for 2016. Approximately 74% 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 31 December 2018, there were 1,692 locomotives operating on the mainline railway network.

The following table sets forth certain information regarding the Group's locomotives fleet as at the dates indicated:

	As at 31 December	
	2018	**2017**
Electric		
Mainline freight locomotives	392	392
Mainline passenger locomotives ...	154	155
Total electric locomotives...........	**546**	**547**
Diesel		
Mainline freight locomotives	449	458
Mainline passenger locomotives ...	231	233
Shunting locomotives....................	466	466
Total diesel locomotives	**1,146**	**1,157**
Total	**1,692**	**1,704**

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	
	2018	**2017**
Freight rail cars	30,069	29,955
Gondola	2,259	2,271
Platform	5,030	5,232
Rail tank	8,029	8,041
Box car	1	1
Hopper	9,097	9,577
Other	**54,485**	**55,077**
Total		
Passenger rail cars		
First-class coach	44	60
Third-class sleeper	610	674
Compartment coach	677	714
Dining cars	38	38
Interregional	27	16
Baggage and luggage wagons	25	25
ZAK type cars	13	13
Talgo cars	670	670
Officer's and maintenance cars	308	310
Total	**2,412**	**2,520**

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. 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 or purchases railcars from Kazakhstan Wagon Construction Company LLP, a subsidiary of the Issuer, 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, the Kyrgyz Republic, Uzbekistan, Turkmenistan and China, as well as to ancillary tracks. As at 1 January 2019, the railway system had an operational length of 21,063.9 km, of which 4,237.5 km were electrified tracks. The operational length includes 16,060.8 km of double tracks and 32.3 km 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 2018, wooden and concrete rail sleepers comprised 26.6% and 73.4%, respectively, of the total rail sleepers in Kazakhstan. As at 31 December 2018, the Kazakhstan railway system had 6,562.4 km of tracks at rail yards and special tracks that facilitate yard operations, three tunnels, 3,571 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 54.5% of total freight turnover of the Group for each of the years ended 31 December 2018 and 2017, 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 occasionally interrupted, such as that may result in a cut-off or reductions of voltage of power lines. The delays caused by such interruptions are generally minimal. The Issuer 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 Issuer 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 № 442-II (the "**Land Code**"), the land underneath the mainline railway tracks is the property of Kazakhstan and is not subject to privatisation. The Issuer 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 2017 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 Issuer 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. The Issuer 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

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 Issuer intends to continue its capital investments, albeit at a slightly reduced pace than previously. The Issuer estimates capital expenditures will amount to KZT 1,203 billion for the 2018-2022 period, as compared to capital expenditures of more than KZT 1,747.4 billion during 2013-2017. In connection with the Development Strategy and Government initiatives, the Group intends to invest a significant amount over the next several years to:

- acquire new railway rolling stock and locomotives and modernise existing railway rolling stock and locomotives; and

- renew and develop existing infrastructure.

The Issuer 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, modernisation and upgrades of the Group's railway and logistics infrastructure requires continuing funding.*"

During the year ended 31 December 2018, the Issuer made capital expenditures of KZT 2.2 billion, KZT 0.3 billion and KZT 2.7 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 seaport, 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 18 months to three years and four months and construction costs increased more than tenfold, as compared to the original construction agreement. The estimated total cost of the project is KZT 44.4 billion. The project was completed in December 2018. See "*Operating and Financial Review 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 Issuer's fixed assets (for example, track, electricity supply equipment, alarm systems and connections and rolling stock) have depreciated significantly in the past.

During the year ended 31 December 2018, the Issuer made KZT 206 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 242 billion in 2017.

As a result of modernisation works undertaken by the Group, in 2018, the asset deterioration ratio of the Group's locomotives was 66% (as compared to 67% in 2017 and 78% in 2008), freight railcars was 50% (as compared to 47% in 2017 and 71% in 2008), passenger railcars was 46% (as compared to 46% in 2017 and 85% in 2008) and railway infrastructure was 25% (as compared to 57% in 2017 and 69% in 2008).

See "*Risk Factors—Risk Factors Relating to the Group— Maintenance, modernisation and upgrades of the Group's railway and logistics infrastructure requires continuing funding*" and "*Operating and Financial Review 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 Issuer's control, KTZ-Infrastructure JSC has not been created and the Group is considering the appropriate method and timing to establish an infrastructure operator within the Group's 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 Krasstyru Zauyty JSC to GE Transportation for an amount of KZT 15,716 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 routes 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 and the airport network. In this connection, the Group entered into various trust management agreements in respect of certain Government-owned entities, including JSC Khorgos International Centre of Cross-border Cooperation (the trust management agreement was subsequently terminated in March 2019 due to the expiry of the agreement), Kokshetau Aircompany, Petropavlovsk International Airport, Astana International Airport, Kostanay International Airport, Shymkent Airport, Aktobe International Airport, Atyrau International Airport, Pavlodar Airport and Aktau seaport (although the trust management agreements for Aktobe International Airport, Atyrau International Airport and Pavlodar Airport were terminated in February 2019, following the earlier termination of the arrangements in respect of each of Kostanay International Airport, Shymkent Airport and Kokshetau Aircompany). Pursuant to the trust management arrangements, the Group's role, which is exercised through KTZ Express, 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. In July 2017, KTZ Express registered the transfer of its 49% interest to COSCO-Shipping (China). On 21 December 2017, KTZ Express received payment of the outstanding amount of U.S.$3,000,000. All payments in respect of this transaction have been received and the transaction has closed. In May 2018, it was announced that KTZ Express will operate Cosco Shipping Corporation's container fleet in Kazakhstan and Central Asian countries, as well as in the direction of the Trans-Caspian International transport route. In March 2018, DP World and the Government of Kazakhstan entered into a framework agreement relating to the acquisition of the remaining 51% of SEZ Khorgos, with the aim of enhancing trade connectivity along the New Silk Route and handling all cargo types.

Expansion of Aktau Seaport

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 Issuer in order to facilitate the management of transportation and logistics through that port. Accordingly, in 2013, the Issuer took control over the Aktau seaport, which is treated as a subsidiary (Aktau International Sea Commercial Port national Company JSC) 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. 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 6,000 TEU), as well as open storage areas of over 100 thousand square meters. Aktau seaport's capacity has reached 19 million tonnes and it is capable of processing three vessels simultaneously.

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, the associated entity of KTZ Express completed the construction of a transport and logistic centre and a customs clearance centre in Astana. In the year ended 31 December 2018, 671 thousand tonnes of cargo, 3,295 wagons and more than 1,971 TEU were processed at the Astana customs clearance centre, reaching an occupancy rate of between 85% and 90%.

On 6 December 2017, the A-class complex of the Shymkent transport and logistic centre was officially opened by President Nazarbayev. In May 2018, the Shymkent customs clearance zone opened. Between 1 May 2018 and 31 December 2018, the Shymkent transport and logistic centre processed 104 thousand tonnes of cargo, 837 wagons and more than 677 TEU, achieving an occupancy rate of between 35% and 40%.

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. In 2017, KTZ Express conducted a feasibility study in respect of the proposed transport and logistic centre in Aktobe. Adjustments to the feasibility study are currently in process were finalised in December 2018. Construction of the transport and logistic centres in Aktau and Ust-Kamenogorsk was expected to take place between 2019 and 2022 but all development activities in respect of these projects have currently been suspended until funding is agreed.

Acquisition of fitting platforms leased from "DBK-Leasing" JSC

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 two million containers by 2020. This target was reiterated by President Nazarbayev in his address to the people of Kazakhstan in January 2017. In 2016, the annual volume of transit traffic increased to 120,000 TEU before further increasing to KZT 200.1 billion in 2017. In 2018, the annual volume of transit traffic was 310,800 TEU in 2018 and the Issuer is targeting an increase in volumes of transit traffic through Kazakhstan in the direction of China - Europe to 800,000 TEU 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 Issuer is focused on increasing the availability of its fleet for fitting platforms. At present, "Kedentransservice" JSC operates 1,040 80-foot fitting platforms. See "*Operating and Financial Review of the Group—Financial and Contingent Liabilities—Finance leases*". The Issuer 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 Issuer when such platforms return empty. The Issuer is also considering purchasing additional fitting platforms. The price of such platforms has been revised by the supplier and there is currently an agreement in place to acquire 1,363 units of 80-foot fitting platforms in 2019.

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, five of which, as at 31 December 2018, including Astana International Airport, Petropavlovsk International Airport, Aktobe International Airport, Atyrau International Airport and Pavlodar Airport, were managed by 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. 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. In June 2016, this agreement was terminated as a result of increased costs relating to the adoption of a free-floating exchange rate by the NBK. Trust management arrangements were terminated in February 2019 in respect of Aktobe International Airport, Atyrau International Airport and Pavlodar Airport following the expiration of the relevant trust management agreements.

Government Regulation and Tariffs

Government Regulation

As Kazakhstan's national railway company, the Issuer 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 Issuer, regulate all the Issuer's freight transportation tariffs, except for transit tariffs, which are subject to controls under the CIS Tariff Policy (as defined below), and are calculated based on the Unified 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 suppliers of train services. The Issuer intends to participate in the development of this methodology.

See "*Risk Factors—Risk Factors Relating to the Group—The position of the Issuer 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**").

Unified Freight Tariff

As part of the SES, 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 43% of the total freight tariff); (ii) the locomotive haulage tariff (approximately 54% of the total freight tariff); and (iii) the freight and commercial services tariff (approximately 3% of the total freight tariff). There is an additional optional tariff for the use of the Group's freight cars and containers, if applicable (approximately 44% of the 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 31 December 2018, the unified freight tariff (excluding VAT) ranged from approximately KZT 1,053 per tonne per 1,000 km (for coal) to KZT 11,412 per tonne per 1,000 km (for crude oil). As at 31 December 2018, 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 43% of the total unified freight tariff.

Freight tariffs increased overall by an average of 4% in 2016, by an average of 5% in 2017 and by an average of 6.8% in 2018, including a 4% increase in tariffs for railway network access and a 10% increase in tariffs for locomotive haulage services. 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 Issuer expects future increases of the locomotive haulage tariff and the freight and commercial services tariff to be determined based on then applicable rates of inflation and has held preliminary discussions with the Natural Monopoly Committee regarding proposed increases to the haulage tariff, Government subsidised passenger tariff and commercial passenger tariff to take effect in 2019 (although there can be no assurance that such tariff increases will be introduced). See "*Risk Factors—Risk Factors Relating to the Group—The position of the Issuer as a monopoly and a 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 mainline railway tariff, is proposed by the Issuer and must be approved by the Natural Monopoly Committee for a four-year period. The Issuer 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 Committee'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 № 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 Issuer, 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 Issuer, 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 31 December 2018 and 31 December 2017, 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.$42.79 per tonne per 1,000 km (coal) to U.S.$85.58 per tonne per 1,000 km (non-ferrous metals).

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. 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 Issuer 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 adopted amendments to the Commercial Code, which introduced a concept of "market of public importance" and established price regulation for members of this market. KTZFT's freight transportation services (except for freight transit services) fell within the scope of public importance and, accordingly, the Natural Monopoly Committee regulated the activities of KTZFT by establishing tariffs for domestic, import and export freight transportation on the mainline railway network, including for container freight transportation. In June 2018, the Commercial Code was further amended and container freight transportation as well as intermodal container transportation services (*i.e.*, transportation of containers by combination of trailer track and railcar), transportation of empty containers and empty railcar platforms for carriage of containers, were deregulated.

The December 2016 amendments to the Commercial Code also 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 Passenger Transportation, as the dominant providers of services are still subject to the non-price regulation of the Natural Monopoly Committee.

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. Kazakhstan and 27 other countries, 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*". 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 Committee 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, to a further 7% increase in passenger tariffs, with effect from 1 January 2017 and to a further 7% increase in passenger tariffs, with effect from 1 January 2018. The Issuer has held preliminary discussions with the Natural Monopoly Committee regarding proposed increases to the Government subsidised passenger tariff and commercial passenger tariff to take effect in 2019 (although there can be no assurance that such tariff increases will be introduced).

Passenger transportation of the Group is subsidised by the Government grants and cross-subsidised through the 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 Issuer as a monopoly, 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*".

Customers and Suppliers

Freight Customers

The Group had approximately 19,000 customers for freight transportation during 2018. 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 6.0% of the Group's freight transportation revenue for the years ended 31 December 2018 and 2017.

The following table identifies the Group's top five customers (collectively 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 year ended 31 December		
		2018	2017	2016
Customer	**Product**	*(millions of tonnes)*		
Bogatyr Komir LLP	*Coal*	44.5	40.1	34.4
EEC JSC	*Coal and coal ash*	17.0	17.3	15.5
SSGPO JSC	*Iron ore and ferrous metals*	14.6	17.7	12.2
Tengizchevroil LLP	*Oil and oil products, chemicals and sodium carbonate*	3.6	3.7	3.5
Kazakhmys Corporation LLP	*Coal, nonferrous metal ores, chemicals and sodium carbonate, nonferrous metals, ferrous metals, iron ore*	15.5	16.3	14.7
Total for top five customers		**95.2**	**95.1**	**80.3**
Other customers		154.4	142.4	132.8
Total		**249.6**	**237.5**	**213.1**

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 Balkan States and Order of the Issuer № 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 Issuer 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 № 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 years ended 31 December 2018, 2017 and 2016, fuel and lubricants accounted for 14.7%, 12.4% and 11.0%, 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 years ended 31 December 2018, 2017 and 2016, electricity accounted for 5.6%, 6.1% and 6.0%, 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 5.2%, 6.2% and 7.0% of the Group's total cost of sales for the years ended 31 December 2018, 2017 and 2016, 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 Issuer 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 May 2009, the Issuer and OJSC Russian Railways executed an Agreement on Cooperation in Terminal Freight Handling, which was aimed at equal 50% ownership interests of the Issuer and OJSC Centre for Transportation of Freights in Containers "Transcontainer", a subsidiary organisation of OJSC Russian Railways. 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 Issuer'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 Issuer of its shares in the joint venture, and other options stipulating different scenarios for the transfers of shares. Pursuant to the Joint Venture Cooperation Agreement, the Issuer's interest in JSC Kedentransservice increased to 50%.

- In June 2010, the Issuer 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 Issuer'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 Remlocomotiv, a wholly owned subsidiary of the Issuer, 25% was owned by Alstom Holdings (France) and 25% was owned by CJSC Transmasholding (Russia). In February 2016, half of Remlokomotiv JSC's share (representing 25% of the Company) 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 Issuer, 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 Issuer, Alstom Holdings and CJSC Transmasholding. The Issuer's guarantee of the loan is limited to a total amount of KZT 2,370 million. As at 31 December 2018, the principal amount of the loan outstanding was KZT 5,691 million. Construction of the plant commenced in October 2011 and was 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 February 2011, the Issuer 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.

- In May 2012, the Issuer, 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 Issuer, 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. Boston Consulting Group is analysing potential markets and evaluating business models for operations of the joint transport and logistical company.

- In April 2018, the United Transport and Logistics Company JSC ("**UTLC**") was reorganised to operate under the name UTLC Eurasian Railway Alliance JSC ("**UTLC ERA**"). UTLC ERA is a joint company owned by the Issuer and the national railway companies of Russia and Belarus, formed with the aim of increasing the attractiveness of the Eurasian transit corridors in China, South Asia and Europe. As a result of this reorganisation, all three national railway companies own a 33.3% share in UTLC ERA.

- In 28 August 2012, the Issuer signed a memorandum of understanding with Transport Technologies LLP to cooperate on the construction of a rail and structural plant in the Aktobe region. Aktobe Rail and Section Mill 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 2018, the plant had produced 321.7 tonnes of rail and 3.4 kW/h of electricity. On 20 June 2018, a an agreement was entered into with Aktobe Rail and Section Mill Plant in respect of the sale and purchase of JSC Remlokomotiv's 30% share, subject to certain conditions.

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 for the establishment of a plant producing shunting locomotives in the Zhambyl oblast of Kazakhstan. Between 2009 and 2013, CSR delivered 114 rolling stock units pursuant to this agreement. In 2013, nine shunting locomotives were assembled by the Group and CSR at Kamkor Repair Corporation LLP's Chui Repair Plant.

International Co-operation

Kazakhstan, and the Issuer, 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 Issuer 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 Issuer 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 Issuer is an active member of the UIC's Executive Council and its Asian Regional Assembly. The President of the Issuer 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 entered 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 Issuer 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 "*Operating and Financial Review of the Group—Liquidity and Capital Resources—Borrowings*".

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 31 December 2018, private operators owned approximately 60% of all the railcars operating in Kazakhstan. Such owners include 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 the 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*". The Group's freight turnover (including freight transported in third-party wagons hauled by the Group, calculated in accordance with data published by the Statistics Committee) accounted for 61.94% of all freight turnover in Kazakhstan by all modes of transport (excluding pipelines) for the year ended 31 December 2018, as compared to 61.88% for the year ended 31 December 2017.

The process of opening the carriage of goods by rail to private cargo companies is currently under way and a pilot project is being conducted by two private carriers. 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 Issuer established a single sales centre for the Group.

In addition to the national passenger carrier, Passenger Transportation, 10 private carriers provide passenger transportation services in Kazakhstan.

Approximately 74% of passenger routes in Kazakhstan are operated by the Group. As at the date of this Prospectus, the Group operates on 117 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 Investments and Development and local authorities. See "*—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 restructuring, which 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. For the year ended 31 December 2018, revenue from Government grants was KZT 20,751 million, as compared to KZT 20,460 million for 2017. The Issuer expects to receive approximately KZT 22 billion each year during 2019-2020 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 2018:

	For the year ended 31 December 2018	
Type of Transportation	**Billion tonne-kilometres**	**Percentage *(%)***
Railway[(1)]	283.1	47.5
Pipeline	138.8	23.3
Road	172.3	28.9
Water	1.4	0.2
Air	0.06	0.0
Total	**596.1**	**100.0**

Note:

(1) Freight turnover data provided by the Issuer.

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 2018:

	For the year ended 31 December 2018	
Type of Transportation	**Billion passenger-kilometres**	**Percentage *(%)***
Railway	18.5	6.6
Motor vehicles and Urban electric transport	246.8	87.7
Air	16.2	5.8
Water (river)	0.0	0.0
Total	**281.5**	**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 2017 was 23,268 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, the share of total transportation of crude oil in Kazakhstan by railway decreased from 52.3% in 2002 to 3.1% in 2018. 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.
- The CPC Pipeline, which transports crude oil from Tengiz oilfield to Novorossiysk sea port, Russia.
- The "Atasu-Alashankou" pipeline, which, together with the Kenkiyak-Kumkol pipeline, transports crude oil from Central Kazakhstan to China.

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 2018, 7.9 million passengers travelled through Kazakhstan airports, as compared to 7.4 million in 2017 and 6.0 million passengers in 2016. In that same period, the volume of freight transportation handled by Kazakhstan airports increased by 29.5% from approximately 22,500 tonnes in 2017 to approximately 29,140 tonnes in 2018 (and as compared to 18,100 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 95,409.6 kilometres of roads as at 31 December 2017. 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. President Nazarbayev 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 the end of 2021. 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. Road works under the project are 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 4,150.9 kilometres of internal navigable water routes as at 31 December 2017. 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 Issuer conducts its operations in accordance with Kazakhstan environmental legalisation, the Environmental Code, the Law on Railway Transport and other laws, regulations and international conventions. The Issuer 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 Issuer monitors its production processes and hazardous emissions through the use of industrial ecological control and management systems. These controls enable the Issuer 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 Issuer 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 Issuer, in 2018, emissions from polluting substances were reduced by 2.2% to 98,003 tonnes from 100,249 tonnes in 2017. In 2018, the Group's emissions were assessed and monitored by third party laboratories in accordance with Kazakhstan law. As part of this assessment, 1,582 control measurements were carried out. The concentration of pollutants and annual emissions did not exceed the emissions thresholds permitted by Kazakhstan law. In 2018, the Issuer was fined, and environmental damages in the amount of KZT 1.1 million were imposed.

The Issuer has an integrated management system (the "**IMS**"), which is certified for compliance with the requirements of ISO 9001, ISO 14001, ISO 50001 and OHSAS 18001 standards. The Issuer is in the process of updating its basic and operational documentation for compliance with ISO 9001 and ISO 14001 management standards.

During the years ended 31 December 2018, 2017 and 2016, the Group allocated KZT 19,125 million, KZT 17,619 million and KZT 694 million, respectively, to its environmental programme.

Significant Licences

The Issuer conducts its business operations under various licences, which authorise it to carry out a full range of railway-related business activities. In particular, the Issuer 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. Passenger Transportation does not require a licence in respect of its passenger transportation services. See "*Risk Factors—Risk Factors relating to the Group—The Group's operations depend on obtaining and maintaining licences and permits necessary for the operation of its business*".

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 Issuer and its subsidiaries with respect to insurance coverage that are approved by the Issuer's Management Board from time-to-time (the "**Insurance Programme**"). The Insurance Programme was drawn up on the basis of the corporate standard for insurance protection adopted by Samruk-Kazyna and applied in respect of legal entities in which Samruk-Kazyna directly or indirectly holds more than a 50% participatory interest, as approved by the Management Board of Samruk-Kazyna on 8 November 2018. 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 Issuer 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 Programme.

The Issuer has entered into three reinsurance agreements relating to property owned by the Group: (i) two agreements with "London Almaty" insurance company and Halyk-Kazakhinstrakh, each in respect of one-year insurance policies that cover the Issuer's administrative buildings in Nur-Sultan on an all risk basis (including separate coverage for terrorism-related risk) up to an amount of KZT 33.9 billion; and (ii) an agreement with "Eurasia" insurance company in respect of a one-year policy in respect of railway transportation with coverage up to KZT 12.9 billion.

While subsidiaries of the Issuer insure their respective rolling stock, the 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 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 Issuer'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 Issuer 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 Issuer in real-time;
- an interactive information system of fieldwork controls that allows the Issuer to introduce, process and record the information into a single database, calculate daily balance availability of railcars and issue certificates for the Issuer;
- an internal book-keeping and accounting system for the Issuer;
- a corporate information portal containing information resources regarding the Issuer;
- 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 Issuer 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 Issuer 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 639 million in 2019, KZT 6.2 million for 2020, KZT 6,309 million in 2021, KZT 5,500 million for 2022 and KZT 10,206 for 2023. 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 or cyber security breaches could harm its business*".

The Issuer's information technology management is undertaken by the Issuer's IT system operators. The Issuer's principal informational technologies are located in the main computer centre of the Issuer and include various technical measures to ensure that the Issuer is able to operate continuously. The Issuer provides electric power supply by two separate feeders from different electrical substations. Additionally, the Issuer's mainframes and servers operate from an uninterrupted power supply with back-up systems. Moreover, the Issuer has a diesel electric engine to generate electricity in the event of an external power failure. The Issuer'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.

Since 2012, the Issuer has been certified to be in compliance with ISO/IEC 27001:2013 standards for information security management systems. The Issuer has also entered into a long-term contract with JSC Transtelecom for the provision of operational information security services, including measures to verify and test the technical vulnerabilities of information systems and equipment.

TRANSACTIONS WITH RELATED PARTIES

Related parties include the Issuer's shareholder, Samruk-Kazyna, and the Government, key management personnel, associates and enterprises in which the Issuer'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" № 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" № 550-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 freight railway transportation services to associates and joint ventures of Samruk-Kazyna.

See Note 33 to the 2018 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 31 December 2018 and 31 December 2017:

		Shareholder	Associates	Joint ventures in which the Group is a partner	Companies making up the Shareholder Group	Other related parties
				(KZT millions)		
Amounts due from related parties for goods services and non-current assets	31 Dec 2018	11	37,614	500	3,537	3,076
	31 Dec 2017	7	9,135	305	1,009	—
including allowances for expected credit losses	31 Dec 2018	—	(1,000)	(26)	(71)	—
	31 Dec 2017	—	(12)	(24)	(32)	—
Amounts due to related parties for goods, services and non-current assets	31 Dec 2018	—	15,346	2,177	2,261	21,591
	31 Dec 2017	—	4,336	2,173	2,689	18,792
Restricted cash	31 Dec 2018	—	—	—	—	86
	31 Dec 2017	—	—	—	—	—
Loans received	31 Dec 2018	—	—	—	—	—
	31 Dec 2017	—	—	—	—	—
including allowances for expected credit losses	31 Dec 2018	—	—	—	—	—
	31 Dec 2017	—	—	—	—	—
Borrowings received	31 Dec 2018	107,906	—	—	—	30,112
	31 Dec 2017	105,739	—	—	—	37,476
Finance lease liabilities	31 Dec 2018	1,903	—	—	—	16,169
	31 Dec 2017	996	—	—	—	13,889
Dividends payable	31 Dec 2018	16,425	—	—	—	—
	31 Dec 2017	16,425	—	—	—	—

The following table sets forth certain information regarding related party transactions entered into for the year ended 31 December 2018 and 2017:

		Shareholder	Associates	Joint ventures in which the Group is a partner	Companies making up the Shareholder Group	Other related parties
				(KZT millions)		
Sale of goods services and non-current assets	2018	54	9,922	29,558	37,747	1,952
	2017	2,858	1,117	24,155	15,854	—
(Accrued)/recovered allowances for expected credit losses	2018	—	(988)	(2)	(55)	—
	2017	—	5	—	2	—
Purchase of goods, services and non-current assets	2018	—	48,203	111	13,593	2,297
	2017	2,821	45,970	662	12,319	—
Loan issue	2018	—	—	—	—	—
	2017	—	—	13	—	—
Loan repayment	2018	—	—	—	—	24,000
	2017	—	—	—	—	4,000
Receipt of loans	2018	40,000	—	—	—	—
	2017	25,000	—	—	—	—
Repayment of loans received	2018	41,175	—	—	—	8,398
	2017	75,000	—	—	—	6,647
New finance lease agreements	2018	1,383	—	—	—	3,903
	2017	895	—	—	—	13,519
Finance lease payments	2018	784	—	—	—	572
	2017	51	—	—	—	76
Finance income	2018	14	—	—	—	785
	2017	—	—	14	—	43
Finance expenses	2018	5,802	—	—	—	3,297
	2017	5,914	—	1	—	2,823
Dividends income	2018	—	263	2,028	—	—
	2017	—	—	—	—	—
Dividends declared	2018	1,710	—	—	—	—
	2017	—	—	—	—	—
Sale of a financial asset	2018	81,986	—	—	—	—
	2017	—	—	—	—	—
Share capital contribution	2018	290	—	—	—	—
	2017	69,175	—	—	—	—

As at 31 December 2018 and 31 December 2017, KZT 2,104 million and KZT 2,548 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 Issuer, may cause the Issuer to engage in business practices that conflict with the Issuer's commercial interests and the interests of the Noteholders.*" The following tables set 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				
	Children's Centre in Turkestan	**Mangistau social facilities**	**Astana Kindergarten**	**Ice palace**	**Total**
		(unaudited)			
		(KZT millions)			
At 1 January 2017	—	247	43	47,778	48,068
Accrued for the year	—	—	—	5,733	5,733
Written off during the year	—	—	—	(53,511)	(53,511)
At 31 December 2017	—	**247**	**43**	—	**290**
Accrued for the year	5,300	—	1	—	5,301
Written off during the year	—	—	(9)	—	(9)
At 31 December 2018	**5,300**	**247**	**35**	**—**	**5,582**

	Current Assets			
	Mangistau social facilities	**Astana Kindergarten**	**Ice palace**	**Total**
		(unaudited)		
		(KZT millions)		
At 1 January 2017	247	43	47,778	48,068
Disposal	—	—	(47,778)	(47,778)
At 31 December 2017	**247**	**43**	—	**290**
Disposal	—	(8)	—	(8)
At 31 December 2018	**247**	**35**	**—**	**282**

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. As a result of the transfer, VAT of KZT 5,733 million was recognised as a distribution to Samruk-Kazyna in retained earnings (see Note 16 of the 2018 Financial Statements).

During the period from 2016 - 2017, Airport Management Group LLP, a subsidiary of the Issuer provided an interest-free, reimbursable financial injection of KZT 28,000 million, of which KZT 24,000 million was repaid in 2018 and KZT 4,000 million was repaid during 2017, to Astana International Airport JSC to finance working capital.

As at 31 December 2018 and 2017, the Group issued guarantees on certain borrowings of associates to ensure the execution of obligations to banks. As at 31 December 2018, the Group's guarantees were comprised of a KZT 2,370 million guarantee to Eurasian Development Bank and KZT 23,070 million and KZT 22,500 million guarantees to JSC Development Bank of Kazakhstan. See Note 31 to the 2018 Financial Statements.

In June 2018, the Issuer transferred to the Government part of the utility systems to the kindergarten in Astana and decreased the obligations related to construction by KZT 9 million, including KZT 1 million of VAT. As at 31 December 2018, the total construction cost related to the kindergarten for the benefit of Samruk-Kazyna was KZT 35 million.

In 2018, the Issuer received short-term loans from Samruk-Kazyna and acquired bonds issued by Samruk-Kazyna from bondholders, which were subsequently sold to Samruk-Kazyna on market terms. The loans were settled during 2018.

MANAGEMENT AND EMPLOYEES OF THE ISSUER

The following is a discussion of the management structure and certain employee matters of the Issuer.

Company

General

The Issuer's management structure consists of its sole shareholder, Samruk-Kazyna, its Board of Directors, its Management Board and the Chairman of the Management Board. The following roles report directly to the President: (i) members of the Management Board (Deputy Chairman of Infrastructure; Deputy Chairman of Logistics; Deputy Chairman of Finance; Deputy Chairman of Development; Deputy Chairman of Information Technology; Deputy Chairman of Legal Affairs; and Executive Director – President of Passenger Transportation); and (ii) the following officers, who are not members of the Management Board: Executive Director– President of KTZ – Freight Transportation; Executive Director of the Network Directorate; Chief Engineer, 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 (№ 550-IV, dated 1 February 2012) as amended from time-to-time (the "**Samruk-Kazyna Law**"), the Issuer'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 Issuer's charter, as well as approving new versions of the charter; (ii) approving the Issuer's corporate governance code, as well as any amendments thereto; (iii) approving a reorganisation or liquidation of the Issuer; (iv) appointing the Issuer's auditors; (v) approving the payment of dividends by the Issuer; (vi) approving the Issuer's annual financial statements; (vii) approving the number, the term of authority and the members of the Board of Directors of the Issuer; (viii) appointing the Chairman of the Board of Directors and approval of appointment of the Chairman of the Management Board; (ix) approving the Issuer's participation in the establishment of other legal entities where a transfer of all or a part of the Issuer's assets occurs in an amount equal to 25% or more of the Issuer's total assets; and (x) approving major transactions involving the transfer of assets of the Issuer at an amount equal to 50% or more of the book value of the Issuer's total assets.

Board of Directors of the Issuer

The Board of Directors is responsible for the overall management of the Issuer's activities and directs the Issuer'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 Issuer's charter.

In particular, the powers of the Board of Directors include, among others: (i) setting the priorities of the Issuer's activities; (ii) approving the terms of bonds and derivatives to be issued by the Issuer; (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 Issuer's assets at an amount equal to 25% or more of the book value of the Issuer's total assets.

The members of the Issuer'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 Chairman, 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 Issuer's Board of Directors:

Name (current position)	**Date of Birth**	**Age**	**Background and principal outside activities and duties**
Christian Kuhn (Chairman of the Board of Directors of the Issuer)	1 July 1965	53	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 from 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 Issuer since 2014. He was appointed to his current position at the Issuer in December 2018.
Lutz Freytag (Independent Director)	11 July 1958	60	Mr. Freytag was born in 1958 and graduated with a degree in Physics from Tübingen University in 1984. He then graduated from Frankfurt University in 2018 where he specialised in Bioinformatics. Mr. Freytag started his career as a Trainee at McKinsey and Company in Germany. From 1984 to 1991, he worked at Siemens AG as Sales and Planning Manager. From 1991 to 2000, Mr. Freytag worked at Stinnes BauMarkt AG, as Head of Department and, subsequently, in 1997, as Chief Financial Officer. Mr. Freytag then worked as Financial Director at Kareher BauStoffe Raab from 1999 to 2000. From 2000 until 2004, he worked as the Chief Financial Officer for Parsytec. From 2002 to 2004, Mr. Freytag served as Chief Financial Officer of Isola AG and from 2004 to 2008, he was the Chief Financial Officer of Railion Deutschland AG. Mr. Freytag worked as the Chief Financial Officer of Schenker AG from 2008 to 2016. He was appointed as an Independent Director of the Issuer in January 2019.
Yermek Askerbekovich Kudabayev (Independent Director)	7 April 1970	49	Mr. Kudabayev was born in 1970. In 1993, he graduated from Moscow Institute of Steel and Alloys with a degree in Engineering and Economics. In 1996, Mr. Kudabayev obtained a master of Business Administration from the Kazakhstan Institute of Management, Economics and Strategic Research. Mr. Kudabayev became a certified Kazakhstan Accountant in 1998 and a certified Kazakhstan Auditor in 2000. From 1993 to 1994, Mr. Kudabayev worked as an Economist at Aktobe Ferroalloys Plant. From 1995 to 1997, he was a senior auditor at KPMG. Mr. Kudabayev was then the director of the Astana office of Arthur Andersen/Ernst and Young Kazakhstan from 1997 to 2003. He was the Chief Financial Officer of Nelson Resources/Kazakhoil Aktobe LLP from 2003 to 2006. From 2006 to 2010, Mr. Kudabayev was first the Chief Financial Officer and subsequently the Chief Executive Officer/Chairman of the Board of Directors of Bekem Metals Inc. From 2010 to 2013, Mr. Kudabayev was the Chief Financial Officer of Chagala Group Limited. He worked as the Manager of New Projects at Meridian Petroleum LLP from April 2013 to October 2013. From October 2013 to April 2016, Mr. Kudabayev was the Managing Director of Finance at KazPetroDrilling JSC. He has been the Managing Director of Finance at Intelligent Consulting Solutions LLP since April 2016. He was appointed to his current position as an Independent Director of the Issuer in January 2019.

Serik Amanzholovich Svyatov (Independent Director)	15 June 1954	64	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 Issuer in July 2016.
Sauat Mukhametbayevich Mynbayev (Chairman of the Management Board)	19 November 1962	56	For information regarding Mr. Mynbayev, see "*—Management Board of the Issuer*".
Yernar Beisenuly Zhanadil (Representative of Samruk-Kazyna)......	15 December 1984	34	Mr. Zhanadil was born in 1984. He graduated from Manchester Business School with a Master's degree in Finance and Accounting in 2009. Mr. Zhanadil worked at Phillip Morris Kazakhstan, LLP "ElitStroy" from January 2006 to April 2006 and PWC LLP from April 2006 to July 2010. In 2010, he joined Samruk-Kazyna, where he was responsible for the activities of the Internal Audit Service and also served as Secretary of the Audit Committee and the Transformation Control Committee and was a member of the Audit Committees of several of Samruk-Kazyna's subsidiaries. In 2016, he was appointed Financial Controller of Samruk-Kazyna and he is now Co-Managing Director for Economics and Finance and a member of the Board of Directors. Mr. Zhanadil was appointed as Chairman of the Supervisory Board of Samruk-Kazyna Invest LLP and as a member of the Board of Directors of the Issuer in April 2018. He also serves as a member of the Board of Directors of JSC "Real Estate Fund" Samruk-Kazyna.
Almassadam Maidanovich Satkaliyev (Representative of Samruk-Kazyna)	31 October 1970	48	Mr. Satkaliyev was born in 1970. He graduated from Al-Farabi Kazakh State University in 1992, the Russian Academy of National Economy and Public Administration in 2013 and Nazarbayev University's Graduate School of Business in 2015. From September 2007 until May 2011, Mr. Satkaliyev worked as a Director of KEGOK JSC and, in 2007, he served as Vice Minister of Energy and Mineral Resources of the Republic of Kazakhstan. He served as Chairman of the Management Board of Samruk-Energo JSC Chairman between 2012 and 2018. Since August 2018, Mr. Satkaliyev has been the Head of the Directorate for Asset Management of Samruk-Kazyna. He was appointed to the Board of Directors of the Issuer in September 2018.
Andrey Nikolaevich Kravchenko (Representative of Samruk-Kazyna)	19 July 1966	52	Mr. Kravchenko was born in 1966. He graduated from S.M. Kirov Kazakh State University with a degree in law in 1991 and from Moscow Business School with an MBA in 2011. From 1994 to 1997, he worked as an assistant public prosecutor; a public prosecutor; and a senior public prosecutor in the prosecution office of Taldy-Kurgan oblast. From 1997 until 2011, Mr. Kravchenko worked as Deputy Head of Department and then Head of Department for Supervising Law-based Governance of the Office of the Prosecutor General of Kazakhstan. He served as the Deputy Prosecutor General of the Republic of Kazakhstan between June 2011 and July 2017. Since October 2018, Mr. Kravchenko has been the Managing Director for Legal Support and Risks for Samruk-Kazyna. He was appointed to the Board of Directors of the Issuer in December 2018.
Nurzhan Talipovich Baidauletov (Representative of Samruk-Kazyna)	1 September 1960	58	Mr. Baidauletov was born in 1960. In 1986, he graduated from the Moscow State University of Railway Engineering, majoring in Management of the Transportation Process in Railway Transport. Mr. Baidauletov began his career working as a Shunting Master and as an Operator on the Ekibastuz transportation section of the Tselinnyi railroad in 1986. He then worked as a

			Production Engineer on the Ekibastuz station and as a Chief Engineer on the Pavlodar–Severnyi station in Pavlodar. From 1989 until 1998, Mr Baidauletov worked as the Deputy Chief of the Transportation Department of the Pavlodar transportation section of the Tselinnyi railroad; the Station Master of the Pavlodar station in Pavlodar; the First Deputy Chief of the Pavlodar transportation section of the Tselinnyi railroad; the Deputy Chief of the Akmola railroad; the Chief of the Pavlodar rail transportation section; and the Chief of the Akmola railroad at the Issuer. In 1998, Mr. Baidauletov was appointed Director of the Department for Railway Transport of the Ministry of Transport and Communications of the Republic of Kazakhstan. From 2003 until 2004, Mr. Baidauletov served as the Vice-Minister of Transport and Communications of the Republic of Kazakhstan. From 2004 until 2006, he served as the Chairman of the Committee for Communication Routes of the Ministry of Transport and Communications of Kazakhstan. Between 2006 and 2016, Mr. Baidauletov was the Director for Transport and Industrial Asset Management of Samruk Holding JSC, the Managing Director of Samruk Holding JSC, the Managing Director of «Samruk-Kazyna» JSC and the Executive Director for Asset Management of «Samruk-Kazyna» JSC. Since 2016, Mr. Baidauletov has been a representative of Samruk-Kazyna on the Board of Directors of Air Astana JSC, Kazakhtelecom JSC and Qazaq Air JSC. He was appointed to the Board of Directors of the Issuer in November 2018.

The business address of each of the members of the Board of Directors is the legal address of the Issuer, located at 6 Konaev Street, Esil District, Nur-Sultan 010000, The Republic of Kazakhstan.

Management Board of the Issuer

The Management Board is responsible for executing the day-to-day management and administration of the Issuer, 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 Issuer; (iii) implementing the development strategy of the Issuer; (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 10% or more of shares (or a participation interest) are held by the Issuer; (vi) approving the budget of the Issuer within its business strategy; (vii) approving transactions related to the incurrence of liabilities by the Issuer in an amount of 10% or more of the Issuer'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 Issuer that are not among the exclusive authority of the Board of Directors of the Issuer or its sole shareholder.

In accordance with the Issuer's charter, the Management Board must consist of not less than five members. The Board of Directors elects the members of the Management Board for a maximum term of three years.

Since July 2002, the Issuer 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 Issuer must be approved by the Prime Minister.

As at the date of this Prospectus, the Issuer's Management Board consists of seven members. The following table sets forth certain biographical information regarding the members of the Issuer's Management Board:

Name (current position)	Date of Birth	Age	Background and principal outside activities and duties
Sauat Mukhametbayevich Mynbayev (Chairman of the Management Board)	19 November 1962	56	Mr. Mynbayev was born in 1962. In 1985, he graduated from Moscow State University, where he specialised in Economics and Cybernetics. In 1988, he obtained a degree in Economic Sciences. Mr. Mynbayev started his career in 1988, holding various positions at a number of financial institutions. In 1995, he was appointed Deputy Minister of Finance of the Republic of Kazakhstan and he concurrently held the position of Chief Treasurer at the Ministry of Finance. In 1997, Mr. Mynbayev served as First Deputy Minister of Finance of the Republic of Kazakhstan. From 1997 to 1999, he was Minister of Finance of the

			Republic of Kazakhstan and Deputy Chief of the Presidential Executive Office of the Republic of Kazakhstan. From 1999 until 2001, Mr. Mynbayev was Minister of Agriculture of the Republic of Kazakhstan. In 2001, he continued his career in financial institutions as President of the Development Bank of Kazakhstan CJSC. Between 2002 and 2003, Mr. Mynbayev was Director General of the Caspian Industrial and Financial Group LLC. From 2003 until 2006, he was Deputy Prime-Minister of the Republic of Kazakhstan and Minister of Industry and Commerce of the Republic of Kazakhstan. Between 2006 and 2007, Mr. Mynbayev served as Chairman of the Management Board of State Assets Management JSC. In 2007, he was appointed Minister of Energy and Mineral Resources of Kazakhstan, and in 2010 he was appointed Minister of Oil and Gas of Kazakhstan. From 2013 until November 2018, Mr. Mynbayev served as Chairman of the Management Board of KazMunayGas National Company JSC. He was appointed as Chairman of the Management Board of the Issuer on 20 November 2018.
Kanat Yesmukhanovich Almagambetov (First Deputy Chairman of the Management Board)	6 August 1962	57	Mr. Almagambetov was born in 1962. In 1983, he graduated from Almaty Institute of Railway Engineers with a degree in Railway Operation. In 2001, Mr. Almagambetov graduated from Tynyshpaev Kazakh Academy of Transport and Communications specialising in Economics and Management on Railway Transport. Between 1985 and 1998, Mr. Almagambetov worked in various positions at the Kokchetav branch of the Tselinnaya railway. From 1998 to 1999, he worked as the Head of the Pavlodar Transportation Division. Between 1999 and 2001, Mr. Almagambetov worked in the central office of RSE "KTZ" as the Head of the Main Directorate of Transportation and the Deputy Director of the Transportation Department. Between 2001 and 2002, he was the Director of DGP "Freight Transportation" at RSE "KTZ". From 2002 to 2004, Mr. Almagambetov was the Manager of the work group providing consulting services for the transportation of oversized and heavy cargoes for Tengizchevroil JV. Between 2004 and 2005, he was the Vice President for Freight and Commercial Work at Kazzheldortans JSC and from 2005 to 2006, Mr. Almagambetov was the Director of the "Akhmola Transport Department" for the Issuer. Mr. Almagambetov served as Vice President of "Kaztemirtrans" JSC from 2007 to 2008 and as Managing Director for Transportation Process of the Issuer. From 2009 to 2012, Mr. Almagambetov was the Managing Director for Operational Works for the Issuer and then served as the Issuer's Chief of Staff from 2012 until 2013. Mr. Almagambetov served as President of Kaztemirtrans JSC from 2013 to 2014 and then acted as Advisor to the President of the Issuer between 2014 and 2015. He was the General Director of the Union of Transport Workers of Kazakhstan from 2015 until 2018. In December 2018, Mr. Almagambetov was appointed Acting First Deputy Chairman of the Management Board of the Issuer.
Aidyn Beismoldanovich Orazkhanov (Deputy Chairman of the Management Board, Operational Support)	3 October 1974	44	Mr. Orazkhanov was born in 1974. In 1999, Mr. Orazkhanov graduated from the Kazakh National Technical University with a degree in Mining Engineering. He graduated from the Kazakh Academy of Transport and Communications with a master's degree in 2010. Between 2000 and 2007, Mr. Orazkhanov worked as a Shaft Miner and then a Mining Master at the Tunnel Detachment 2 Subsidiary Company LLP. From 2007 to 2010, he worked at the Directorate of the Metro Construction of the City of Almaty as an Engineer for Mining and Capital Works; an Engineer for Track Facilities; and as Head of the Track Service. Mr. Orazkhanov subsequently worked as the Chief Engineer and Advisor to the Director at MUS "Metropolitan" Distance of Tunnel Structure, the Department of Capital Construction and the Department of Operational Equipment from 2010 until 2014. Mr. Orazkhanov served as a Director at MUS Metropolitan from 2014 until 2016. Between 2016 and 2017, he was the Deputy Director of RSE "Selden Korgau Kurylys" at the Commission on Emergency Situations of the Ministry of Internal Affairs of the Republic of Kazakhstan. Mr. Orazkhanov was appointed Deputy Chairman of the Management Board for Security of the Issuer in June 2018.
Serik Sakbaldiyeich Abdenov (Deputy Chairman of the	15 January 1977	42	Mr. Abdenov was born in 1977. He graduated from the Kazakh Institute of Jurisprudence and International Relations with a degree in Law in 1998. In 2004, Mr. Abdenov graduated from Karaganda Economic

Management Board for Corporate Affairs)			University of Kazpotrebsoyuz with a degree in Economics. Mr. Abdenov then graduated from the Russian Academy of National Economy with an MBA in 2013. From 1998 to 2000, Mr. Abdenov worked as the Chief Specialist for the Head of Department of the Directorate for Registration of Regulatory Legal Acts of the Ministry of Justice of Kazakhstan. Between 2000 and 2003, he was the Head of the Legal Expertise Department in the Head of the Control and Document Management Department of the Ministry of Foreign Affairs of Kazakhstan. Mr. Abdenov then worked as the Deputy Director of Global Systems LLP and as an advisor to the Director of UPTK-CS LLP between 2003 and 2004. From 2004 to 2007, he was the Deputy Director of the Department of Employment of the Population and State Control over Compliance with the Laws of Labor and Labor Protection of the Ministry of Labor and Social Protection of the Republic of Kazakhstan. From 2007 to 2009, Mr. Abdenov served as the Vice-Minister of Labor and Social Protection of the Population of the Republic Kazakhstan. He was the Deputy Mayor of the East Kazakhstan Region between 2009 and 2012 and the Minister of Labor and Social Protection of the Population of Kazakhstan between 2012 and 2013. Between 2013 and 2018, Mr. Abdenov was the Advisor to the Chairman of the Board, Managing Director for Human Resources Management and Labor Remuneration; and Vice-President for Human Resources Management of National Company KazMunayGas JSC; and General Director of Oil Construction Company LLP. Mr. Abdenov was appointed to the Management Board of the Issuer in December 2018.
Dair Adilbekovich Kusherov (Deputy Chairman of the Board for Finance)	10 January 1977	42	Mr. Kusherov was born in 1977. He graduated from Indiana University with a Bachelor of Finance in 1998. He then graduated from the Kazakh State Academy of Management in International Economics in 2001. Between 1998 and 2000, Mr. Kusherov was the Deputy Chief Accountant for the Director of the Internal Audit Department of KUPA AK-Niet. From 2000 to 2005, he was the Deputy Chief Accountant; Risk Manager; Head of Department, Portfolio Manager and then General Portfolio Manager of CUPA ABN AMRO Asset Management. Mr. Kusherov subsequently worked as the Deputy Director of the Corporate Finance Department of Intergas Central Asia JSC between 2005 and 2006 and the Director of the Corporate Finance Department of KazTransGas JSC from 2006 to 2008. Mr. Kusherov worked as the Financial Director and then the Managing Director for Economics and Finance of KazTransOil JSC from 2008 to 2012. Between 2012 and 2018, Mr. Kusherov served as the Deputy General Director for Economics and Finance at KazTransGas JSC. Since December 2018, Mr. Kusherov has been the Deputy Chairman of the Management Board for Finance for the Issuer.
Meiramkul Altynbekovna Duzbayeva	1 January 1966	53	Ms. Duzbayeva was born in 1966. Ms. Duzbayeva graduated from the Lenin Kazakh Polytechnic Institute in 1987 and then from the K. Satpayev Kazakh National Technical University in 2004. Between, 1987 and 1991, Ms. Duzbayeva was Master of "Zholymbet" Main Production Mine of the "Kazzoloto" Mining and Processing Complex. Ms. Duzbayeva worked as a Junior Researcher of the Research Institute of Economics and Market Relations under the Ministry of Economy of the Republic of Kazakhstan between 1991 and 1994. Between 1994 and 2000, she was the Chief Specialist of the Committee for State Property and Privatization at the Ministry of Finance of Kazakhstan. From 2000 to 2002, Ms. Duzbayeva worked as Director of Kazahoil Products LLP, Executive Director for Investment Projects, and Advisor to the President of CJSC NOC Kazakhoil. Between 2002 and 2003, she worked as Advisor to the General Director of Caspian Industrial and Financial Group LLP. From 2003 to 2006, Ms. Duzbayeva served as Executive Director for Corporate Development and as Advisor to the First Vice-President of National Company KazMunayGaz. From 2006 to 2007, she worked as Director of the Strategy and Corporate Governance Department of Samurk Kazakhstan Holding for State Assets Management JSC. Then, between 2008 and 2015, Ms. Duzbayeva was the First Deputy General Director; and then General Director of Mercury Service Company LLP. She worked as the General Director of TEK-Kazakhstan LLP from 2009 to 2013 and served as a Member of the Board; and then Deputy Chairman of the Board of "Atameken" National Chamber of Entrepreneurs. Since 2016, Ms.

			Duzbayeva has been a Member of the Presidium of "Atameken" National Chamber of Entrepreneurs. Ms. Duzbayeva was appointed Managing Director for Development of the Issuer in December 2018.
Ardak Zhumagulovich Mukushov (Director, Legal Support, Litigation and Claim Settlement Department)	4 March 1978	41	Mr. Mukushov was born in 1978. He graduated from Gumilev Eurasian University in 1998, majoring in Law and Law and Education Methods. In 2007, he graduated from T.Ryskulov Kazakh Economic University majoring in Economics. Between 2000 and 2003, Mr. Mukushov worked at the Astana city Directorate of Internal Affairs. From 2003 until 2010, he occupied the positions of Chief Specialist; Head of Department; Head of Office; and Deputy Director of Legal Department at the Ministry of Energy and Mineral Resources of Kazakhstan. Mr. Mukushov was the Director of Legal Services Department at the Ministry of Oil and Gas of Kazakhstan from 2010 until 2013. From January to August 2014, he was the Advisor to Chairman of the Board, and from August 2014 to January 2017, he served as Director of the Department of International Contracts at NC KazMunayGas, JSC. Mr. Mukushov served as Vice President for Legal Support at National Company KazMunayGas JSC from January 2017 to June 2018, before becoming Managing Director for Legal Support, a position he occupied until November 2018. Mr. Mukushov worked as Acting Deputy Chairman of the Management Board for Legal Issues with the Issuer from 30 November 2018 until 4 December 2018. He was appointed Acting Director of the Department of Legal Support, Litigation and Claim Settlement Department of the Issuer and Member of the Management Board of the Issuer in December 2018.

The business address of each member of the Management Board is the legal address of the Issuer, located at 6 Konaev Street, Esil District, Nur-Sultan 010000, The Republic of Kazakhstan.

Management Remuneration of the Issuer

In accordance with the Issuer'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 Issuer'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 Issuer 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 210 million and KZT 455 million for the years ended 31 December 2018 and 31 December 2017, respectively.

Payment of remuneration to the Chairman and members of the Management Board and management personnel of the Issuer (*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 Issuer, 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 Issuer with respect to senior management and by the Management Board of the Issuer with respect to management employees.

Management Liability and Code of Business Conduct

Pursuant to the Issuer's charter and applicable corporate law, the Chairman and members of the Management Board of the Issuer are personally liable to the Issuer for any damage caused by their acts or negligence. By a resolution of Samruk-Kazyna, as the Issuer's sole shareholder, the Issuer 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 Issuer are required to adhere to the Issuer's code of business conduct (the "**Code of Business Conduct**"). The Code of Business Conduct was adopted to memorialise the Issuer'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 Issuer was adopted on 19 March 2013. Each employee is required to sign a document undertaking not to disclose confidential information. The Issuer 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 year ended 31 December 2018, the Group had an average of 130,733 employees, as compared to an average of 130,428 employees and 134,737 employees for the years ended 31 December 2017 and 31 December 2016. The increase in employees for the year ended 31 December 2018, as compared to the year ended 31 December 2017 was mainly due to changes to the staffing structure and an increase in work to be carried out at the Issuer's subsidiaries.

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 year ended 31 December		
Activity	**2018**	**2017**	**2016**
Infrastructure	45,457	46,096	44,757
Freight Transportation	50,042	49,701	52,227
Passenger Transportation	12,419	12,518	14,127
Other	22,815	22,113	23,626
Total	**130,733**	**130,428**	**134,737**

	Average Number of Employees		
	For the year ended 31 December		
Employer	**2018**	**2017**	**2016**
Company	48,609	48,811	47,760
KTZFT	48,658	47,973	50,314
Kaztemirtrans	1,384	1,728	1,913
Other	32,082	31,916	34,750
Total	**130,733**	**130,428**	**134,737**

In 2017, employees of the Group received an average 6% increase in their salary, which was indexed to inflation. Since 1 January 2018, employees engaged in production activities (approximately 80%) received a 10% salary increase. The number of the Group's employees, in particular employees of the Issuer, has been generally decreasing since 2016, primarily due to a Group-wide restriction on the employment of persons from outside of the Group (subject to limited exceptions), which was introduced in February 2016.

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 2018, had 115,982 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 2018-2020, including between KTZFT and Kaztemirtrans and their respective employees. See "*Risk Factors—Risk Factors Relating to the Group—the Group has entered into collective bargaining agreements*".

In June 2018, the National Anti-Corruption Bureau detained two senior managers of JSC Kedentransservice, a 50-50 logistics joint venture between the Issuer and Russian transport and logistics company, TransContainer. Both individuals were found guilty and were fined and prohibited from serving in managerial positions for a period of 2.5 years. Kedentransservice also launched an internal investigation and terminated both individuals and a number of other employees. It also brought disciplinary actions against others.

In the three months ended 31 March 2019, criminal proceedings were initiated against one employee (who is currently suspended without pay) of a branch of the Issuer for the Center for Personnel Assessment and Development and three employees (one of whose employments has been terminated and two employees are in custody) of the Kostanay branch of KTZFT in connection with alleged receipt of bribes. The criminal investigations are ongoing and decisions regarding the employment of those employees who are still employed by the Group will be taken following the conclusion of the criminal investigations.

In March 2019, the Issuer signed a roadmap to eliminate corruption with the Ministry of Industry and Infrastructure Development of Kazakhstan and the Agency for Civil Service Affairs and Anti-Corruption of Kazakhstan, which identified priority areas for the prevention and combat of corruption in railway transport. The roadmap provides for the organisation of spot checks at railway stations, the use of modern methods of control and restriction of abuse in the sale of tickets and boarding of trains, the introduction of a system of management and dispatching of freight railcars, modernisation of the automated freight transportation contractual control system and the automation of control over the training of locomotive crews, as well as certain personnel and procurement measures and training.

Training Programmes

The Group conducts regular training for its employees and approximately 15,000 of the Issuer's employees participate in training programmes at the Issuer's training centre on an annual basis.

Social Support of Employees

The collective bargaining agreements between the Issuer 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 2018-2020, 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 Issuer's primary board committee is the audit committee. As at the date of this Prospectus, the Issuer 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 Group

The Group's audit committee (the "**Audit Committee**") is a consulting and advisory body of the Board of Directors of the Issuer. 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 Group 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 Issuer approved by a resolution of the Board of Directors of the Issuer dated 28 November 2017.

The Committee is generally responsible for: (i) establishing an effective system of monitoring the financial activity of the Group (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 Prospectus, the following individuals serve on the Audit Committee:

Name	Position
Lutz Freytag..	Chairman of the Audit Committee, Independent Director of the Issuer
Yermek Kudabayev	Member of the Audit Committee, Independent Director of the Issuer

Internal Audit Service

In accordance with the Issuer's charter, the Internal Audit Service was established to monitor the Issuer's financial and economic activities and its internal controls, to oversee risk management of the Issuer and the execution of documents in accordance with correct corporate governance and to provide counselling in order to improve the Issuer'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 Prospectus, 16 individuals serve on the Internal Audit Service, comprising the Head of the Internal Audit Service, the Deputy Head of the Internal Audit Service, ten Senior Auditors and four Auditors.

Conflicts of Interest

There are no potential conflicts of interest between any duties owed to the Issuer by members of the Board of Directors, the Management Board, the Chairman of the Management Board and the Internal Audit Service and their private interests or other duties.

SHARE CAPITAL AND SOLE SHAREHOLDER

The Issuer

The Issuer, formed in May 2002, had a total authorised equity capital of 502,040,458 common voting shares as at 31 December 2018, of which 496,447,609 were issued and paid-in and held by Samruk-Kazyna. As at 31 December 2018, the share capital of the Issuer was KZT 1,062,635 million. The Issuer does not have any treasury shares. Historically, all of the shares of the Issuer were owned directly by the Government. In January 2006, all of the Issuer's shares were transferred from the Government to Samruk, the predecessor of Samruk-Kazyna, which acceded to ownership by operation of law. Samruk-Kazyna is the sole shareholder of the Issuer.

For the year ended 31 December 2013, the Issuer declared dividends in the amount of KZT 16,165 million, of which 11,865 million remain unpaid. For the year ended 31 December 2014, the Issuer declared dividends in the amount of KZT 4,559 million, which were not paid. The Issuer recorded a loss of KZT 459,982 million for the year ended 31 December 2015 and, accordingly, Samruk-Kazyna did not declare any dividends for the year ended 31 December 2015. Although the Issuer had profits of KZT 41,277 million for the year ended 31 December 2016 (and profit for the year from continuing operations of KZT 46,184 million, Samruk-Kazyna, as the sole shareholder of the Issuer, determined not to take any of such net profits in the form of dividends for 2016. In May 2018 the Issuer declared and paid in September 2018 dividends of KZT 1,710 million. As at 31 December 2018, the amount of dividends payable to Samruk-Kazyna was KZT 16,425 million, which represented the obligation of the Issuer to distribute dividends declared but unpaid for the years ended 31 December 2013 and 31 December 2014.

Contributions to the Issuer's share capital and share issues

Contributions to the Issuer's share capital in the year ended 31 December 2018 comprised an issue of 290,037 shares to Samruk-Kazyna for which 51 open wagons with a total market value of KZT 290 million were received. As at 31 December 2018, the Issuer recognised the transaction in additional paid-in capital as the registration of the shares had not been completed.

Contributions to the Issuer's share capital in the year ended 31 December 2017 comprised: (i) an issue of 66,852 shares for which cash of KZT 66,852 million was received and was used to construct a ferry complex at Kuryk port and operate universal freight and passenger ferries; and (ii) an issue of 27,000 shares for which assets (including railway tracks, junction and auxiliary facilities at Karabatan railway station) and land use rights for two land plots were received and valued at KZT 2,322 million.

See Note 16 to the 2018 Financial Statements.

Samruk-Kazyna

Samruk-Kazyna, the Issuer's sole shareholder 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 Presidential Edict № 669, dated 13 October 2008, and the Resolution of the Government № 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 Prime Minister, the Minister of the National Economy, Assistant to the President of Kazakhstan and independent directors and the chairman of the management board of Samruk-Kazyna. The board of directors is chaired by the Prime Minister of Kazakhstan.

The registered office of Samruk-Kazyna is 23 Kabanbay Batyr Avenue, 010000 Nur-Sultan, The Republic of Kazakhstan and the telephone number is: +7 7172 790 486.

THE GUARANTORS

Kaztemirtrans

General

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 31 December 2018, Kaztemirtrans was the registered owner of the majority of the Group's freight rail cars. As at 31 December 2018, the total issued and outstanding share capital of Kaztemirtrans was 62,303,295 common shares, reflecting KZT 67,727 million. All issued and outstanding common shares of Kaztemirtrans are held by the Issuer.

As Kaztemirtrans' sole shareholder, the Issuer 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 General Director of Kaztemirtrans, who is also the Chairman of the Management Board, elected by the sole shareholder (subject to the approval of the Management Board of Samruk-Kazyna). The General Director of Kaztemirtrans is subject to the supervision of the Board of Directors and 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 General Director of Kaztemirtrans (subject to the approval of the Management Board of Samruk-Kazyna); (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; and (x) approving major transactions involving transfer by Kaztemirtrans of assets the value of which equals to or exceeds 50% of book value of 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 Issuer as sole shareholder.

Accordingly, the Board of Directors is generally responsible for: (i) setting the priorities of Kaztemirtrans' activities; (ii) approving the terms of bonds and derivatives to be issued by Kaztemirtrans; (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 and transfers by Kaztemirtrans' of 10% or more of the shares in other legal entities; (vi) approving transactions related to the incurrence of liabilities by the Kaztemirtrans 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 25% to 50% of book value of Kaztemirtrans' assets.

Members of the Board of Directors are appointed by the Issuer, 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 General Director 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 Prospectus, Kaztemirtrans' Board of Directors consists of five members, with Mr. Sokolov 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
Pavel Vladimirovich Sokolov (Chairman of the Board of Directors of Kaztemirtrans)	11 July 1978	41	Mr. Sokolov was born in 1978. He graduated from Petersburg State University in 2000 with a degree in Communications and Transportation. Between 1997 and 1998, Mr Sokolov worked at CJSC Oktransvneshterminal, before becoming a Railway Transportation Specialist at CJSC Baltic Mercur in October 1998 until July 2000. He was Shunting Dispatcher of Avtovo-Oktyabrskiy railway station between August 2000 and January 2001 and Head of Operations at DIA LLC from September 2000 until March 2004. Between April 2004 and February 2006, Mr. Sokolov was General Director of Protex LLC. He was Executive Director of Inter-Fraht LLC from March 2006 until 2007 and Deputy Director for Sales and the Organisation of Inter-Modal Shipment of OJSC RRR Logistics from March 2007 until November 2010. Between November 2010 and May 2016, Mr. Sokolov was the General Director of JSC RRR Logistics. He was First Deputy General Director of PJSC Novorossiysk Marine Trade Port between May 2016 and March 2018. He was appointed as Chairman of the Board of Directors of Kaztemirtrans on 15 April 2019.
Madine Tlevkhanovna Akhmedzhanova (Member of the Board of Directors of Kaztemirtrans – Director of Marketing and Transit Policy Department of the Issuer)	5 April 1976	43	Ms. Akhmedzhanova was born in 1976. She graduated from the Almaty State University in 1997, before attending Kazakhstan University and then the University of International Business. Between November 1997 and January 1998, Ms. Akhmedzhanova was the Operator of the Kazzheldorraschet Centre of the Issuer. She then held a number of different positions at the Issuer until September 2012, including Economist, Chief Specialist, Deputy Head of the Freight Marketing Department and Chief Manager of the Freight Marketing Department. Between October 2012 and April 2013, Ms. Akhmedzhanova was Head of the Freight Marketing Department of Kaztemirtrans, and, from April 2013 to December 2013, Ms. Akhmedzhanova was Manager of Functional Freight Market Analysis at Kaztemirtrans. Ms. Akhmedzhanova held a number of positions at the Issuer between December 2013 and July 2016, including Chief Manager of Marketing and Freight, Director of the Freight Marketing Department and Director of the Integrated Planning Department. In July 2016, she became Director of the Freight Marketing Department of KTZFT before taking the role of Acting Executive Director for Integrated Planning of KTZFT in April 2018 and then the position of Director of Marketing and Transit Policy Department of the Issuer in June 2018 (her current position).

Aigul Kurmantayevna Nurpeissova (Member of Board of Directors of Kaztemirtrans – Director of Economy and Planning Department of the Issuer)	27 October 1974	44	Ms. Nurpeissova was born in 1974. She graduated from Kazakhstan University majoring in Communications in 2001 before attending Almaty Academy of Labor of Social Relations and then the University of International Business. She served as Chief Accountant between February 1996 and July 1998 at Secondary School 29, Accountant at S-Aidabol LLP between July 1998 and February 1999 before joining the Issuer in February 1999, where she held a number of positions, including Lead Accountant of Revenue Control and Analysis, Lead Economist, Chief Specialist of Cost Control and Chief Specialist of Planning until August 2003. Between August 2003 until May 2005, Ms. Nurpeissova was Deputy Head of Economy and Analysis Department of Remlokomotiv JSC and, from May 2004 until October 2004, she was Chief Specialist of Technical and Investment Planning at Passenger Transportation. From October 2004 until April 2008, she was Head of Economy and Analysis at Vagonservice. Ms. Nurpeissova became Manager of Projects at Central Asia Ptrotrans LLP in April 2008 until May 2008, when she became Chief Manager of the Economy department of Kamkor Repair Corporation LLP. Ms. Nurpeissova held a number of positions at Kamkor Repair Corporation LLP until June 2010. She worked as Acting Executive Director for Economy of Passenger Transportation between June 2010 and August 2011, Acting Vice-President for Economy and Finance of JSC Almaty Wagon Repair Plant between August 2011 and August 2012 and Deputy General Director for Economy and Finance of LLP Kamkor Wagon LLP between August 2012 and February 2014. Between February 2014 and October 2015, Ms. Nurpeissova held roles at Electric Power Plant LLP and ТПЭП LLP. Ms. Nurpeissova has held a number of positions at the Issuer since October 2015, including Chief Specialist of the Tax Department, Chief Manager of Department for Planning of Operational and Financial Activities, Chief Manager of Financial Control Department and Director of the Economy and Planning Depatrment (her current position)
Nurdaulet Sattarkhanovich Turlybekov (Member of Board of Directors of Kaztemirtrans – Independent Director)	17 September 1983	35	Mr. Turlybekov was born in 1983. In 2005, he received a degree from the Kazakhstan Institute of Management Economics and Forecasting. In 2008, he obtained a degree from the London School of Economics and Political Science. Mr. Turlybekov started his career in August 2004 as a Specialist in Insurance Market Analysis for JSC Nomad Insurance, a position which he held until August 2005. From August 2005 to September 2006, he worked for JSC National Innovative Fund as Innovation Manager. Mr. Turlybekov was a specialist consultant at KPMG from September 2006 until August 2007. Between January 2008 and August 2009, he was a Senior Lecturer in Corporate Finance at the Kazakh-British Technical University and between February 2009 and April 2010, he was Director of the Investment Department of JSC EDE Damu. Mr. Turlybekov was Managing Director of JSC Samruk-Kazyna from April 2009 until August 2011, Deputy Chairman of Management Board of National Agency for Technological Development from August 2011 until July 2013 and General Director of Samruk-Kazyna Development LLP from July 2013 until June 2017.Since June 2017, Mr. Turlybekov has held his current position as Chairman of the Management Board of NURCAPITAL LLP.
Yerlan Baykenovich Smailov (Independent Director, Chairman of the Committee of appointment and member of the Committee of rewards of the Board of Directors of Kaztemirtrans)	27 January 1951	67	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 Issuer "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 Konaev Street, in the office building of JSC NC Kazakhstan Temir Zholy, 9-13 Floor, Esil District, Nur-Sultan 010000, Republic of Kazakhstan.

General Director of Kaztemirtrans

The General Director (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 Issuer, as sole shareholder, with subsequent approval of such decision by Samruk Kazyna, as set forth in Kaztemirtrans' charter. As at the date of this Prospectus, the acting General Director of

Kaztemirtrans is Mr. Sulimenov who was appointed by a resolution of the Issuer's Management Board dated 5 July 2018. The business address of the General Director is the legal address of Kaztemirtrans.

The General Director 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' charter.

Employees of Kaztemirtrans

Kaztemirtrans employed an average of 1,384, 1,728 and 1,913 individuals for the years ended 31 December 2018, 2017 and 2016, respectively. As at 31 December 2018, 511 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 Prospectus, Kaztemirtrans has not experienced any material labour disputes or strikes.

Legal Address of Kaztemirtrans

The legal address of Kaztemirtrans is 10 Konaev Street, in the office building of JSC NC Kazakhstan Temir Zholy, 9-13 Floor, Esil District, Nur-Sultan 010000, Republic of Kazakhstan and its telephone number is +7 (7172) 93 02 76.

Kaztemirtrans' Executive Compensation

In accordance with Kaztemirtrans' charter, the remuneration of the General Director is set by the Board of Directors, while the remuneration of the members of the Board of Directors is determined by the Issuer, as sole shareholder. Other than its independent director, all members of the Board of Directors of Kaztemirtrans are employees of the Group and, accordingly, receive remuneration from other companies of the Group. As at 31 December 2018, the annual fixed fee paid to each independent director of Kaztemirtrans was KZT 1 million.

The General Director of Kaztemirtrans received KZT 14 million and KZT 17 million in compensation for the year ended 31 December 2018 and for the year ended 31 December 2016, respectively, which includes both short-term and post-term employee benefits.

KTZFT

General

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 Issuer, on 16 June 2016, JSC Lokomotiv was renamed KTZFT. On 29 September 2017, the Government adopted Resolution № 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 31 December 2018, KTZFT had a total issued and outstanding share capital of 59,776,220 common shares, reflecting KZT 112,330 million. All issued and outstanding common shares of KTZFT are held by the Issuer.

As KTZFT's sole shareholder, the Issuer 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 Issuer, as its sole shareholder. The General Director of KTZFT, who is also the Chairman of the Management Board, is elected by the sole shareholder (subject to approval of the Management Board of Samruk Kazyna) The General Director of KTZFT 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 (subject to approval of the Management Board of Samruk Kazyna) and the Board of Directors of KTZFT; (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 KTZFT; 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 KTZFT'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 Issuer, as sole shareholder.

Accordingly, the Board of Directors is generally responsible for: (i) setting the priorities of KTZFT's activities and business strategy or approving the development strategy; (ii) approving the terms of bonds and derivatives to be issued by KTZFT; (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 and transfers by KTZFT of 10% or more of the shares in other legal entities; (vi) approving transactions related to the incurrence of liabilities by KTZFT in an amount equal to or exceeding 10% of KTZFT's equity; (vii) approving all interested party transactions, excluding transaction with the companies within the group of Samruk-Kazyna; (viii) approving major transactions involving transfer by KTZFT of assets the value of which ranges from 25% to 50% of book value of KTZFT's assets.

Members of the Board of Directors are appointed by the Issuer, 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 Chairman of the Management Board 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 Prospectus, KTZFT's Board of Directors consists of six members with Mr. Almagambetov 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 Almagambetov (Chairman)	31 March 1972	47	For information regarding Mr. Almagambetov, see *"Management and Employees of the Issuer—Management Board of the Issuer"*.

Meiramkul Altynbekovna Duzbayeva	1 January 1966	53	For information regarding Ms. Duzbayeva, see *"Management and Employees of the Issuer—Management Board of the Issuer"*
Sholpan Sapargalievna Omarbekova (Acting Vice-President for Economics and Finance, Member of the Board of Directors of KTZFT)	15 June 1968	50	Ms. Omarbekova graduated from the Kazakh State University with a degree in Political Economics in 1991. Between 1991 and 2000, she worked as an Economist at the Institute of Economics A.N. Kazakh SSR and a Research Associate at the Institute of Economics of the National Academy of Sciences of Kazakhstan. Ms. Omarbekova worked as Chief Specialist of Kazinfurzeldortrans JSC from 2000 until 2002 and as Chief Accountant of Kazinfeldortrans JSC between 2002 and 2005. Between 2005 and 2006, she worked as Chief Financial Officer of Kaztemirtrans and was appointed Vice President in 2006. Between 2008 and 2009, Ms. Omarbekova worked as Managing Director of Kaztemirtrans. She worked as Vice President for Finance in 2009 and Vice President for Economics and Finance from 2010 until 2013. In 2013, she served as Director of the Tariff Policy of the Issuer and Acting Vice President for Economics and Finance of Kaztemirtrans. Ms. Omarbekova has held a number of positions at the Issuer, including Vice-President for Economics and Finance between 2014 and 2015 and Managing Director for Economics and Finance between 2015 and 2016. Between 2016 and August 2018, she was Vice-President for Economics and Finance of the Issuer. Ms. Omarbekova currently works as Financial Controller of Passenger Transportation and Director of the Treasury Department of the Issuer. Ms. Omarbekova was appointed as a Director of KTZFT in July 2016.
Zhanasyl Begalievich Ospanov (Independent Director, Member of the Board of Directors of KTZFT)	29 September 1975	43	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 Defence of the Republic of Kazakhstan in 1997. From 1998 to 2005, he worked in the Republican State Enterprise "Information and Registration Centre" of the Committee of State Property and Privatisation of the Ministry of Finance of the Republic of Kazakhstan. He has been the Head of JSC "Information and Accounting Centre" since 2005 and, since 2009, he has served as an Independent Director of JSC "Centre 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 18 May 2017, Mr. Ospanov was elected as an Independent Director of KTZFT.

Murat Maratovich Bekmagambetov	18 September 1981	37	Mr. Bekmagambetov was born in 1981. In July 2004, he graduated from the L.N. Gumilyov Eurasian National University with a specialism in Public Administration. In 2007, Mr. Bekmagambetov graduated from the S. Seifulin Kazakh Agrotechnical University with a specialism in Finance and Credit. He obtained an MBA in International Business from Geneva Business School in 2018. Mr. Bekmagambetov started his career in 2004 as the Chief Specialist of the Department of Technical and Economic Expertise at the Information and Analytical Centre of the Issuer, then working as Chief Specialist of the Legal Work Department of the centre between 2004 and 2005. Between 2005 and 2006, he worked as Chief Specialist of the Legal Work Department of the Issuer, before becoming Deputy Head of the Department for the Development of Regulatory Legal Acts of the Issuer in 2006 until 2007. Between January 2007 and March 2007, Mr. Bekmagambetov worked as Head of the Legal and Personnel Work Department of LLP "Kazzheldormet" (a subsidiary of Kaztemirtrans). Between 2007 and 2009, he worked as Head of Business Process Re-engineering, Head of Organisational Development and Corporate Development Department at the Issuer. From 2009 to 2015, Mr. Bekmagambetov worked as General Manager of the Department of Strategic Planning and Organisational Development of the Issuer. In 2015, he was appointed as Director of the Strategy and Corporate Development Department of the Issuer.
Ravshan Dgyraevich Rahmatylov (Independent Director, Member of the Board of Directors of KTZFT)	28 October 1961	57	Mr. Rahmatylov was born in 1961. In 1983, he graduated from the Novosibirsk State University, with a degree in Physics. In 1989, Mr. Rahmatylov graduated from the graduate school of Novosibirsk State University, with a qualification in Physical and Mathematical Sciences. He began his career in 1990 as a Senior Researcher at the Space Research Institute of the Academy of Sciences of Kazakhstan. From 1993 to 1996, Mr. Rahmatylov headed LLP "Geo Ltd". Between, 1996 and 1999, he worked as Vice President of "SAF Capital". From 1999 to 2000, Mr. Rahmatylov worked as Deputy Head of the Restructuring Department, Deputy Director of the Department of Strategic Planning and Restructuring of the Issuer. From 2001 to 2002, he served as Vice-President of Passenger Transportation. Between 2003 and 2008, Mr. Rahmatylov was Deputy Director of the Asset Management Department of the Issuer. From 2003 to 2004, he served as Director of the Department for the Development of Production Programs and Investments of JSC "KazMunayGas Trading House", Between 2004 to 2005, Mr. Rahmatylov served as Managing Director of LLP "Key Century". From 2005 to 2009, he was General Director of LLP "CBS Project". Since 2010, Mr. Rahmatylov has served as a Director of LLP "Advanced Business Technologies". In May 2017, he was elected an Independent Director 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", 20th Floor, 6 Konaev Street, Nur-Sultan 010000, the Republic of Kazakhstan.

General Director of KTZFT

The General Director of KTZFT, who is also the Chairman of the Management Board, is appointed by the Issuer, as sole shareholder (subject to the approval of the Management Board of Samruk-Kazyna), in accordance with KTZFT's charter.

As at the date of this Prospectus, the General Director of KTZFT is Mr. A Saurbayev who was appointed by a resolution of the Issuer dated 5 July 2018. The business address of the General Director of KTZFT is the legal address of KTZFT.

The General Director 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 48,658, 47,973 and 50,314 employees for the six months ended 31 December 2018 and for the years ended 31 December 2017 and 31 December 2016, respectively. KTZFT's employees are members of the Trade Union.

As at the date of this Prospectus, 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", 20th Floor, 6 Konaev Street, Nur-Sultan 010000, the Republic of Kazakhstan.

KTZFT Executive Compensation

In accordance with KTZFT's charter, the remuneration of the General Director 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 General Director 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 Group and, accordingly, receive remuneration from other respective companies of the Group. In 2017, no payments were made in compensation for the General Director of KTZFT and the independent directors.

The General Director of KTZFT received an aggregate of KZT 17 million and KZT 15 million in compensation for the years ended 31 December 2018 and 2017, respectively, which includes both short-term and post-term employee benefits.

Passenger Transportation

General

Passenger Transportation is a joint stock company organised under the laws of Kazakhstan. Passenger Transportation was initially registered with the Ministry of Justice of Kazakhstan on 21 May 2002 for an indefinite duration with registration number 11894-1901-AO and was assigned business identification number 020540000922. As at 31 December 2018, the total issued and outstanding share capital of Passenger Transportation was 69,743,617 common shares, reflecting KZT 72,745 million. All issued and outstanding common shares of Passenger Transportation are held by the Issuer. Passenger Transportation's principal activity is the provision of railway passenger transportation services.

As Passenger Transportation's sole shareholder, the Issuer retains exclusive authority over the operations of Passenger Transportation as set forth in the JSC Law and Passenger Transportation's charter. Passenger Transportation is managed by its Board of Directors, except for those limited matters expressly reserved to the Issuer, as its sole shareholder. The General Director of Passenger Transportation, who is also the Chairman of the Management Board, is elected by the sole shareholder (subject to the approval of the Management Board of Samruk-Kazyna). The General Director of Passenger Transportation is subject to the supervision of the Board of Directors and is responsible for the executive authority of the day-to-day management and affairs of Passenger Transportation.

Sole Shareholder

The functions of the sole shareholder include, among other things: (i) approving any amendments to the charter of Passenger Transportation 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 Passenger Transportation; (iv) appointing the auditors of Passenger Transportation; (v) approving the payment of dividends; (vi) approving the annual financial statements of Passenger Transportation; (vii) approving the number, the term of authority and the members of the Board of Directors of Passenger Transportation; (viii) appointing the Chairman of the Management Board (subject to the approval of the Management Board of Samruk-Kazyna) and the Board of Directors of Passenger Transportation; (ix) approving a decision with respect to Passenger Transportation' participation in establishment of the business of other legal entities where a transfer of all or a part of Passenger Transportation's assets occurs in an amount equal to 25% or more of the total amount of assets owned by Passenger Transportation; and (x) approving major transactions involving transfer by Passenger Transportation of assets the value of which equals to or exceeds 50% of book value of Passenger Transportation's assets.

Board of Directors of Passenger Transportation

The Board of Directors of Passenger Transportation is responsible for the overall management of Passenger Transportation's activities, and directs Passenger Transportation's strategy and policy, except those matters which are expressly reserved to the Issuer, as sole shareholder.

Accordingly, the Board of Directors is generally responsible for: (i) setting the priorities of the Issuer's activities and business strategy or approving the development strategy; (ii) approving the terms of bonds and derivatives to be issued by the Issuer; (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 and transfers by Passenger Transportation of 10% or more of the shares in other legal entities; (vi) approving transactions related to the incurrence of liabilities by the Issuer in an amount equal to or exceeding 10% of Passenger Transportation's equity; (vii) approving all interested party transactions, excluding transaction with the companies within the group of Samruk-Kazyna; (viii) approving major transactions involving transfer by Passenger Transportation of assets the value of which ranges from 25% to 50% of book value of Passenger Transportation's assets.

Members of the Board of Directors are appointed by the Issuer, 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 Passenger Transportation's charter. The General Director of Passenger Transportation 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 Prospectus, Passenger Transportation's Board of Directors consists of five members with Kanat Almagambetov serving as the Chairman of the Board. The following table sets forth certain biographical information regarding members of the Board of Directors of Passenger Transportation:

Name and position	**Date of Birth**	**Age**	**Background and principal outside activities and duties**
Kanat Almagambetov (Chairman)	31 March 1972	47	For information regarding Mr. Almagambetov, see *"Management and Employees of the Issuer—Management Board of the Issuer"*.
Meyramkul Altynbekovna Duzbayeva (Member of the Board of Directors of Passenger Transportation)	1 January 1966	53	For information regarding Ms. Duzbayeva, see "*Management and Employees of the Issuer—Management Board of the Issuer*". Ms. Duzbayeva was appointed as a Member of the Board of Directors of Passenger Transportation in May 2019.
Ardak Zhumagulovich Mukushov (Member of the Board of Directors of Passenger Transportation)	4 March 1978	41	For information regarding Mr. Mukushov, see "*Management and Employees of the Issuer—Management Board of the Issuer*". Mr. Mukushov was appointed as a Member of the Board of Directors of Passenger Transportation in May 2019.
Damir Serikbayevich Suentaev (Independent Director of the Board of Directors of Passenger Transportation)	15 January 1984	34	Mr. Suentaev graduated with a degree in Jurisprudence from Kazakh Humanitarian Law University in 2006 and with a degree in Economics from Kazakh University of Economics, Finance and International Trade in 2008. He began his career in 2006 as Advisor to the President of Kazakh Humanitarian University. Between 2006 and 2007, he was an advisor to the National Union of Entrepreneurs and Employers of Kazakhstan. Between 2007 and 2008, Mr. Suentaev was a Counsellor of the National Economic Chamber of Kazakhstan. From 2011 until 2015, he worked as the Managing Director of JSC "NC 'Kazakhstan Engineering'" and since 2015 he has been an Advisor to the Association of Kazakhstan Machinery Industry. Since 2016 he has served as Chairman of Kazakhstan Association Fintech. Mr. Suentaev was appointed as an Independent Director of Passenger Transportation in June 2018.

Liliya Sakenovna Musina (Independent Director of the Board of Directors of Passenger Transportation)	31 July 1956	62	Ms. Musina graduated with a degree in Economics from the Moscow Economic and Statistical Institute in 1978. In 1991, she graduated from the postgraduate school of the Academy of Social Sciences - the Russian Academy of Public Administration with Ph.D. degree. Ms. Musina graduated with a degree in Jurisprudence from Almaty State University in 1999. From 1978 to 1997, Ms. Musina served as a Senior Economist at the Regional Statistics Office and then as Deputy Head of the Regional Labor Department. Between 1997 and 1999, she served as Deputy Chairman of the Senate of the Parliament of the Republic of Kazakhstan. In 1999, Ms. Musina was appointed as Deputy Head of the Social and Economic Analysis Department of the Presidential Administration of the Republic of Kazakhstan. Between 1999 and 2007, she served as Vice Minister of Agriculture of the Republic of Kazakhstan. From 2007 to 2018, Ms. Musina served as a Deputy Chairman of the Management Board, Member of the Management Board and Counsel to the Chairman of the Management Board of “KazAgro” National Management Holding" JSC. Since 2018, she has served as a Senior National Expert of the Food and Agriculture Organization of the United Nations (Kazakhstan). She was appointed as an Independent Director of the Board of Directors of Passenger Transportation in May 2019.

The business address of each member of the Board of Directors is the legal address of Passenger Transportation, located in the office building of JSC “National Company “Kazakhstan Temir Zholy”, Office 416, 4th Floor, 6 Konaev Street, Nur-Sultan 010000, Republic of Kazakhstan.

General Director of Passenger Transportation

The General Director of Passenger Transportation is appointed by the Issuer (subject to the approval of the Management Board of Samruk-Kazyna), as sole shareholder, in accordance with Passenger Transportation’s charter. As at the date of this Prospectus, the General Director of Passenger Transportation is Mr. Sultanov who was appointed by a resolution of the Issuer dated 22 November 2017. The business address of the General Director of Passenger Transportation is the legal address of Passenger Transportation.

The General Director manages the day-to-day activities of Passenger Transportation, including the implementation of the resolutions of the sole shareholder, the Board of Directors and the Management Board; entering into transactions on behalf of Passenger Transportation; representing Passenger Transportation in its relations with third parties; issuing powers of attorney to represent Passenger Transportation; and performing other duties as set out in Passenger Transportation’s charter.

Employees of Passenger Transportation

Passenger Transportation employed an average number of 13,139, 12,522 and 14,143 employees for the years ended 31 December 2018, 31 December 2017 and 31 December 2016, respectively. Passenger Transportation’s employees are members of the Trade Union.

As at the date of this Prospectus, Passenger Transportation has not experienced any material labour disputes or strikes.

Legal Address of Passenger Transportation

The legal address of Passenger Transportation is located in the office building of JSC “National Company “Kazakhstan Temir Zholy”, Office 416, 4th Floor, 6 Konaev Street, Nur-Sultan 010000, Republic of Kazakhstan.

Passenger Transportation Executive Compensation

In accordance with Passenger Transportation’s charter, the remuneration of the General Director of Passenger Transportation is set by the Board of Directors, while the remuneration of the members of the Board of Directors is determined by the sole shareholder. Independent directors are the only members of the Board of Directors who receive remuneration from Passenger Transportation. The General Director of Passenger Transportation also receives remuneration. All other members of the Board of Directors are employees of the Issuer and, accordingly, receive remuneration from the Issuer. As at 31 December 2018, the total amount of annual fixed fees (before tax) paid to the independent directors of Passenger Transportation was KZT 3 million.

Vagonservice

General

Vagonservice is a joint stock company organised under the laws of Kazakhstan. Vagonservice was initially registered with the Ministry of Justice of Kazakhstan on 17 February 2004 for an indefinite duration with registration number 15605-1901-AO and was assigned business identification number 04024005450. On 31 March 2017, JSC “Passenger Leasing Vagon Company”, a 100% subsidiary of Vagonservice, was merged into Vagonservice, with Vagonservice being a surviving entity. As at 31 December 2018, the total issued and outstanding share capital of Vagonservice was 33,460,559 common shares, reflecting KZT 64,741 million. All issued and outstanding common shares of Vagonservice are held by Passenger Transportation. Vagonservice’s principal activity is the provision of rental, maintenance and scheduled repair services.

As Vagonservice’s sole shareholder, the Issuer through Passenger Transportation retains exclusive authority over the operations of Vagonservice as set forth in the JSC Law and Vagonservice’s charter. Vagonservice is managed by its Board of Directors, except for those limited matters expressly reserved to Passenger Transportation, as its sole shareholder. The President of Vagonservice, elected by the sole shareholder, is responsible for the executive authority of the day-to-day management and affairs of Vagonservice.

Sole Shareholder

The functions of the sole shareholder include, among other things: (i) approving any amendments to the charter of Vagonservice 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 Vagonservice; (iv) appointing the auditors of Vagonservice; (v) approving the payment of dividends; (vi) approving the annual financial statements of Vagonservice; (vii) approving the number, the term of authority and the members of the Board of Directors of Vagonservice; (viii) appointing the President and Chairman of the Board of Directors of Vagonservice; (ix) approving a decision with respect to Vagonservice’s participation in establishment of the business of other legal entities where a transfer of all or a part of Vagonservice’s assets occurs in an amount equal to 25% or more of the total amount of assets owned by Vagonservice; and (x) approving major transactions involving transfer by Vagonservice of assets the value of which equals to or exceeds 50% of book value of Vagonservice’s assets.

Board of Directors of Vagonservice

The Board of Directors of Vagonservice is responsible for the overall management of Vagonservice’s activities, and directs Vagonservice’s strategy and policy, except those matters which are expressly reserved to Passenger Transportation, as sole shareholder.

Accordingly, the Board of Directors is generally responsible for: (i) setting the priorities of Vagonservice’s activities and business strategy or approving the development strategy; (ii) approving the terms of bonds and derivatives to be issued by Vagonservice; (iii) approving the remuneration of the members of the Management Board; (iv) approving acquisitions and transfer by Vagonservice of 10% or more of the shares in other legal entities; (v) approving transactions related to the incurrence of liabilities by Vagonservice in an amount equal to or exceeding 10% of Vagonservice’s equity; (vi) approving all interested party transactions, excluding transaction with the companies within the group of Samruk-Kazyna; and (vii) approving major transactions involving transfer by Vagonservice of assets the value of which ranges from 25% to 50% of book value of Vagonservice’s assets.

Members of the Board of Directors are appointed by Passenger Transportation, 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 Vagonservice’s charter. The President of Vagonservice 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 Prospectus, Vagonservice’s Board of Directors consists of three members with Mr. Kangaliev serving as the Chairman of the Board. The following table sets forth certain biographical information regarding members of the Board of Directors of Vagonservice:

Name and position	Date of Birth	Age	Background and principal outside activities and duties
Aibat Kangaliev (Chairman of the Board of Directors)	13 July 1972	46	Mr. Kangaliev began his career as a mechanic in the carriage depot of the Aktyubinsk station of the West Kazakhstan Railways in 1994. He has held various positions, including Foreman, Engineer, Master of the Heating and Water Supply Department, Head of the Rolling Stock Repair Department and Deputy Director. Between 2003 and 2005 Mr. Kangaliev served as a Deputy Manager and Director of Passenger Transportation. He became Vice-President of the Association of Railway Carriages enterprises in 2005. Mr. Kangaliev was appointed as Deputy Director of the Department of railcar enterprises of the Association of Magistrals Association in 2006. Between 2006 and 2007 he served as Legal Executive Director of Passenger Transportation. In 2007 he was appointed Deputy Head of Technical Department of Kaztemirtrans. Between 2007 and 2009 Mr. Kangaliev served as Executive Director, Director of Transportation Services and Chief Engineer of Passenger Transportation. He was appointed Deputy Chairman of the Committee on Transport and Communications of the Ministry of Transportation and Communications of Kazakhstan in 2009. Mr. Kangaliev became Managing Director of Passenger Transportation in 2012. He was appointed to the Board of Directors of Vagonservice in 2017.
Kadirzhan Umurzakov (Member of the Board of Directors)	7 February 1966	52	Mr. Umurzakov graduated from the Almaty Institute of Railway Engineers with a degree in Railway Transportation Process Management in 1990. He began his career in 1990 as an engineer at the Promtransproekt Design Institute. Between 1990 and 1998 he worked as Head of Department at the Kazakh Academy of Transport and Communication. Between 1998 and 2001 he worked as Chief Specialist at Passenger Transportation Children's Regional Children's Enterprise. He worked as Chief Engineer of the Akmola regional branch between in 2001 and 2005. Between 2008 and 2018 Mr. Umurzakov held numerous positions at Passenger Transportation, including Chief Engineer, Executive Director for Operational and Operational Work, Director Ilia Regional branch, Chief Engineer and Production Director of JSC "Passenger Transportation" department. Mr. Umurzakov was appointed as a Director of Vagonservice in 2005 and Vice President of Vagonservice in 2008.
Tynys Suleimenov (Member of the Board of Directors, Independent Director)	1 January 1957	61	Mr. Suleimenov graduated from Karaganda Polytechnic Institute in 1980 with a degree in Mechanical Engineering. He graduated from the postgraduate Department of Transportation, Traffic and Transport Operation of the Moscow Automobile and Road Institute in 1992. In 1997, Mr. Suleimenov became a Professor in Specialty Transport. Between 1981 and 1985, he worked as the Deputy Principal for Zhezkazgan University.

The business address of each member of the Board of Directors is the legal address of Vagonservice, located in the office building of JSC "National Company "Kazakhstan Temir Zholy", Office 416, 4th Floor, 6 Konaev Street, Nur-Sultan 010000, Republic of Kazakhstan.

President of Vagonservice

The President of Vagonservice is appointed by Passenger Transportation, as sole shareholder, in accordance with Vagonservice's charter. As at the date of this Prospectus, the President of Vagonservice is Mr. Galibek Sovetovich Amanbayev who was appointed by a resolution of Passenger Transportation dated 28 December 2018. The business address of the President of Vagonservice is the legal address of Vagonservice.

The President manages the day-to-day activities of Vagonservice, including the implementation of the resolutions of the sole shareholder, the Board of Directors and the Management Board; entering into transactions on behalf of Vagonservice; representing Vagonservice in its relations with third parties; issuing powers of attorney to represent Vagonservice; and performing other duties as set out in Vagonservice's charter.

Employees of Vagonservice

Vagonservice employed an average number of 3,275, 3,361 and 3 979 employees for the years ended 31 December 2018, 31 December 2017 and 31 December 2016, respectively. Vagonservice's employees are members of the Trade Union. As at the date of this Prospectus, Vagonservice has not experienced any material labour disputes or strikes.

Legal Address of Vagonservice

The legal address of Vagonservice is located in the office building of JSC "National Company "Kazakhstan Temir Zholy", Office 416, 4th Floor, 6 Konaev Street, Nur-Sultan 010000, Republic of Kazakhstan.

Vagonservice Executive Compensation

In accordance with Vagonservice's charter, the remuneration of the President of Vagonservice 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 independent director of Vagonservice is the only member of the Board of Directors who receive remuneration from Vagonservice. All other members of the Board of Directors are employees of the Group and, accordingly, receive remuneration from Group companies.

The President of Vagonservice received an aggregate of KZT 12 million and KZT 11 million in compensation (including short-term and post-employment employee benefits) for the years ended 31 December 2018 and 2017, respectively. The independent director received an aggregate of KZT 600 (including taxes) in for the years ended 31 December 2018 and 2017.

Suburban Transportation

General

Suburban Transportation is a joint stock company organised under the laws of Kazakhstan. Suburban Transportation was initially registered with the Ministry of Justice of Kazakhstan on 17 February 2004 for an indefinite duration with registration number 15606-1901-AO and was assigned business identification number 040240005351. As at 31 December 2018, the total issued and outstanding share capital of Suburban Transportation was 1,482,978 common shares, reflecting KZT 1,483 million. All issued and outstanding common shares of Suburban Transportation are held by Passenger Transportation. Suburban Transportation's principal activity is the provision of railway suburban passenger transportation services.

As Suburban Transportation's sole shareholder, the Issuer through Passenger Transportation retains exclusive authority over the operations of Suburban Transportation as set forth in the JSC Law and Suburban Transportation's charter. Suburban Transportation is managed by its Board of Directors, except for those limited matters expressly reserved to Passenger Transportation, as its sole shareholder. The President of Suburban Transportation, elected by the sole shareholder 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 Suburban Transportation.

Sole Shareholder

The functions of the sole shareholder include, among other things: (i) approving any amendments to the charter of Suburban Transportation 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 Suburban Transportation; (iv) appointing the auditors of Suburban Transportation; (v) approving the payment of dividends; (vi) approving the annual financial statements of Suburban Transportation; (vii) approving the number, the term of authority and the members of the Board of Directors of Suburban Transportation; (viii) appointing the Chairman of the Management Board and the Board of Directors of Suburban Transportation; (ix) approving a decision with respect to Suburban Transportation's participation in the establishment of the business of other legal entities where a transfer of all or a part of Suburban Transportation's assets occurs in an amount equal to 25% or more of the total amount of assets owned by Suburban Transportation; and (x) approving major transactions involving transfer by Suburban Transportation of assets the value of which equals to or exceeds 50% of book value of Suburban Transportation's assets.

Board of Directors of Suburban Transportation

The Board of Directors of Suburban Transportation is responsible for the overall management of Suburban Transportation's activities, and directs Suburban Transportation's strategy and policy, except those matters which are expressly reserved to Passenger Transportation, as sole shareholder.

Accordingly, the Board of Directors is generally responsible for: (i) setting the priorities of Suburban Transportation's activities or approving the development strategy; (ii) approving the terms of bonds and derivatives to be issued by Suburban Transportation; (iii) approving the remuneration of the President; (v) approving acquisitions and transfers by Suburban Transportation of 10% or more of the shares in other legal entities; (vi) approving transactions related to the incurrence of liabilities by Suburban Transportation in an amount exceeding 10% of Suburban Transportation's equity; (vii) approving all interested party transactions, excluding transaction with the companies within the group of Samruk-Kazyna; and (viii) approving major transactions involving transfer by Suburban Transportation of assets the value of which ranges from 25% to 50% of book value of Suburban Transportation's assets.

Members of the Board of Directors are appointed by Passenger Transportation, 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 Suburban Transportation's charter. The President of Suburban Transportation 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 Prospectus, Suburban Transportation's Board of Directors consists of three members with Ms. Nurbaeva serving as the Chairman of the Board. The following table sets forth certain biographical information regarding members of the Board of Directors of Suburban Transportation:

Name and position	**Date of Birth**	**Age**	**Background and principal outside activities and duties**
Sholpan Hairzhanovna Nurbaeva (Chairman of the Board of Directors)	22 October 1960	58	Ms. Nurbaeva obtained a degree in National Economy Planning from the Alma-Ata Institute of National Economy in 1981. Between 1986 and 1990, she studied at the Graduate School of the Kazakh State University. Between 1990 and 1997, she was a Researcher at the Kazakh Research Institute of Economics and Agriculture and an Academic Secretary and Senior Teacher at the Kazakh State Academy of Management. Ms. Nurbaeva, worked in a brokerage company in the securities market from 1997 until 2003. Since 2003 she has been worked in the railway transport system in a variety of senior management positions, including as Managing Director for Economics and Finance of the Issuer. Ms. Nurbaeva became Acting Vice-President for Economics and Finance, Passenger Transportation in July 2015. She was appointed as a member of the Board of Suburban Transportation in June 2017.
Daniyar Zhaksybayevich Nurmaganbetov (Member of the Board of Directors)	30 May 1983	35	Mr. Nurmaganbetov graduated from INSEAD (France, Singapore) with an MBA in 2011 and also completed a training course in Business Improvement at the Harvard Business School in 2009. He began his career in 2003 and has worked for various commercial companies in Kazakhstan. Mr. Nurmaganbetov served as the Director of the Treasury of Alliance Bank JSC in 2009, Vice President for Development and Service of Passenger Transportation in 2016 and as Managing Director of National Company KAZAKH INVEST JSC in 2017. He was appointed as a Member of the Board of Directors of Suburban Transportation in May 2019.
Birzhan Bolatovich Shakirbayev (Independent Director of the Board of Directors)	11 October 1975	43	Mr. Shakirbayev graduated from Al-Farabi Kazakh National University with Master of Science in Physics in 1999, and Kyrgyz National University with a degree in Jurisprudence in 1999. From 2013, he worked as the Lead Business Development Co-ordinator at the Representative Office of Mitsui & Co. LTD in Nur-Sultan. From 2013 to 2016, Mr. Shakirbayev served as an Independent Director at "Kaztransservice" JSC. In 2017 he was appointed as an Independent Director of the Board of Directors of the Khorgos International Centre of Boundary Cooperation

JSC. He was appointed as an Independent Director of the Board of Directors of Suburban Transportation in May 2019.

The business address of each member of the Board of Directors is the legal address of Suburban Transportation, located in the office building of JSC "National Company "Kazakhstan Temir Zholy", Office 416, 4th Floor, 6 Konaev Street, Nur-Sultan 010000, Republic of Kazakhstan.

President of Suburban Transportation

The President of Suburban Transportation is appointed by Passenger Transportation, as sole shareholder, in accordance with Suburban Transportation's charter. As at the date of this Prospectus, the President of Suburban Transportation is Mr. Sultan Boltaevich Tabynbayev who was appointed by a resolution of Passenger Transportation dated 31 March 2019. The business address of the President of Suburban Transportation is the legal address of Suburban Transportation.

The President manages the day-to-day activities of Suburban Transportation, including the implementation of the resolutions of the sole shareholder, the Board of Directors and the Management Board; entering into transactions on behalf of Suburban Transportation; representing Suburban Transportation in its relations with third parties; issuing powers of attorney to represent Suburban Transportation; and performing other duties as set out in Suburban Transportation's charter.

Employees of Suburban Transportation

Suburban Transportation employed an average number of 804, 917 and 923 employees for the years ended 31 December 2018, 31 December 2017 and 31 December 2016, respectively. Suburban Transportation's employees are members of the Trade Union.

As at the date of this Prospectus, Suburban Transportation has not experienced any material labour disputes or strikes.

Legal Address of Suburban Transportation

The legal address of Suburban Transportation is located in the office building of JSC "National Company "Kazakhstan Temir Zholy", Office 416, 4th Floor, 6 Konaev Street, Nur-Sultan 010000, Republic of Kazakhstan.

Suburban Transportation Executive Compensation

In accordance with Suburban Transportation's charter, the remuneration of the President of Suburban Transportation 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 Suburban Transportation and independent directors receive remuneration directly from Suburban Transportation. Members of the Board of Directors that are not independent directors are employees of Passenger Transportation and, accordingly, receive remuneration from Passenger Transportation.

In 2016, 2017 and 2018, no payments were made in compensation for the board directors, save for a payment in the amount of KZT 600,000 (including taxes), which was paid to the independent directors as compensation. In 2017 and 2018, the President of Suburban Transportation received payments of KZT 3 million and KZT 10 million, respectively.

Conflicts of Interest

There are no potential conflicts of interest between any duties owed to the Issuer or the Guarantors by members of the Board of Directors of each of the Guarantors and their private interests or other duties.

THE GUARANTEES

The following is the text of the guarantees provided by the Guarantors pursuant to Clause 5 of the Trust Deed, which applies to the Notes (including the Further Notes):

5. GUARANTEE AND INDEMNITY

5.1 Guarantee

Each Guarantor jointly and severally unconditionally and irrevocably guarantees that if the Issuer does not pay any sum payable by the Issuer under this Trust Deed or the Notes by the time and on the date specified for such payment (whether on the normal due date, on acceleration or otherwise), such Guarantor shall pay that sum to or to the order of the Trustee, in the manner provided in Clause 2.2 (*Covenant to Pay*) (or if in respect of sums due under Clause 8 (*Remuneration and Indemnification of the Trustee*), in London in immediately available funds) before close of business on that date in the city to which payment is so to be made. Clause 2.2 (*Covenant to Pay*) shall apply (with consequential amendments as necessary) to such payments other than those in respect of sums due under Clause 8 (*Remuneration and Indemnification of the Trustee*). All payments under the Guarantee by the Guarantors shall be made subject to Condition 10 (*Taxation*) and Clause 4.2 (*Change of Taxing Jurisdiction*).

5.2 Guarantors as Principal Debtor

Without affecting the Issuer's obligations, each Guarantor shall be liable as a guarantor as if it were the sole principal debtor and not merely a surety, and it shall not be discharged, nor shall its liability be affected, by anything which would not discharge it or affect its liability if it was the sole principal debtor (including (a) any time, indulgence, waiver or consent at any time given to the Issuer or any other person, (b) any amendment to any other provisions of this Trust Deed or to the Conditions or to any security or other guarantee or indemnity, (c) the making or absence of any demand on the Issuer or any other person for payment, (d) the enforcement or absence of enforcement of this Trust Deed or the Notes or of any security or other guarantee or indemnity, (e) the taking, existence or release of any security, guarantee or indemnity, (f) the dissolution, amalgamation, reconstruction or reorganisation of the Issuer or any of the Guarantors or (g) the illegality, invalidity or unenforceability of or any defect in any provision of this Trust Deed or the Notes or any of the Issuer's or any of the Guarantors' obligations under any of them.

5.3 Guarantors' Obligations Continuing

Each Guarantor's obligations under this Trust Deed are and shall remain in full force and effect by way of continuing security until no sum remains payable under this Trust Deed or the Notes by the Issuer or any Guarantor. Furthermore, the obligations of each Guarantor are additional to, and not instead of, any security or other guarantee or indemnity at any time existing in favour of any person, whether from a Guarantor or otherwise and may be enforced without first having recourse to the Issuer, any other person, any security or any other guarantee or indemnity. Each Guarantor irrevocably waives all notices and demands of any kind (including (but not limited to) those listed in Clause 5.2 (*Guarantors' as Principal Debtor)* above.

5.4 Exercise of Guarantors' Rights

So long as any sum remains unpaid and overdue under this Trust Deed or the Notes:

(a) any right of a Guarantor, by reason of the performance of any of its obligations under this Clause 5, to be indemnified by the Issuer or to take the benefit of or to enforce any security or other guarantee or indemnity shall be exercised and enforced by such Guarantor only in such manner and on such terms as the Trustee may require or approve; and

(b) any amount received or recovered by a Guarantor (i) as a result of any exercise of any such right or (ii) in the dissolution, amalgamation, reconstruction or reorganisation of the Issuer shall be held in trust for the Trustee and immediately paid to the Trustee and the Trustee shall hold it on the trusts set out in Clause 6.1 (*Declaration of Trust*).

5.5 Suspense Accounts

Any amount received or recovered by the Trustee from the Guarantors (otherwise than as a result of a payment by the Issuer to the Trustee in accordance with Clause 2 (*Amount of the Notes and Covenant to Pay*)) in respect of any sum payable by the Issuer under this Trust Deed or the Notes may be placed in a suspense account and kept there for so long as the Trustee determines such security is necessary.

5.6 Avoidance of Payments

Each Guarantor shall jointly and severally on demand indemnify the Trustee and each Noteholder against any cost, loss, expense or liability sustained or incurred by such Noteholder or the Trustee, as the case may be, as a result of such Noteholder or the Trustee being required for any reason (including any bankruptcy, insolvency, winding-up, dissolution, or similar law of any jurisdiction) to refund all or part of any amount received or recovered by such Noteholder or the Trustee, as the case may be, in respect of any sum payable by the Issuer under this Trust Deed or the relevant Note and shall in any event pay to such Noteholder or the Trustee, as the case may be, on demand the amount as refunded by such Noteholder or the Trustee, as the case may be.

5.7 Debts of Issuer

If any moneys become payable by a Guarantor under this Guarantee, the Issuer shall not (except in the event of the liquidation of the Issuer), so long as any such moneys remain unpaid, pay any moneys for the time being due from the Issuer to such Guarantor.

5.8 Indemnity

As separate, independent and alternative stipulations, each Guarantor jointly and severally unconditionally and irrevocably agrees (a) that any sum that, although expressed to be payable by the Issuer under this Trust Deed or the Notes, is for any reason (whether or not now existing and whether or not now known or becoming known to the Issuer, any Guarantor, the Trustee or any Noteholder) not recoverable from such Guarantor on the basis of a guarantee shall nevertheless be recoverable from it as if it were the sole principal debtor and shall be paid by it to the Trustee on demand and (b) as a primary obligation to indemnify the Trustee and each Noteholder against any loss suffered by it as a result of any sum expressed to be payable by the Issuer under this Trust Deed or the Notes not being paid on the date and otherwise in the manner specified in this Trust Deed or any payment obligation of the Issuer under this Trust Deed or the Notes being or becoming void, voidable or unenforceable for any reason (whether or not now existing and whether or not now known or becoming known to the Trustee or any Noteholder), the amount of that loss being the amount expressed to be payable by the Issuer in respect of the relevant sum.

5.9 Additional Guarantors

The Issuer and the Guarantors shall procure that any entity required to guarantee the obligations of the Issuer under the Notes pursuant to the Conditions shall become an Additional Guarantor in accordance with the terms of the Conditions.

TERMS AND CONDITIONS OF THE FURTHER NOTES

The following (subject to amendment) are the terms and conditions of the Further Notes (as defined below):

The CHF 80,000,000 3.25% Notes due 2023 (the "**Further Notes**") are issued by Joint Stock Company "National Company "Kazakhstan Temir Zholy" (the "**Issuer**") and guaranteed by Joint Stock Company "Kaztemirtrans", Joint Stock Company "KTZ-Freight Transportation", Joint Stock Company "Passenger Transportation", Joint Stock Company "Vagonservice" and Joint Stock Company "Suburban Transportation" (each, a "**Guarantor**" and together, the "**Guarantors**", which term shall also include any Person (as defined below) becoming a Guarantor pursuant to Condition 4 (*Limitations on Changes in Business and Disposals of Assets*)) pursuant to a guarantee (the "**Guarantee**") contained in the Trust Deed referred to below. The Further Notes are constituted by a trust deed dated 5 December 2018 as supplemented by a supplemental trust deed dated 31 May 2019 (the "**Trust Deed**"), among the Issuer, each Guarantor and BNY Mellon Corporate Trustee Services Limited (the "**Trustee**", which expression shall include its successors as trustee under the Trust Deed), as trustee for holders of the Notes (as defined below). The Issuer and each Guarantor have entered into a paying agency agreement dated 5 December 2018 as supplemented by a supplemental paying agency agreement dated 31 May 2019 (the "**Agency Agreement**") with the Trustee and Deutsche Bank AG Zurich Branch, as Swiss paying agent (the "**Swiss Paying Agent**", which expression includes any successor Swiss paying agent appointed from time to time in connection with the Notes).

The Further Notes will, on 10 July 2019, be consolidated and form a single series with the Issuer's CHF 170,000,000 3.25% Notes due 2023 that were issued on 5 December 2018 (the "**Original Notes**" and, together with the Further Notes, the "**Notes**", which expression shall, unless the context otherwise so requires, be deemed to include a reference to any further notes issued pursuant to Condition 16 (*Further Issues*) and forming a single series therewith).

The holders of the Notes and the holders of the interest coupons appertaining to definitive Notes (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, subject to, and are deemed to have notice of, all the provisions of the Notes, the Coupons, 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 detailed provisions contained therein. Copies of the Trust Deed (including the Guarantee) and the Agency Agreement are available for inspection during normal business hours at the specified office, for the time being, of the Swiss Paying Agent and the Trustee. The Swiss Paying Agent and its initial specified office is listed in Condition 9(b).

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 bearer form in the denomination of CHF 5,000 or higher integral multiples thereof.

The Further Notes will initially be represented by a global note certificate (the "**Further Global Note**" and, together with the global note certificate representing the Original Notes, the "**Global Note**"). The Global Note shall be deposited by the Swiss Paying Agent with SIX SIS Ltd (SIX SIS Ltd or any other intermediary in Switzerland recognised for such purpose by SIX Swiss Exchange Ltd, the "**Intermediary**"). Once the Further Global Note is deposited with the Intermediary and entered into the accounts of one or more participants of the Intermediary, the Further Notes will constitute intermediated securities (*Bucheffekten*) in accordance with the provisions of the Swiss Federal Intermediated Securities Act (*Bucheffektengesetz*). Prior to expiry of the distribution compliance period (as defined in Regulation S), beneficial interests in the Further Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person and may not be held otherwise than through the Intermediary and the Further Global Note will bear a legend regarding such restrictions on transfer.

Neither the Issuer nor the Noteholders (as defined below) shall at any time have the right to effect or demand the conversion of the Global Note (*Globalurkunde*) into, or the delivery of, uncertificated securities (*Wertrechte*) or definitive Notes (*Wertpapiere*) with Coupons attached.

No physical delivery of the Notes shall be made unless and until definitive Notes (*Wertpapiere*) and the Coupons shall have been printed. Notes and the Coupons may only be printed, in whole, but not in part, if the Swiss Paying Agent determines, in its sole discretion, that the printing of the definitive Notes (*Wertpapiere*) and the Coupons is necessary or useful. Should the Swiss Paying Agent so determine, it shall provide for the printing of definitive Notes (*Wertpapiere*) and the Coupons without cost to the Noteholders.

If printed, the definitive Notes (*Wertpapiere*) and the Coupons shall be executed by affixing thereon the facsimile signatures of two authorised officers of the Issuer. In the case definitive Notes (*Wertpapiere*) and the Coupons are delivered, the Global Note will immediately be cancelled by the Swiss Paying Agent and the definitive Notes (*Wertpapiere*) and the Coupons shall be delivered to the Noteholders against cancellation of the Notes in the Noteholders' securities accounts.

As used herein:

"**Noteholders**" means the several Persons who are for the time being bearers of the Notes save that, for so long as such Notes or any part thereof are represented by the Global Note, each Person holding Notes in a securities account (*Effektenkonto*) in their own name or, in the case of an intermediary (*Verwahrungsstellen*), the intermediary holding such Notes for their own account in a securities account (*Effektenkonto*) which is in their name shall be deemed to be the holder of such principal amount of such Notes (and the holder of the relevant Global Note shall be deemed not to be the holder) for all purposes of these presents other than with respect to the payment of principal or interest on such principal amount of such Notes, the rights to which shall be vested, as against the Issuer and the Trustee, solely in the Intermediary and for which purpose the Intermediary shall be deemed to be the holder of such principal amount of such Notes in accordance with and subject to its terms and the provisions of these Conditions and the Trust Deed; and the words "**holder**" and "**holders**" and related expressions shall (where appropriate) be construed accordingly.

"**Regulation S**" means Regulation S promulgated under the Securities Act.

"**Securities Act**" means the U.S. Securities Act of 1933, as amended.

(b) **Title**

Each Noteholder shall have a quotal co-ownership interest (*Miteigentumsanteil*) in the Global Note to the extent of his claim against the Issuer, *provided that* for so long as the Global Note remains deposited with the Intermediary, the co-ownership interest shall be suspended, and the Notes may only be transferred by the entry of the transferred Notes in a securities account of the transferee.

The records of the Intermediary will determine the number of Notes held through each participant in that Intermediary.

Title to the definitive Notes and to the Coupons will pass by delivery.

(c) **Holder Absolute Owner**

Subject as provided in paragraph (a) above, the Issuer, the Guarantors and the Swiss Paying Agent may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Note or Coupon as the absolute owner for all purposes (whether or not the Note or Coupon shall be overdue and notwithstanding any notice of ownership, trust or any interest therein or writing on the Note or Coupon or any notice of previous loss or theft of the Note or Coupon).

2. STATUS

(a) **Status of the Notes**

The Notes and the Coupons constitute direct, general, unconditional, unsubordinated and (subject to Condition 3 (*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 6 (*Additional Guarantors*) will unconditionally and irrevocably guarantee (or, in the case of a Person becoming a Guarantor pursuant to the provisions of Condition 4 (*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 3 (*Negative Pledge*)) unsecured obligations of each Guarantor and rank, 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.

Each Guarantor has undertaken (or, in the case of any Additional Guarantor or any Person becoming a Guarantor as provided above, will undertake) in the Trust Deed that, so long as any of the Notes remain outstanding (as defined in the Trust Deed), it will not take any action for the liquidation or winding-up of the Issuer.

3. NEGATIVE PLEDGE

(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, and "**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 and (ii) 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 standby letters of credit or similar instruments issued in connection with the performance of contracts or 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 Original Issue Date (as defined below); (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, as the case may be; (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, 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 acquired by the Issuer, or any Guarantor or any Material Subsidiary after the Original Issue Date 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, 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.

"**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.

"**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.

"**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; or (iii) whose financial statements are, in accordance with applicable law and IFRS, consolidated with those of the first Person in the consolidated financial statement of such Person.

"**U.S. person**" has the meaning given to it in Rule 902(k) of Regulation S.

4. 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 the Republic of 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 5 (*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 11 (*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 6 (*Additional Guarantors*) 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 6 (*Additional Guarantors*); or

(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 4(a); or

(iv) disposals of other Core Assets *provided that* the aggregate value of all such other Core Assets disposed of since 31 December 2017 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 the Republic of 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.

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

"**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.

5. 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 5 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 5(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

(iv) the Successor Company expressly agrees, subject to Condition 10 (*Taxation*), (A) to pay such Additional Amounts (as defined in Condition 10) 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 (including the Guarantee) in circumstances where the said obligation to pay Additional Amounts (as defined in Condition 10) 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 5, 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.

6. ADDITIONAL GUARANTORS

The Issuer and each Guarantor shall ensure that on the Original Issue Date and as at the end of each of the Issuer's fiscal years beginning with the fiscal year ending 31 December 2018 (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 paying 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 paying agency agreement being executed (the "**Additional Guarantee Agreements**").

The accession of the Additional Guarantors pursuant to this Condition 6 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 and as to any limitations as referred to in (a) and (b) below. 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:

(a) 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

(b) 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 Issuer and each Guarantor shall promptly notify the Trustee and the Noteholders in accordance with Condition 15 (*Notices*) of the addition of each Additional Guarantor and, so long as the Notes are listed on the SIX Swiss Exchange, AIX 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 SIX Swiss Exchange, AIX and/or such other exchange.

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 4 (*Limitations on Changes in Business and Disposals of Assets*) and Condition 5 (*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 4 (*Limitations on Changes in Business and Disposals of Assets*) and Condition 5 (*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 (i) or (ii) above is in compliance with this Condition 6 (*Additional Guarantors*).

The Issuer shall promptly notify the Trustee and the Noteholders in accordance with Condition 15 (*Notices*) of the release of any Guarantor.

7. INTEREST

(a) Interest Payment Dates

The Notes bear interest from (and including) 5 December 2018 (the "**Original Issue Date**") to (but excluding) the Final Redemption Date (as defined in Condition 8 (*Redemption, Purchase and Cancellation*) at the rate of 3.25% per annum, payable annually in arrear on 5 December in each year commencing on 5 December 2019 (each, an "**Interest Payment Date**"), subject as provided in Condition 9 (*Payments*). Each period beginning on (and including) the Original 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 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 Swiss 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.

8. REDEMPTION, PURCHASE AND CANCELLATION

(a) Final Redemption

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 5 December 2023 (the "**Final Redemption Date**"), subject as provided in Condition 9 (*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 (as defined in Condition 10) then payable, if (i) 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 10 (*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 5 December 2018, 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 (as defined in Condition 10) or make such withholding or deduction. Prior to the publication of any notice of redemption pursuant to this Condition 8(b), 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 8(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 8(b).

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

Following the occurrence of a Relevant Event, the Issuer will, give notice in accordance with Condition 15 (*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 8(c) the holder of a Note must, not less than 15 days before the Put Settlement Date, deposit with the Swiss Paying Agent the relevant Note and a duly completed put option notice (a "**Put Option Notice**") in the form obtainable from the Swiss Paying Agent specifying the principal amount of the Notes in respect of which such option is exercised and in which the holder must specify a bank account to which payment is to be made under this Condition accompanied by the relevant Note or evidence satisfactory to the Swiss Paying Agent concerned that the relevant Note will, following delivery of the Put Notice, be held to its order or under its control. No Note, once deposited or so held with a duly completed Put Option Notice in accordance with this Condition 8(c) 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 Note on the Put Settlement Date, payment of the redemption moneys is improperly withheld or refused, such Note shall, without prejudice to the exercise of the relevant option, be returned to the holder or cease to be so held. Neither the Trustee nor the Swiss Paying Agent shall 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.

(d) **Redemption by the Issuer Following a Partial Redemption of the Notes at the Option of Noteholders**

If 75% or more of the originally issued aggregate principal amount of the Original Notes and the Further Notes shall have been redeemed on the Put Settlement Date in accordance with the provisions of Condition 8(c), 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 15 (*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.

(e) **No other Redemption**

The Issuer shall not be entitled to redeem the Notes other than as provided in this Condition 8.

(f) **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 *provided that* all unmatured Coupons appertaining to the Notes are purchased with the 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). 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.

(g) **Cancellation**

All Notes redeemed, or purchased and surrendered for cancellation as aforesaid, will be cancelled, together with all relative unmatured Coupons attached to the Notes or surrendered with the Notes, forthwith and may not be re-issued or re-sold. For so long as the Notes are admitted to trading on the SIX Swiss Exchange and on the AIX and if the rules of such exchanges so require, the Issuer shall promptly inform the SIX Swiss Exchange and the AIX (as the case may be) of the cancellation of any Notes under this Condition.

Cancellation of any Note represented by the Global Note will be effected by reduction in the principal amount of the Global Note. Such reduction shall be effected by recording by the Intermediary in electronic book-entry form in accordance with its customary procedures, where upon the principal amount hereof shall be reduced for all purposes by the amount so cancelled and endorsed or, as the case may be, recorded.

9. PAYMENTS

(a) **Principal and Interest**

Payment of principal and/or interest under the Notes represented by the Global Note shall be made, in freely available Swiss Francs through the Swiss Paying Agent to the Intermediary for distribution to the Noteholders shown on the Record Date, without collection costs in Switzerland, without any restrictions and whatever the circumstances may be, irrespective of nationality, domicile or residence of the Noteholders and without requiring any certification, affidavit or the fulfilment of any formality. Neither the Issuer or the Swiss Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. As used herein, "**Record Date**" means the Business Day before due date for the relevant payment.

Payment of principal and/or interest under the Notes in definitive form shall be made, in freely available Swiss Francs at the offices of the Swiss Paying Agent upon presentation of such Note in definitive form (in the case of principal) and on presentation and surrender (or in the case of part payment only, endorsement) of the relevant Coupon. Such payments will be made by credit or transfer and surrender (or in the case of part payment only, endorsement) to an account in Swiss Francs maintained by the payee.

If the due date for payment of interest or principal is not a Business Day, a Noteholder shall not be entitled to payment of the amount due until the next following Business Day and shall not be entitled to any further interest or other payment in respect of any such delay.

(b) **Swiss Paying Agent**

The initial specified office of the Swiss Paying Agent is set forth below:

Swiss Paying Agent:	Deutsche Bank AG Zurich Branch Uraniastrasse 9 CH- 8001 Zurich

The Issuer and the Guarantors reserve the right under the Agency Agreement by giving to the Swiss Paying Agent 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 and subject to the prior written consent of the Trustee, to remove the Swiss Paying Agent, and to appoint successor or additional paying agents, *provided that* it will at all times maintain a paying agent with a specified office in Switzerland.

Notice of such removal or appointment and of any change in the specified office of the Swiss Paying Agent will be given to Noteholders in accordance with Condition 15 (*Notices*) as soon as practicable.

(c) **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 10 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) **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 Zurich, Almaty and London.

(e) **Missing Unmatured Coupons**

Upon the date on which any Note becomes due and repayable, all unmatured Coupons appertaining to the Note (whether or not attached) shall become void and no payment shall be made in respect of such Coupons.

10. 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 or Coupons as may be necessary in order that every net payment of the principal of and interest on such Note or Coupon, 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 (i) 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 or Coupon or (ii) the presentation by the holder of the relevant Note or interest coupon 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; and (b) with respect to any payment on a Note or Coupon or under the Trust Deed to a holder who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent such payment would be required to be included in the income for tax purposes of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner who would not have been entitled to such Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder of the Note or Coupon.

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 10 are or have become illegal, unenforceable or otherwise invalid, the Issuer and each Guarantor will indemnify and hold harmless each holder of a Note or Coupon 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 Coupons or the Trust Deed (including the Guarantee) 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 or Coupons shall be deemed also to include a reference to any Additional Amounts which may be payable under this Condition 10.

Notwithstanding anything to the contrary in this Condition 10, none of the Issuer, the Guarantor, the Trustee, the Swiss Paying 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 or Coupon 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.

11. 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 11) 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 currencies); 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 5 (*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*: the Issuer, 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.

12. PRESCRIPTION

Claims in respect of principal of and interest or other amounts (including Additional Amounts) payable under the Notes and Coupons (whether in definitive form or represented by the Global Note) 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 in respect of the Notes or as the case may be in respect of the Coupons.

13. REPLACEMENT OF NOTES AND COUPONS

If any Note or Coupon is mutilated, defaced, destroyed, stolen or lost it may be replaced at the specified office of the Swiss 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 Swiss Paying Agent may reasonably require. Mutilated or defaced Notes and Coupons must be surrendered before replacements will be issued.

14. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

(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 Notes 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 Notes 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 10 (*Taxation*) or under the Trust Deed; (vi) to modify the covenants of the Issuer or any Guarantor in Conditions 3 (*Negative Pledge*), 4 (*Limitations on Changes in Business and Disposals of Assets*), 5 (*Limitations on Merger or Consolidation*), 8(c) (*Redemption at the Option of the Noteholders*) or 8(d) (*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, 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 and on all Couponholders.

(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 two-thirds in 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 Intermediary by or on behalf of Persons holding not less than two-thirds 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 or Couponholders, (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 or Couponholders. Any such modification, waiver or authorisation shall be binding on the Noteholders or Couponholders and shall be notified to the Noteholders as soon as practicable thereafter.

(d) **Substitution**

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of any other entity in place of the Issuer or a Guarantor, or of any previous substituted company.

(e) **Entitlement of the Trustee**

In connection with the exercise of its functions (including but not limited to those referred to in this Condition 14), 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.

15. NOTICES

(a) **To Noteholders**

All notices to the Noteholders shall be deemed to have been duly given if, so long as the Notes are listed on the SIX Swiss Exchange and on the AIX and so long as the rules of the SIX Swiss Exchange or the AIX so require, by publication (i) on the internet website of the SIX Swiss Exchange Ltd (www.six-swiss-exchange.com, where notices are currently published under the address www.six-swiss-exchange.com/news/official_notices/search_en.html) and the internet website of the AIX at www.aix.kz or (ii) otherwise in accordance with the regulations of SIX Swiss Exchange and the AIX.

If the Notes cease to be listed on the SIX Swiss Exchange and on the AIX, any notice shall be deemed to have been duly given to the Noteholders if sent to the Intermediary for communication by it to the holders of the Notes and shall be deemed to be given on the date on which it was so sent.

In case by reason of any other cause it shall be impracticable to publish or deliver any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee shall constitute sufficient notice to such holders for every purpose hereunder.

(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 6 Kunayev Street, Nur-Sultan 010000, the 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 15(a)) and will be deemed to have been validly given when delivered.

(c) **To the Trustee and Swiss Paying Agent**

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

16. 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 or Couponholders 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.

17. 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 any 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.

18. 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 11 (*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, as the case may be, 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 SIX Swiss Exchange Ltd. or the AIX, 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.

19. 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.

20. 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 Swiss Francs 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 Swiss Francs 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 Swiss Francs 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 Swiss Francs, 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.

21. 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.

22. GOVERNING LAW, JURISDICTION AND ARBITRATION

(a) Governing Law

The Notes, the Guarantee, the Coupons, 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 22(c) (*Trustee's Option*) and Condition 22(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, the Coupons, the Guarantee 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, the Notes, the Coupons or the Guarantee) (a "**Dispute**"), shall be referred to and finally settled by arbitration in accordance with the rules of the London Court of International Arbitration ("**LCIA**") (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/Guarantors, 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 22(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 22(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 22(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 22(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 22(d) (*Jurisdiction*), the Issuer and each Guarantor irrevocably submit to the jurisdiction of the courts of England and Wales and waive any objection which they might now or hereafter have to the courts of England and Wales 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 22(d) (*Jurisdiction*) may be served on it by being delivered to Law Debenture Corporate Services Limited 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 15 (*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 22(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, 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.

SUBSCRIPTION AND SALE

The Joint Lead Managers have, pursuant to the Subscription Agreement, agreed on a several (and not joint) basis with the Issuer and the Guarantors, subject to the satisfaction of certain conditions, to subscribe to the Further Notes in the principal amount as set out opposite their respective names in the Subscription Agreement. The Issuer (failing whom the Guarantors) has agreed to pay to the Joint Lead Managers an underwriting commission. In addition, the Issuer (failing whom the Guarantors) has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Further Notes. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The Joint Lead Managers 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 Issuer, the Guarantors and their respective affiliates (including their shareholders) and for which they will receive customary fees.

General

Each of the Joint Lead Managers has represented and agreed that no action has been or will be taken in any jurisdiction by any Joint Lead Manager that would, or is intended to, permit a public offering of the Further Notes, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required, and, to the best of its knowledge and belief, it will not, directly or indirectly, offer or sell any Further Notes or distribute or publish any prospectus, form of application, advertisement or other document or information relating to the offering in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Further Notes by it will be made on the same terms.

United States

The Further Notes and the Guarantees have not been and will not be registered under the Securities Act and 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 in reliance on Regulation S under the Securities Act.

The Further Notes are subject to U.S. tax law requirements and, subject to certain exceptions, may not be offered, sold or delivered within the United States or its possessions or to a U.S. person. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder.

Each of the Joint Lead Managers has represented and agreed that it will not offer, sell or deliver Further Notes and the Guarantees (a) as part of its distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, 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 any Further Notes and the Guarantees during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Further Notes and the Guarantees within the United States or to, or for the account or benefit of, U.S. persons substantially to the following effect:

"The Further Notes and the Guarantees covered hereby have not been registered under the U.S. 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 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."

In addition, until 40 days after the commencement of the offering, an offer or sale of Further 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 an available exemption from registration under the Securities Act.

United Kingdom

Each Joint Lead Manager has 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 Further 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 Further Notes in, from or otherwise involving the United Kingdom.

European Economic Area

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Further Notes to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

(ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the "**Prospectus Directive**"); and

(b) the expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Further Notes to be offered so as to enable an investor to decide to purchase or subscribe the Further Notes.

Kazakhstan

Each Joint Lead Manager has severally (and not jointly) represented and agreed that it will directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for, or buy or sell the Further 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.

Italy

The offering of the Further Notes has not been registered pursuant to Italian securities legislation and, accordingly, no Further Notes may be offered, sold or delivered, nor may copies of the Prospectus or of any other document relating to the Further Notes be distributed in the Republic of Italy, except:

i. to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the "**Financial Services Act**") and Article 34-ter, first paragraph, letter b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time ("**Regulation No. 11971**"); or

ii. in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Further Notes or distribution of copies of the Prospectus or any other document relating to the Further Notes in the Republic of Italy under (i) or (ii) above must:

(a) be made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 20307 of 15 February 2018 (as amended from time-to-time) and Legislative Decree No. 385 of 1 September 1993, as amended (the "**Banking Act**"); and

(b) comply with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) and/or any other Italian authority.

In accordance with Article 100-bis of the Financial Services Act, where no exemption from the rules on public offerings applies, Further Notes which are initially offered and placed in Italy or abroad to qualified investors only but in the following year are systematically (sistematicamente) distributed on the secondary market in Italy become subject to the public offer and the prospectus requirement rules provided under the Financial Services Act and Regulation No. 11971. Failure to comply with such rules may result in the sale of such Further Notes being declared null and void and in the liability of the intermediary transferring the financial instruments for any damages suffered by the investors.

General

No action has been or will be taken in any jurisdiction by the Joint Lead Managers, the Issuer or the Guarantors that would permit a public offering of the Further Notes in any country or jurisdiction where action for that purpose is required.

Accordingly, the Further Notes may not be offered or sold, directly or indirectly, and neither this Prospectus (in preliminary, proof or final form) or any amendment or supplement thereto or any other offering or publicity material relating to the Further Notes, may be distributed in or from, or published in any country or jurisdiction, except under circumstances that will result to the best of the Joint Lead Managers' knowledge and belief in compliance with any applicable securities laws or regulations.

TAXATION

The following is a general summary of the Kazakhstan and Switzerland tax consequences as at the date hereof in relation to payments made under the Further Notes and in relation to the sale or transfer of Further Notes. Moreover, the discussion of certain material Swiss tax considerations is a summary relating to (i) Further Notes where the Noteholder is a tax resident in Switzerland or has a tax presence in Switzerland or (ii) Further Notes where the paying agent, custodian or securities dealer is located in Switzerland. The discussion is based on legislation as of the date of this Prospectus. It does not aim to be a comprehensive description of all the Swiss tax considerations that may be relevant for a decision to invest in Further Notes. The tax treatment for each investor depends on the particular situation. All investors are advised to consult with their professional tax advisors as to the respective Swiss tax consequences of the purchase, ownership, disposition, lapse, exercise or redemption of Further Notes (or options embedded therein) in light of their particular circumstances.

Further, these comments are not intended to be, nor should they be regarded as, legal or tax advice. It is not exhaustive and purchasers are urged to consult their professional advisors as to the tax consequences to them of holding or transferring Further Notes, including any consequences that may result from the intended substitution.

Kazakhstan Taxation

Payments of principal by the Issuer under the Further Notes are not subject to Kazakhstan taxes.

Interest

Payments of interest on the Further 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 Further 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, legalised 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%.

On 7 December 2015, the President of Kazakhstan signed the Constitutional Law "On International Financial Center 'Astana'" (№. 438-V, dated 7 December 2015) (the "**Financial Center Law**"). The Financial Center Law exempts legal entities and individuals (whether or not resident in Kazakhstan) from payment of income tax on an interest accruing on securities, which are listed on the official list of a stock exchange operating in the Financial Center as at the date when such interest accrues. Astana International Exchange is the stock exchange operating in the Financial Center and the above exemption should apply until 1 January 2066 to all securities listed on Astana International Exchange, including to interest payments on the Further Notes which are the subject of the offering contemplated by this Prospectus.

However, there is no established practice in Kazakhstan on enforcement of the Financial Center Law and the above exemption has not been tested in practice, therefore there is a risk that Kazakhstan tax authorities may apply income tax to interest on the Further Notes. See "*Risk Factors—Risk Factors Relating to the Further Notes and the Guarantee—The Original Notes are, and The Further Notes will be, listed on the AIX and benefit from an exemption on withholding tax which is untested in practice*".

The Issuer has agreed in the Terms and Conditions of the Further Notes to pay Additional Amounts (as defined in the "*Terms and Conditions of the Further Notes*") in respect of any withholding tax on the Further Notes, subject to certain exceptions set out in full in Condition 10.

Gains

Gains realised by Kazakhstan Holders as a result of the disposal, sale, exchange or transfer of the Further 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.

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 Further 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.

If on the date of sale, the Further Notes are listed on the official list of the Astana International Exchange, any gains realised by legal entities and individuals are not subject to payment of income tax in Kazakhstan by operation of the Financial Center Law. In particular, the Financial Center Law exempts legal entities and individuals (whether or not resident in Kazakhstan) from payment of income tax on any gains realised on sale of securities listed on the official list of the stock exchange operating in the Financial Center. The Financial Center Law provides further that the above exemption is effective until 1 January 2066.

However, there is no established practice in Kazakhstan on enforcement of the Financial Center Law and the above exemption has not been tested in practice, therefore there is a risk that the Kazakhstan tax authorities may apply income tax to gains on the Further Notes. See *"Risk Factors—Risk Factors Relating to the Further Notes and the Guarantee—The Original Notes are, and The Further Notes will be, listed on the AIX and benefit from an exemption on withholding tax which is untested in practice"*.

Payments under the Guarantee

Payments in the form of interest on the Further Notes 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 in the form of interest on the Further Notes to Kazakhstan Holders, other than individuals, under the Guarantee will be subject to income tax at a rate of 20%. Payments in the form of interest on the Further Notes to individual Kazakhstan Holders under the Guarantee will be subject to income tax at a rate of 10%.

Payments under the Guarantee in relation to the principal amount of the Further Notes should not be subject to Kazakhstan taxes. It should be noted, however, that the current Kazakhstan legislation does not differentiate interest and principal amount of the Further Notes within the payments under the Guarantee, therefore, there is a risk that Kazakhstan tax authorities may apply the above withholding and income taxes to the total amounts of payments under the Guarantee, Noteholders should consult with their own tax advisors on the applicability of tax deductions to the payments under the Guarantee.

The Guarantors have agreed under the Guarantee in the Trust Deed to pay Additional Amounts (as defined in Condition 10) in respect of any such withholding, subject to certain exceptions set out in full in Condition 10.

Switzerland Taxation

Swiss Federal Withholding Tax

Payments by the Issuer, of interest on, and repayment of principal of, the Further Notes, will not be subject to Swiss federal withholding tax, provided that the Issuer is at all times resident and managed outside Switzerland for Swiss tax purposes.

On 4 November 2015 the Swiss Federal Council announced a mandate to the Swiss Federal Finance Department to institute a group of experts tasked with the preparation of a new proposal for a reform of the Swiss withholding tax system. The new proposal is expected to include in respect of interest payments the replacement of the existing debtor-based regime by a paying agent-based regime for Swiss withholding tax similar to the one published on 17 December 2014 by the Swiss Federal Council and repealed on 24 June 2015 following the negative outcome of the legislative consultation with Swiss official and private bodies. Under such a new paying agent-based regime, if enacted, a paying agent in Switzerland may be required to deduct Swiss withholding tax on any payments or any securing of payments of interest in respect of a Further Note for the benefit of the beneficial owner of the payment unless certain procedures are complied with to establish that the owner of the Further Note is not an individual resident in Switzerland.

Swiss Federal Stamp Taxes

The issue and redemption of Further Notes by the Issuer are not subject to Swiss federal stamp duty on the issue of securities or Swiss federal transfer stamp duty.

Purchases or sales of Further Notes with a maturity in excess of 12 months where a Swiss domestic bank or a Swiss domestic securities dealer (as defined in the Swiss federal stamp duty act) is a party, or acts as an intermediary, to the transaction may be subject to Swiss federal stamp duty on dealings in securities at a rate of up to 0.3% of the purchase price of the Further Notes. Where both the seller and the purchaser of the Further Notes are non-residents of Switzerland or the Principality of Liechtenstein, no Swiss federal stamp duty on dealing in securities is payable.

Income Taxation on Principal or Interest

(i) Further Notes held by non-Swiss holders

Payments by the Issuer of interest and repayment of principal to, and gain realised on the sale or redemption of Further Notes by, a holder of Further Notes who is not a resident of Switzerland and who during the relevant taxation year has not engaged in a trade or business through a permanent establishment or a fixed place of business in Switzerland to which the Further Notes are attributable and who is not subject to income taxation in Switzerland for any other reason will not be subject to any Swiss federal, cantonal or communal income tax.

(ii) Further Notes held by Swiss holders as private assets

Further Notes without a "predominant one-time interest payment": An individual who resides in Switzerland and privately holds a Further Note the yield-to-maturity of which predominantly derives from periodic interest payments and not from a one-time-interest-payment such as an original issue discount or a repayment premium, is required to include all payments of interest received on such Further Note as well as an original issue discount or a repayment premium in his or her personal income tax return for the relevant tax period and is taxable on the net taxable income (including the payment of interest on the Further Note) for such tax period at the then prevailing tax rates.

Further Notes with a "predominant one-time interest payment": An individual who resides in Switzerland and privately holds a Further Note the yield-to-maturity of which predominantly derives from a one-time-interest-payment such as an original issue discount or a repayment premium and not from periodic interest payments, is required to include in his or her personal income tax return for the relevant tax period any periodic interest payments received on the Further Note and, in addition, any amount equal to the difference between the value of the Further Note at redemption or sale, as applicable, and the value of the Further Note at issuance or secondary market purchase, as applicable, realised on the sale or redemption of such Further Note, and converted into Swiss Francs at the exchange rate prevailing at the time of sale or redemption, issuance or purchase, respectively, and will be taxable on any net taxable income (including such amounts) for the relevant tax period. A holder of a Further Note may offset any value decrease realised by him or her on such a Further Note of sale or redemption against any gains (including periodic interest payments) realised by him or her within the same taxation period on the sale or redemption of other debt securities with a predominant one-time interest payment.

Capital gains and losses: Swiss resident individuals who sell or otherwise dispose of privately held Further Notes realise either a tax-free private capital gain or a non-tax-deductible capital loss. See the preceding paragraph for a summary of the tax treatment of a gain or a loss realised on Further Notes with a "predominant one-time interest payment." See "Further Notes held as Swiss business assets" below for a summary on the tax treatment of individuals classified as "professional securities dealers."

(iii) Further Notes held as Swiss business assets

Individuals who hold Further Notes as part of a business in Switzerland and Swiss-resident corporate taxpayers and corporate taxpayers residing abroad holding Further Notes as part of a permanent establishment or fixed place of business in Switzerland are required to recognise the payments of interest and any capital gain or loss realised on the sale or other disposition of such Further Notes in their income statement for the respective tax period and will be taxable on any net taxable earnings for such tax period. The same taxation treatment also applies to Swiss-resident individuals who, for income tax purposes, are classified as "professional securities dealers" for reasons of, inter alia, frequent dealings and leveraged transactions in securities.

Swiss Facilitation of the Implementation of the U.S. Foreign Account Tax Compliance Act

Switzerland has concluded an intergovernmental agreement with the United States to facilitate the implementation of FATCA. The agreement ensures that the accounts held by U.S. persons with Swiss financial institutions are disclosed to the U.S. tax authorities either with the consent of the account holder or by means of group requests within the scope of administrative assistance. Information will not be transferred automatically in the absence of consent, and instead will be exchanged only within the scope of administrative assistance on the basis of the double taxation agreement between the United States and Switzerland. On 8 October 2014, the Swiss Federal Council approved a mandate for negotiations with the United States on changing the current direct-notification-based regime to a regime where the relevant information is sent to the Swiss Federal Tax Administration, which in turn provides the information to the U.S. tax authorities.

Automatic Exchange of Information in Tax Matters

On 19 November 2014, Switzerland signed the Multilateral Competent Authority Agreement (the "**MCAA**"). The MCAA is based on article 6 of the OECD/Council of Europe administrative assistance convention and is intended to ensure the uniform implementation of Automatic Exchange of Information (the "**AEOI**"). The Federal Act on the International Automatic Exchange of Information in Tax Matters (the "**AEOI Act**") entered into force on 1 January 2017. The AEOI Act is the legal basis for the implementation of the AEOI standard in Switzerland.

The AEOI is being introduced in Switzerland through bilateral agreements or multilateral agreements. The agreements have, and will be, concluded on the basis of guaranteed reciprocity, compliance with the principle of speciality (*i.e.* the information exchanged may only be used to assess and levy taxes (and for criminal tax proceedings)) and adequate data protection.

Based on such multilateral or bilateral agreements and the implementing laws of Switzerland, Switzerland exchanges data in respect of financial assets, including, as the case may be, Further Notes, held in, and income derived thereon and credited to, accounts or deposits with a paying agent in Switzerland for the benefit of individuals resident in a EU member state or in a treaty state.

The above summary is not intended to constitute a complete analysis of all tax consequences relating to the ownership of Further Notes.

Prospective purchasers of the Further Notes should consult their own tax advisors concerning the tax consequences of holding Further Notes in light of their particular circumstances, including the application of the tax considerations discussed above, as well as the application of state, local, foreign or other tax laws.

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRSs").

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 IFRSs 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 IFRSs;
- maintaining statutory accounting records in compliance with local legislation and IFRSs;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements were authorised for issue by management on 13 March 2019, and subject to approval by the Audit Committee of the Board of Directors of the Company and approval by the Board of Directors and the Shareholder.

On behalf of the Group:

S.M. Mynbayev **Chairman of the Management Board**	**D.A. Kusherov** **Deputy Chairman of the Management Board for Finance**	**N.K. Abilova** **Chief Accountant**
13 March 2019	13 March 2019	13 March 2019

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Kazakhstan Temir Zholy National Company JSC (the "Company") and its subsidiaries (together - the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 treated as a key audit matter	How the matter was addressed during the audit
Assessment of potential impairment of property, plant and equipment	
The Group's property, plant and equipment, which is mainly represented by infrastructure and rolling stock, comprises 86% of the Group's total assets. Due to the existence of impairment indicators, in particular, slower growth rate in transit freight transportation compared to the Group's Development Plan, the Group performed an impairment assessment for its property, plant and equipment. In addition, the Group identified one cash-generating unit to which assets relate, which requires significant management judgement. The recoverable amount of the property, plant and equipment was determined through calculating its value in use based on the Group's 2019-2023 Development Plan. Calculation of the value in use reflects management's estimations of the future cash flows derived from the assets, the expectations about the amount or timing of those future cash flows, and other factors. The value in use is sensitive to the small changes in key assumptions. Based on the above we determined the impairment of property, plant and equipment to be a key audit matter. Please refer to Note 4.	We performed the following procedures: > evaluating whether the methodology applied and the model used to calculate the value in use are in line with the requirements of IAS 36 *Impairment of Assets*, > evaluating appropriateness of the managements identification of the cash-generating unit, > analysing assumptions used in the determining the discount rate and recalculating it with the assistance of our valuation specialists, > running a range of sensitivity tests to confirm that no impairment was required if less optimistic assumptions within the reasonably possible range had been applied with respect to the discount rate, projected foreign exchange rates, freight tariffs growth, freight turnover growth in transit transportation, as well as volume of capital expenditures, > challenging projected cash flows, including revenue and operating profit growth assumptions, based on historical data, market forecasts and the Group's 2019-2023 Development Plan. We analysed accuracy of the management's preceding forecasts, appropriateness of the assumptions used in the forecasts, and their consistency with the plans approved by the Board of Directors, and > assessing the completeness and adequacy of disclosures in the consolidated financial statements.
Liquidity and the going concern principle	
As at 31 December 2018, the Group's current liabilities exceeded its current assets by 251,239 million tenge. Current liabilities include borrowings of 175,164 million tenge payable within 12 months from the date of these consolidated financial statements, including HSBC loan of 46,238 million tenge reclassified as current. Also, for the year ended 31 December 2018, the Group incurred losses of 86,455 million tenge, which is primarily attributed to foreign exchange losses of 112,798 million tenge arising from borrowings in foreign currencies. In addition, as disclosed in Note 17, the loans received from EBRD and HSBC France with a carrying value of 23,320 million tenge and 58,808 million tenge include certain financial covenants, whereby non-compliance may result in the loans becoming payable on demand. Management had prepared forecasts of the expected financial position and financial results for 2018 and concluded that the Group would	Our going concern audit procedures were mainly focused on a critical evaluation of the key assumptions made and conclusions reached by management and included the following: > examining the correctness of assets and liabilities classification, > analysing management's evaluation of the principles of going concern and their plans to settle current liabilities, > analysing current and expected events and conditions, including financial and operating items, which could cast doubts on the Group's ability to continue as a going concern, > examining the reliability and reasonableness of data and assumptions applied in preparing cash flow forecasts, including the consistency of input data to other tests, such as impairment, the actuarial valuation and hedge effectiveness testing, > analysing downside scenarios affecting the Group's liquidity and its ability to settle obligations, including the ability to generate a sufficient level of cash flows from operating activities to serve and settle its borrowings, as well as the impact of possible

Why the matter was treated as a key audit matter	How the matter was addressed during the audit
not be able to meet certain financial covenants, so that, prior to 31 December 2018, management had requested and received waivers from its creditors regarding non-application and reset of the financial covenants. As at 31 December 2018, the Group had failed to meet one of the reset financial covenants related to the HSBC France loan and, accordingly, reclassified a long-term portion of the loan of 46,238 million tenge as a current liability. Subsequent to the reporting date, the Group had received an updated waiver letter from HSBC France. Due to the above matters, critical judgements are required by management in respect of the sufficiency of the Group's liquid assets and its ability to settle the current obligations in a due course. Management's plans in respect of this matter are discussed in Notes 2 and 34. Given the pervasiveness of the effect of the going concern conclusion to the financial statements, this is considered to be a key audit matter.	exchange rate fluctuations on liabilities and revenue amounts, > examining the documents supporting the availability of financing sources, including credit agreements, negotiations with financial institutions, and Board of Director minutes, > analysing the terms of the loan agreements and related covenants, > recalculating financial covenants for mathematical accuracy, > examining waivers received from creditors with respect to non-application and reset of financial covenants as at 31 December 2018, including examining the compliance with those reset covenants, > evaluating external matters that could be an indicator of adverse conditions and events, and > assessing the completeness and adequacy of information disclosed in the consolidated financial statements.

Other Information Included in the Annual Report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Nurlan Bekenov
General Director
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

13 March 2019

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018
(in millions of Tenge)

	Notes	31 December 2018	31 December 2017 (restated)[1]	1 January 2017 (restated)[1]
ASSETS				
Non-current assets				
Property, plant and equipment	7	2,741,395	2,664,406	2,531,256
Intangible assets		11,874	14,255	11,799
Investments in joint ventures	8	15,493	15,866	11,720
Investments in associates	8	16,866	11,538	11,358
Deferred tax assets	20	6,424	5,953	8,632
Other non-current financial assets	9	-	2,326	2,333
Other non-current assets	11	102,800	89,426	92,559
Total non-current assets		**2,894,852**	**2,803,770**	**2,669,657**
Current assets				
Cash and cash equivalents	12	66,606	81,169	53,478
VAT recoverable		18,274	30,353	57,253
Other current financial assets	9	287	37,129	16,187
Inventories	13	35,162	30,317	28,847
Trade accounts receivable	10	21,639	22,340	15,562
Prepaid income tax		2,311	1,849	1,908
Contract assets		3,076	-	-
Other current assets	14	56,890	51,215	39,214
		204,245	**254,372**	**212,449**
Assets held for sale and for distribution to the Shareholder	15	99,336	92,642	153,242
Total current assets		**303,581**	**347,014**	**365,691**
Total assets		**3,198,433**	**3,150,784**	**3,035,348**
EQUITY AND LIABILITIES				
Equity				
Share capital	16	1,062,635	1,062,635	993,460
Additional paid-in capital	16	290	-	-
Hedging reserve	16	(56,579)	(42,553)	(39,074)
Foreign currency translation reserve	16	5,892	4,843	4,110
Retained earnings		102,243	206,602	198,398
Equity attributable to the Shareholder		1,114,481	1,231,527	1,156,894
Non-controlling interests	16	26,354	26,955	11,035
Total equity		**1,140,835**	**1,258,482**	**1,167,929**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge)

	Notes	31 December 2018	31 December 2017 (restated)[1]	1 January 2017 (restated)[1]
Non-current liabilities				
Borrowings	17	1,207,113	1,170,969	1,098,118
Deferred tax liabilities	20	226,338	227,598	224,676
Employee benefit obligations	19	31,948	28,383	26,170
Finance lease liabilities	18	16,395	13,750	-
Other non-current liabilities	23	20,984	4,447	5,398
Total non-current liabilities		**1,502,778**	**1,445,147**	**1,354,362**
Current liabilities				
Borrowings	17	175,164	93,751	141,562
Trade accounts payable	21	140,222	117,624	127,236
Other taxes payable		9,738	10,896	10,557
Employee benefit obligations	19	2,797	2,858	2,961
Finance lease liabilities	18	1,677	1,135	-
Contract liabilities	22	69,010	-	-
Constructive obligation for the benefit of the Shareholder		5,582	290	48,068
Other current liabilities	23	68,418	158,163	105,163
		472,608	**384,717**	**435,547**
Liabilities associated with assets classified as held for sale	15	82,212	62,438	77,510
Total current liabilities		**554,820**	**447,155**	**513,057**
Total liabilities		**2,057,598**	**1,892,302**	**1,867,419**
Total equity and liabilities		**3,198,433**	**3,150,784**	**3,035,348**

On behalf of the Group:

S.M. Mynbayev **Chairman of the Management Board**	**D.A. Kusherov** **Deputy Chairman of the Management Board for Finance**	**N.K. Abilova** **Chief Accountant**
13 March 2019	13 March 2019	13 March 2019

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

[1] The comparative information has been restated as a result of change in classification of assets held for sale and other reclassifications as discussed in Note 5.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of Tenge)

	Notes	2018	2017 (restated)[2]
Continuing operations			
Revenue			
Freight transportation	24	849,036	749,571
Passenger transportation	24	84,219	81,886
Government grants		20,751	20,460
Other revenue	25	90,168	61,196
Total revenue		**1,044,174**	**913,113**
Cost of sales	26	(818,448)	(721,330)
Gross profit		**225,726**	**191,783**
General and administrative expenses	27	(97,554)	(86,681)
Finance income		8,215	7,886
Finance costs	28	(103,534)	(97,714)
Foreign exchange loss	34	(112,515)	(7,408)
Share of the profit of associates and joint ventures	8	3,481	2,138
Gain from the disposal of shares in associates, joint ventures and subsidiaries not qualifying as discontinued operations	15,29	8,333	8,396
Assets impairment		(6,009)	(3,752)
Other profit or losses, net		2,595	3,631
(Loss)/profit before income tax		**(71,262)**	**18,279**
Income tax expense	20	(2,314)	(6,144)
(Loss)/profit for the year from continuing operations		**(73,576)**	**12,135**
Discontinued operations			
(Loss)/profit for the year from discontinued operations	15	(12,879)	776
(Loss)/profit for the year		**(86,455)**	**12,911**
Other comprehensive (loss)/income net of tax:			
Items that will not be subsequently reclassified to profit or loss:			
Remeasurement of employee benefit obligations		(1,167)	(1,554)
Items that may be reclassified to profit or loss in subsequent periods:			
Net fair value loss on cash flow hedging instruments	16	(14,026)	(3,479)
Foreign exchange difference on the translation of foreign operations		1,049	841
Other comprehensive loss for the year		**(14,144)**	**(4,192)**
Total comprehensive (loss)/income for the year		**(100,599)**	**8,719**
(Loss)/profit for the year attributable to:			
The Shareholder		(87,219)	11,355
Non-controlling interests		764	1,556
		(86,455)	**12,911**
Comprehensive (loss)/income attributable to:			
The Shareholder		(101,363)	7,163
Non-controlling interests		764	1,556
		(100,599)	**8,719**
(Loss)/earnings per share from continuing and discontinued operations, in tenge	30	(176)	23
(Loss)/earnings per share from continuing operations, in tenge	30	(150)	21

On behalf of the Group:

S.M. Mynbayev	D.A. Kusherov	N.K. Abilova
Chairman of the Management Board	**Deputy Chairman of the Management Board for Finance**	**Chief Accountant**
13 March 2019	13 March 2019	13 March 2019

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

[2] The comparative information has been restated as a result of change in classification of assets held for sale (discontinued operation) and other reclassifications as discussed in Note 5.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

(in millions of Tenge)

	Notes	2018	2017 (restated)[3]
Cash flows from operating activities:			
(Loss)/profit for the year		(86,455)	12,911
Income tax expenses recognised in profit or loss, including discontinued operations	15,20	3,602	7,642
Adjustments for:			
Depreciation and amortisation		121,065	106,915
Finance costs	15,28	109,367	103,703
Asset impairment		6,302	3,774
Finance income		(8,701)	(8,143)
Employee benefit costs and other long-term employee benefits		5,743	4,127
Share of the profit of associates and joint ventures	8	(3,481)	(2,138)
Allowance for impairment of accounts receivable		8,084	1,872
Foreign exchange loss		112,417	7,683
Profit from the sale of interests in associates, joint ventures and subsidiaries not qualifying as discontinued operations		(8,333)	(8,396)
Other		12,429	4,686
Operating income before changes in working capital and other balances		**272,039**	**234,636**
Change in trade accounts receivable		(16,424)	564
Change in inventories		(4,573)	(4,890)
Change in other current and non-current assets (including long-term VAT recoverable)		(725)	(11,677)
Change in trade accounts payable		22,209	(13,305)
Change in other taxes payable		(4,501)	22,092
Change in other liabilities		(7,172)	37,565
Change in employee benefit obligations		(3,277)	(3,549)
Cash generated from operations		**257,576**	**261,436**
Interest paid		(101,246)	(78,787)
Interest received		1,782	3,653
Income tax paid		(2,484)	(4,192)
Net cash flows from operating activities		**155,628**	**182,110**
Cash flows from investing activities:			
Purchase of property, plant and equipment, including changes in advances paid for property, plant and equipment		(193,612)	(233,577)
Purchase of intangible assets		(2,066)	(180)
Purchase of investment property		(9,063)	-
Proceeds from the sale of interests in joint ventures		-	19,575
Proceeds from the sale of other non-current assets		1,402	1,202
Investments in associates	8	(2,611)	(1,358)
Investments in other financial assets		(86,570)	(79,483)
Proceeds from the disposal of other financial assets		127,765	53,577
Dividends received from associates and joint ventures	8	2,248	1,664
Net cash proceeds from the sale of subsidiaries and discontinued operations		9,396	1,440
Return of advance payment in connection with the termination of the subsidiary sale transaction	5	(8,958)	-
Other		287	2,923
Net cash flows from investing activities		**(161,782)**	**(234,217)**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in millions of Tenge)

	Notes	2018	2017 (restated)[3]
Cash flows from financing activities:			
Share capital contribution	16	-	66,852
Proceeds from borrowing		289,776	422,633
Repayment of borrowings		(295,910)	(441,130)
Proceeds from the sale of non-controlling interests in subsidiaries	16	-	24,063
Dividends and distributions paid		(2,709)	(1,388)
Other		(1,263)	(951)
Net cash flows from financing activities		**(10,106)**	**70,079**
Net (decrease)/increase in cash and cash equivalents		**(16,260)**	**17,972**
Cash and cash equivalents at the beginning of the year	12	84,384	67,085
Effect of changes in foreign exchange rates on cash balances held in foreign currency		122	(673)
Effect of changes in allowance for expected credit losses		(23)	-
Cash and cash equivalents at the end of the year	12	**68,223**	**84,384**
Non-cash transactions:			
Purchase of property, plant and equipment from borrowed funds by direct bank transfer to the supplier		1,054	11,127
Railway administrations receivables and payables offset		7,971	8,342
Settlement of borrowings by non-current assets		556	776

On behalf of the Group:

S.M. Mynbayev **Chairman of the Management Board** 13 March 2019	**D.A. Kusherov** **Deputy Chairman of the Management Board for Finance** 13 March 2019	**N.K. Abilova** **Chief Accountant** 13 March 2019

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

[3] The comparative information has been restated as a result of change in classification of assets held for sale (discontinued operation) and other reclassifications as discussed in Note 5.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
(in millions of Tenge)

	Share capital	Additional paid-in capital	Hedging reserve	Foreign currency translation reserve	Retained earnings	Equity attributable to the Shareholder	Non-controlling interests	Total equity
As at 1 January 2017 (restated)[4]	**993,460**	**-**	**(39,074)**	**4,110**	**198,398**	**1,156,894**	**11,035**	**1,167,929**
Profit for the year	-	-	-	-	11,355	11,355	1,556	12,911
Other comprehensive (loss)/income for the year	-	-	(3,479)	841	(1,554)	(4,192)	-	(4,192)
Total comprehensive (loss)/income for the year	-	-	(3,479)	841	9,801	7,163	1,556	8,719
Shares issue (Note 16)	69,175	-	-	-	-	69,175	-	69,175
Dividends declared	-	-	-	-	-	-	(2,143)	(2,143)
Other distributions (Note 16)	-	-	-	-	(9,144)	(9,144)	-	(9,144)
Disposal of subsidiaries (Note 29)	-	-	-	(108)	-	(108)	(9)	(117)
Change in ownership share in subsidiaries without loss of control (Note 16)	-	-	-	-	7,547	7,547	16,516	24,063
As at 31 December 2017 (restated)[4]	**1,062,635**	**-**	**(42,553)**	**4,843**	**206,602**	**1,231,527**	**26,955**	**1,258,482**
As at 1 January 2018 (restated)[4]	**1,062,635**	**-**	**(42,553)**	**4,843**	**206,602**	**1,231,527**	**26,955**	**1,258,482**
Effect of the application of IFRS 9, less the effect of deferred tax of 834 million tenge (Note 3)	-	-	-	-	(8,962)	(8,962)	(131)	(9,093)
As at 1 January 2018 (restated)	**1,062,635**	**-**	**(42,553)**	**4,843**	**197,640**	**1,222,565**	**26,824**	**1,249,389**
(Loss)/profit for the year	-	-	-	-	(87,219)	(87,219)	764	(86,455)
Other comprehensive (loss)/income for the year	-	-	(14,026)	1,049	(1,167)	(14,144)	-	(14,144)
Total comprehensive (loss)/income for the year	-	-	(14,026)	1,049	(88,386)	(101,363)	764	(100,599)
Dividends declared (Note 16)	-	-	-	-	(1,710)	(1,710)	(1,176)	(2,886)
Other distributions (Note 16)	-	-	-	-	(5,301)	(5,301)	-	(5,301)
Shares issue (Note 16)	-	290	-	-	-	290	-	290
Purchase of subsidiary	-	-	-	-	-	-	(58)	(58)
As at 31 December 2018	**1,062,635**	**290**	**(56,579)**	**5,892**	**102,243**	**1,114,481**	**26,354**	**1,140,835**

On behalf of the Group:

S.M. Mynbayev **Chairman of the Management Board**	**D.A. Kusherov** **Deputy Chairman of the Management Board for Finance**	**N.K. Abilova** **Chief Accountant**
13 March 2019	13 March 2019	13 March 2019

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

[4]The comparative information has been restated as a result of change in classification of assets held for sale (discontinued operation) and other reclassifications as discussed in Note 5.

1. GENERAL INFORMATION

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

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

The Group operates a government regulated nationwide railway system providing freight and passenger transportation, mainline railway services, providing operation, maintenance and modernisation of railway infrastructure in Kazakhstan. As part of rail industry regulation in Kazakhstan, the Government sets the tariffs the Group charges for its railway network services, its freight customers (according to the Kazakhstan Entrepreneurial Code, this is a temporary measure until 2020) and passenger customers, and partially subsidises specific passenger transportation activities through government grants. These regulated tariffs differ based on the type of transportation provided. The Government does not regulate international and container freight transportation tariffs.

The Committee for the Regulation of Natural Monopolies, protecting Competition and Consumer Rights of the Ministry of the National Economy of the Republic of Kazakhstan ("CRNM") has approved railway network tariffs for 2016-2020 with annual average growth of 4%.
On 1 April 2018, the CRNM agreed 10% increase of tariff for locomotive haulage services (2017: 7%). As a result, an average freight transportation tariff increase in 2018 was 6.8% (2017: 5%).

Starting from 1 January 2018, the regulator, represented by the Ministry of Investments and Development of Kazakhstan, approved a 7% increase in passenger transportation tariffs for a number of interdistrict routes (2017: 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 government's fiscal and monetary policies, together with developments in the legal, regulatory and political environment.

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

The State controls Group structure and is responsible for long-term railway industry strategy in Kazakhstan. Since 1997, the Kazakhstan national railway industry has been undergoing restructuring, which includes segregating freight transportation and infrastructure, change of regulatory environment and establishing investment-friendly environment. Under the Group's Development Strategy until 2025, work was continued in 2018 to improve performance, develop transit traffic and optimise corporate portfolio structure in accordance with the state privatisation programme.

2. BASIS FOR THE PREPARATION OF FINANCIAL STATEMENTS

Statement of compliance

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

Going concern

The Group's consolidated financial statements have been prepared on a going concern basis. This assumes the sale of assets and settlement of liabilities in the normal course of business for the foreseeable future. As at 31 December 2018, current liabilities exceeded its current assets by 251,239 million tenge (31 December 2017: 100,141 million tenge). Moreover, loss for the year ended 31 December 2018 amounted to 86,455 million tenge, which is primarily attributed to foreign exchange losses of 112,798 million tenge arising from borrowings in foreign currencies (2017: profit for the year 12,911 million tenge). As at 31 December 2018, the Group reclassified a long-term borrowing of 46,238 million tenge as a current liability due to its failure to meet one of the financial covenants stipulated under the loan agreements with HSBC France (debt to equity ratio). After the reporting date, the Group received a waiver letter to change the ratio threshold value to 1.53 as at 31 December 2018, although this was not reflected in the year-end position as it was received after year-end. The Group is in compliance with the reset ratio threshold value as at 31 December 2018. Historically, the Group financed major investment projects using funds from the government and through borrowings, in addition to cash from operating activities. For the year ended 31 December 2018, cash flows from operating activities amounted to 155,626 million tenge (2017: 182,110 million tenge). As at 31 December 2018, the Group's borrowings of 175,164 million tenge are payable within 12 months of the reporting date, including HSBC France loan of 46,238 million tenge reclassified as current. Group management has assessed its needs for cash, including its scheduled debt repayments and development plans. In assessing its going concern basis, management also considered the Group's financial position, expected future performance and cash flows from operations, its borrowings, available credit facilities, its capital expenditure commitments, expected tariffs growth, currency exchange rates and other risks facing it. After completing the relevant analysis, management concluded that the Group has adequate resources to continue in operational existence and settle its liabilities (Note 34) and that the going concern basis is appropriate in preparing these consolidated financial statements.

Basis for measurement

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and entities controlled by it and the subsidiaries listed in Note 32. The Group's investments in which it has significant influence are accounted for using the equity method. All intragroup transactions, balances, and unrealised gains and losses are eliminated on consolidation.

Functional and presentation currency

The Group's consolidated financial statements are presented in Kazakhstan tenge ("tenge"). 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, while 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 accumulated exchange differences related to that specific foreign operation are recognised in profit or loss.

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

(in millions of Tenge, unless stated otherwise)

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

The following table presents exchange rates to the tenge as at the relevant date:

	31 December 2018	**31 December 2017**
US$	384.20	332.33
Euros	439.37	398.23
Swiss Francs	390.41	340.61
Russian Roubles	5.52	5.77

3. SIGNIFICANT ACCOUNTING POLICIES

New and revised International Financial Reporting Standards

Standards impacting consolidated financial statements

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transitional provisions of IFRS 9 allow an entity not to restate comparatives.

Additionally, the Group adopted related amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2018 and to the comparative period.

IFRS 9 introduced new requirements for:

- The classification and measurement of financial assets and financial liabilities;
- Impairment of financial assets;
- General hedge accounting.

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied IFRS 9 in accordance with the abovementioned transitional provisions.

Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. The Group has opted for the modified retrospective application at the date of initial application of this Standard. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that continued to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. Comparative amounts for 2017 have not been restated, and the aggregate accumulated effect was recognised through the opening balance of retained earnings at 1 January 2018.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Wherein:

- debt instruments 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 amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI); and
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the aforegoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Group has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. See below.

(in millions of Tenge, unless stated otherwise)

Management of the Group reviewed and measured the Group's financial assets that existed at 1 January 2018, based on the facts and circumstances that occurred on that date, and concluded that the initial application of IFRS 9 had the following impact on the financial assets of the Group from the point of view of their classification and measurement. The table below presents a reconciliation of the classification of financial assets and financial liabilities between the previously applied valuation categories in accordance with IAS 39 and their new valuation categories adopted upon the transition to IFRS 9 as of 1 January 2018. The table does not include line items not affected by the changes. Therefore, the subtotals and totals cannot be calculated based on the amounts presented below:

	IAS 39		IFRS 9		Effect of the application of IFRS 9
	Accounting method	Amount	Accounting method	Amount	Amount
Financial assets					
Other financial assets (including cash in financial institutions and loans given)	Amortised cost (loans and accounts receivable)	39,455	Amortised cost	39,052	(403)
Other non-current assets (including loans to employees, non-current accounts receivable)	Amortised cost (loans and accounts receivable)	89,426	Amortised cost	88,827	(599)
Cash and cash equivalents	Amortised cost (loans and accounts receivable)	81,169	Amortised cost	81,138	(31)
Trade accounts receivable	Amortised cost (loans and accounts receivable)	22,340[5]	Amortised cost	22,335	(5)
Assets held for sale and for distribution to the Shareholder[6]	-	92,642	-	92,614	(28)
Financial liabilities					
Borrowings	Amortised cost	(1,264,720)	Amortised cost	(1,269,225)	(4,505)
Financial guarantee contract liabilities net of deferred tax effect of 834 million tenge	Higher of amortized cost under IAS 39 and provision under IAS 37	(4,194)	Higher of expected credit losses and fair value less any cumulative amount of income	(8,366)	(4,172)
Liabilities attributable to assets classified as held for sale (loans)[6]	Amortised cost	(62,438)	Amortised cost	(62,622)	(184)
Total effect from the application of IFRS 9					(9,927)

Impairment of financial assets

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 the Group 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 of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

[5] As required by IFRS 9, Group directly reduced the gross carrying amount of financial assets (i.e. has written-off the gross value of receivables against previously created allowance) for which there is no reasonable expectations of recovering a financial asset of 7,931 million tenge (Note 10).
[6] Amounts relate to expected credit losses accrued on financial assets and debt modification adjustments of Transtelecom, a subsidiary, which was classified as held for sale as of 1 January 2018. The accounting method reflects the application of the Group's accounting policy over IFRS 9 on the subsidiary.

Specifically, IFRS 9 requires the Group to recognize a loss allowance for expected credit losses on:

- Debt investments measured subsequently at amortized cost or at FVTOCI;
- Lease receivables;
- Trade receivables and contract assets; and
- Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months expected credit losses. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime expected credit losses for trade receivables, contract assets and lease receivables in certain circumstances.

The Group's portfolio of financial instruments includes the following 5 types of financial assets, in respect of which the Group recognises expected credit losses, as provided for by IFRS 9:

- trade accounts receivable;
- amounts in credit institutions;
- loans issued;
- other accounts receivable; and
- loans to employees.

The Group has revised its methodology for calculating impairment losses in accordance with IFRS 9 for each class of asset mentioned above. The overall effect of changes in the methodology for calculating impairment losses is presented in the table above. The overall effect of impairment of loans to employees is immaterial.

The purpose of IFRS 9 is to ensure the organization uses a multi-factor and unified approach to credit risk analysis, so that a potential deterioration in a credit risk can be detected at a relatively early stage. At each reporting date, the Group allocates financial instruments at a stage in the following order, and estimates expected credit losses (with the exception of losses on created or acquired credit-impaired financial assets) using an estimated allowance equal to:

- 12-month expected credit losses, i.e. lifetime expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1);
- Full lifetime expected credit losses, i.e. lifetime expected credit losses that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

Trade accounts receivable

The Group applies the simplified approach to recognise lifetime expected credit losses for its trade receivables. A default is determined based on the number of days overdue.

The Group reduces the gross carrying amount of accounts receivable if it does not expect to recover them in full or in part. Write-off is an event that leads to derecognition.

Amounts in credit institutions

Amounts in credit institutions include such assets as cash and cash equivalents, short- and long-term financial investments, and restricted cash. Financial assets in the form of amounts in credit institutions fall under the definition of default when they are more than 90 days overdue or due to a credit institution's failure to fulfil its obligations as a result of financial difficulties.

The probability of default of a credit institution is determined based on external ratings.

Loans issued and other accounts receivable

The probability of default on loans issued is determined based on internal ratings, unless external ratings are available. Loans issued fall under the definition of default when they are more than 90 days overdue or due to a counterparty's failure to fulfil its obligations as a result of financial difficulties.

An allowance for expected credit losses on other account receivable is measured similarly to the way it is measured for loans issued.

Financial guarantees

The Group recognizes expected credit losses allowance under financial guarantee agreement for 12 months or over period, depending on the change in credit risk since initial recognition. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The consequential amendments to IFRS 7 have also resulted in more extensive disclosures about the Group's exposure to credit risk in the consolidated financial statements (see Note 34 for details).

Critical accounting judgements and estimates used in financial assets impairment

The allowances for expected credit losses are measured based on probability of default and loss given default. The Group uses its judgment concerning these assumptions and inputs used in impairment computation based on the Group's experience, current market conditions and forecast estimates at the end of each reporting period. For the purpose of calculating the expected credit losses, the probability of default of a counterparty is adjusted for the expected future macroeconomic indicators.

Accounting for modifications or exchanges of debt liabilities that do not result in derecognition

Gains or losses on modification of financial liabilities at amortized cost are recognized in profit or loss. A gain or loss is determined as the difference between the original cash flows and the present value of the estimated future cash flows discounted using an initial effective interest rate of the financial instrument.

Hedge accounting

The Group will continue to apply IAS 39 for hedge accounting with respect to cash flows from transit freight transportation services, as permitted by transitional provisions in IFRS 9.

Impact of application of IFRS 15 Revenue from Contracts with Customers

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. Based on the analysis of the Group's regular revenue streams for the year ended 31 December 2017, the terms of individual contracts and based on the facts and circumstances existing at that date, the application of the new standard starting from 1 January 2018 did not have a material impact on the consolidated financial statements, except for the requirement for more detailed disclosure (Notes 24 and 25). Accordingly, comparative amounts for 2017 and the opening balance as at 1 January 2018 were not restated.

The Group recognises revenue to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue is recognised less VAT and rebates.

As a result of the application of IFRS 15, the Group recognised a contract liability initially attributed to a preliminary consideration received from customers, in the *Contracts Liabilities* of the consolidated statement of financial position as at 31 December 2018. As at 31 December 2017, contract liabilities related to a consideration from customers is recognised in the *Other Current Liabilities* as advances received and deferred income (Note 23).

Revenue from freight transportation services

Domestic, international import, international export and international transit freight transportation services.

Revenue from freight transportation services is recognized over the time. The extent of completion of the freight transportation process is calculated as the ratio of transportation volumes provided as at the reporting date to the total transportation volumes.

The Group provides services on monthly 100% prepayment terms, as agreed in contracts with carriers. Prepayments received from customers for transportation services not yet rendered are typically short-term and recognised as advances at the date of receipt.

Advances received from customers for domestic, international import, international export and international transit freight transportation services are recognised as deferred income once transportation has started. Deferred income is credited to revenue of the reporting period as the services are provided.

Pursuant to the CRNM Order *On the Approval Of a Temporary Decreasing Coefficient For Railway Freight Transportation Tariffs*, certain contracts envisage discounts dependent on the volumes of services consumed. Revenue from these services is recognised based on contractual prices less estimated discounts. The Group uses the expected value method to estimate the discount amount.

As at 31 December 2018, total liability to customers on discounts was estimated at 1,070 million tenge.

Handling rolling stock

The Group recognises revenue from handling services by the extent of completion of the services at the reporting date, as the performance obligation is satisfied over time and the customer simultaneously receives and consumes the benefits of the Group's performance. The extent of completion of the services is calculated as the ratio of transportation volume, provided as at the reporting date to the total transportation volumes.

Rolling stock handling services are provided based on prepayments, which are recognised as advances.

Revenue recognition from passenger transportation services

Revenue from passenger transportation services is recognised by the extent of completion of transportation at the reporting date. Proceeds from ticket sales are recognised as deferred income, which is transferred to revenue from the time of departure of a passenger. Prepayments received from customers for transportation services not yet rendered are recorded within advances at the time of their receipt. Upon receipt of applications for passenger transportation and issuing tickets, advances approximating the expected estimated revenue from the services are transferred to deferred income. Deferred income is similarly transferred to revenue as passengers depart.

Passenger transportation services are generally completed within several hours/days. An analysis of past experience has shown that passenger transportation in progress at the reporting date is insignificant.

Other revenue

Other revenue includes penalties received, revenues from the sale of goods, materials, scrap metal, loading and unloading services and vehicle servicing.

Other revenue from the provision of services is recognised over time as the services are provided. When a performance obligation is satisfied at a certain period of time (sale of goods, materials and scrap metals), revenue is recognised when 'control' of the goods underlying the particular performance obligation is transferred to the customer.

The Group when accounting for significant contracts under which the period between the transfer of the promised goods or services to the customer and the respective payment exceeds one year, adjusts the transaction price for the time value of money.

New or revised standards issued but not yet effective

A number of new standards, interpretations and amendments to standards enter into force in relation to annual periods beginning from 1 January 2019 or after that date. Specifically, the Group did not apply early the following standards, interpretations and amendments to the standards:

- IFRS 16 *Leases*
- Amendments to IFRS 9 *Prepayment Conditions with Potential Negative Consideration*
- Amendments to IAS 28 *Long-term Investment in Associates and Joint Ventures*
- Annual Improvements to IFRS Standards 2015–2017 Cycle: Amendments to IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*
- Amendments to IAS 19 Employee Benefits: *Plan Amendment, Curtailment or Settlement*
- IFRS 10 *Consolidated Financial Statements and* IAS 28 (amendments) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- IFRIC 23 *Uncertainty Over Income Tax Treatments*

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. Operating lease (off-balance sheet) and finance lease (on-balance sheet) differences are removed for lessee accounting, and replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

A 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 a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

Group management expects that the application of IFRS 16 in the future may significantly affect assets and liabilities because it recognised assets as a form of right to use and lease liabilities in relation to agreement in which the Group, except those that meet the criteria of short-term lease or the lease of low-value assets in accordance with IFRS 16.

Preliminary estimated effect of the application of IFRS 16 when using the modified retrospective approach as at 1 January 2019 amounted to 14,758 million tenge for assets and 14,758 million tenge for liabilities.

Group management expects that the application of other standards, amendments and interpretations entering into force from 1 January 2019 and after that date will not have a significant effect on the consolidated financial statements during the period of their application.

Significant accounting policies

Property, plant and equipment

Property, plant and equipment is stated at historical cost less subsequent accumulated depreciation and impairment losses. Depreciation is charged once the asset becomes available for its intended use.

Subsequent costs

The costs of the day-to-day servicing incurred during an asset's useful life (regular maintenance to ensure the asset remains in a working condition) and repair expenses (technical inspections, maintenance contracts, etc.) are recorded in profit or loss when incurred.

Costs are capitalised only if those costs 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 property, plant and equipment, including the appropriate allocation of directly attributable variable overheads incurred during construction. The carrying value of construction-in-progress is regularly reviewed for impairment.

Borrowing costs

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

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

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

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

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

Inventories

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

Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

When the non-current asset ceased to be classified as held for sale, the Group includes any required adjustment to the carrying amount of the asset in profit or loss from continuing operations in the period in which the classification criteria are no longer met. If the disposal group or non-current asset that ceases to be classified as held for sale is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate, the Group amends retrospectively the financial statements for the periods since classification as held for sale.

Equity

Share capital

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

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

Other contributions

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

Other distributions

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

Hedge accounting

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

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

Cash flow hedges

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

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

Hedge accounting is discontinued when:

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

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

Government grants

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Critical judgements in applying accounting policies

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

Control assessment

Subsidiaries are those entities controlled by the Group. The Group controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. Losses are attributed to non-controlling interests in full, even if this results in a debit balance ("deficit") (Note 32).

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

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

Loans at a rate below the market interest rate

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

Assets classified as held for sale

In December 2015, the Kazakhstan Government approved the '*Comprehensive Privatisation Plan for 2016-2020*' (the "Plan"), whereby Group management approved a list of subsidiaries, associates and joint ventures to be sold. IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations* requires management to apply judgements regarding the high probability of an asset's sale. As at the reporting date, Group management assessed the status of the Plan and classified assets/liabilities as disposal groups held for sale as those meeting IFRS 5 criteria (Note 15).

Cash-generating unit identification

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

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

Key sources of estimation uncertainty

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

Impairment of property, plant and equipment and intangible assets

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

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

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

Due to existing impairment indicators, the Group performed an impairment test as at 31 December 2018.

A number of subjective factors, both operational and financial, using the best evidence available, had been used to estimate cash flows.

The operational assumptions used in the test reflect expected volumes of transportation services, including transit volumes, based on projected demand and historical dynamic of transit freight transportations volumes.

Financial assumptions include significant estimates associated with tariff forecasts and growth rates, discounts, and projected tenge to Swiss Franc exchange rates. The key long-term assumptions used in the calculation were annual growth rate of 4% and discount rate of 11.8%. These assumptions are presented in real terms.

As at 31 December 2018, no impairment has been identified based on the estimated value in use of the Group's property, plant and equipment. However, the value in use estimate is sensitive particularly to the following assumptions:

- transit freight transportation volumes;
- revenue rate on freight transit transportation;
- capital costs for replacement and maintenance of the assets; and
- the discount rate (WACC).

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

Recoverability of VAT

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

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

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

(in millions of Tenge, unless stated otherwise)

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

Buildings and structures	10-140
Railway track infrastructure	5-100
Machinery and equipment	3-35
Vehicles	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 11.25%-12.81% of additional accruals or overdue taxes. 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 2018. Any difference between the estimated amount and the actual amount paid, if any, could have a significant impact on future operating results.

Business model assessment

Classification and measurement of financial assets depends on whether the contract cash flows are used for repayment of the principal amount of debt and interest for unpaid principal amount, and reasons consistent with the objective of the business model.

Significant increase in credit risk

As explained above, the Group recognizes allowance for expected credit losses for financial instruments in the amount equal to 12-month expected credit losses for stage 1 assets, or lifetime expected credit losses for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

5. CHANGES IN CLASSIFICATION AFFECTING COMPARATIVE INFORMATION

As a result of negotiations held in April-May 2018, the Group and Patentes Talgo S.L.U. failed to reach a mutual agreement on the additional terms of the purchase/sale transaction proposed by Patentes Talgo S.L.U., and Patentes Talgo S.L.U. refused to purchase the share. On 14 May 2018, the Group returned the previously received advance payment to Talgo Kazajstan S.L.U. of 8,958 million tenge (23,000,000 Euros) as part of the proposed transaction in May 2015. The purchase/sale agreement for the interest in Tulpar-Talgo LLP was terminated on 13 July 2018.

In September 2018, Remlocomotiv JSC, a subsidiary, and Transmasholding JSC signed an agreement to sell Tulpar-Talgo LLP to Transmasholding JSC. However, as at 31 December 2018, Tulpar-Talgo LLP ceased to meet the criteria of IFRS 5, as the parties did not agree on certain conditions of the purchase/sale agreement for a 99.99926% interest in Tulpar-Talgo LLP and agreed to cancel the agreement. As a result, the Group ceased classification of Tulpar-Talgo LLP as held for sale and reclassified results of operations from discontinued operations to continuing operations.

Consequently, comparative information for 2017 and as at 31 December 2017 and 1 January 2017 was restated.

Additionally, the Group revised the prior year classification of current assets recognised for distribution to the Shareholder from *Assets for the Benefit of the Shareholder* to *Assets Classified as Held for Sale and for Distribution to the Shareholder* within the consolidated statement of financial position, since the assets initially constructed for the benefit of the Shareholder and the assets held for distribution are of the same nature and, respectively, were included in this line item; and revenue from the lease of wagons, the provision of mainline railway services and locomotive haulages, and freight forwarding services from *Freight Transportation* line to *Other Revenue* line within the consolidated statement of profit or loss and other comprehensive income, since these types of revenue are transportation related, but do not represent transportation itself, and respectively, were excluded from freight transportation line item. Accordingly, comparative amounts for 2017 and as at 31 December 2017 and 1 January 2017 have been restated to bring in line with current year presentation.

The restatement has not resulted in a material impact on the consolidated statement of cash flows. However, *Profit for the Year* and *Adjustments for Depreciation and amortisation* line items have been adjusted by 45 million tenge, which relates to depreciation adjustment for 2017 as a result of application of IFRS 5 requirements for the assets ceased to be classified as held for sale.

(in millions of Tenge, unless stated otherwise)

The items of the statement of financial position and statement of profit or loss and other comprehensive income not affected by the changes were not included in the table. Consequently, subtotals and totals cannot be summed up based on the amounts presented below:

Effect on a consolidated statement of financial position:

As at 31 December 2017	As previously reported	Tulpar-Talgo LLP reclassification	Reclassification of other assets for distribution to the Shareholder	As restated
ASSETS				
Non-current assets				
Property, plant and equipment	2,654,457	9,949	-	2,664,406
Intangible assets	14,177	78	-	14,255
Other non-current assets	89,137	289	-	89,426
Total non-current assets	**2,793,454**	**10,316**	**-**	**2,803,770**
Current assets				
Cash and cash equivalents	63,489	17,680	-	81,169
Trade accounts receivable	22,096	244	-	22,340
Assets held for the benefit of the Shareholder	290	-	(290)	-
Other current assets	51,088	127	-	51,215
	236,611	**18,051**	**(290)**	**254,372**
Assets classified as held for sale and for distribution to the Shareholder	120,866	(28,514)	290	92,642
Total current assets	**357,477**	**(10,463)**	**-**	**347,014**
Total assets	**3,150,931**	**(147)**	**-**	**3,150,784**
EQUITY AND LIABILITIES				
Equity				
Retained earnings	206,749	(147)	-	206,602
Equity attributable to the Shareholder	1,231,674	(147)	-	1,231,527
Total equity	**1,258,629**	**(147)**	**-**	**1,258,482**
Non-current liabilities				
Deferred tax liabilities	226,975	623	-	227,598
Employee benefit obligations	28,380	3	-	28,383
Other non-current liabilities	4,194	253	-	4,447
Total non-current liabilities	**1,444,268**	**879**	**-**	**1,445,147**
Current liabilities				
Trade accounts payable	113,564	4,060	-	117,624
Other taxes due	10,411	485	-	10,896
Other current liabilities	139,518	18,645	-	158,163
	361,527	**23,190**	**-**	**384,717**
Liabilities attributable to assets classified as held for sale	86,507	(24,069)	-	62,438
Total current liabilities	**448,034**	**(879)**	**-**	**447,155**
Total liabilities	**1,892,302**	**-**	**-**	**1,892,302**
Total equity and liabilities	**3,150,931**	**(147)**	**-**	**3,150,784**

(in millions of Tenge, unless stated otherwise)

As at 1 January 2017	As previously reported	Tulpar-Talgo LLP reclassification	Reclassification of other assets for distribution to the Shareholder	As restated
ASSETS				
Non-current assets				
Property, plant and equipment	2,521,329	9,927	-	2,531,256
Intangible assets	11,589	210	-	11,799
Other non-current assets	92,038	521	-	92,559
Total non-current assets	**2,658,999**	**10,658**	**-**	**2,669,657**
Current assets				
Cash and cash equivalents	48,978	4,500	-	53,478
Trade accounts receivable	15,417	145	-	15,562
Prepaid income tax	1,903	5	-	1,908
Assets held for the benefit of the Shareholder	48,068	-	(48,068)	-
Other current assets	39,174	40	-	39,214
	255,827	**4,690**	**(48,068)**	**212,449**
Assets classified for sale and distribution to the Shareholder	120,626	(15,452)	48,068	153,242
Total current assets	**376,453**	**(10,762)**	**-**	**365,691**
Total assets	**3,035,452**	**(104)**	**-**	**3,035,348**
EQUITY AND LIABILITIES				
Equity				
Retained earnings	198,502	(104)	-	198,398
Equity attributable to the Shareholder	1,156,998	(104)	-	1,156,894
Total equity	**1,168,033**	**(104)**	**-**	**1,167,929**
Non-current liabilities				
Deferred tax liabilities	224,358	318	-	224,676
Other non-current liabilities	4,399	999	-	5,398
Total non-current liabilities	**1,353,045**	**1,317**	**-**	**1,354,362**
Current liabilities				
Trade accounts payable	124,454	2,782	-	127,236
Other taxes due	8,246	2,311	-	10,557
Other current liabilities	92,266	12,897	-	105,163
	417,557	**17,990**	**-**	**435,547**
Liabilities attributable to assets classified as held for sale	96,817	(19,307)	-	77,510
Total current liabilities	**514,374**	**(1,317)**	**-**	**513,057**
Total liabilities	**1,867,419**	**-**	**-**	**1,867,419**
Total equity and liabilities	**3,035,452**	**(104)**	**-**	**3,035,348**

(in millions of Tenge, unless stated otherwise)

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

2017	Before adjustment	Tulpar-Talgo LLP recalculation	Income reclassification	Recalculated
Freight transportation	770,075	-	(20,504)	749,571
Other revenue	40,692	-	20,504	61,196
Total revenue	**913,113**	**-**	**-**	**913,113**
Gross profit	**191,783**	**-**	**-**	**191,783**
General and administrative expenses	(86,205)	(476)	-	(86,681)
Finance income	7,787	99	-	7,886
Finance costs	(97,565)	(149)	-	(97,714)
Foreign exchange loss	(7,625)	217	-	(7,408)
Assets impairment	(3,745)	(7)	-	(3,752)
Other profit or losses, net	3,561	70	-	3,631
Profit/(loss) before income tax	**18,525**	**(246)**	**-**	**18,279**
Income tax expenses	(5,835)	(309)	-	(6,144)
Profit/(loss) for the year from continuing operations	**12,690**	**(555)**	**-**	**12,135**
Profit for the year from discontinued operations	**266**	**510**	**-**	**776**
Profit/(loss) for the year	**12,956**	**(45)**	**-**	**12,911**

(in millions of Tenge, unless stated otherwise)

6. SEGMENT INFORMATION

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

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

The Group does not have a specific pricing policy for inter-segmental sales.

	For the year ended 31 December 2018				
	Freight transportation	**Passenger transportation**	**Total reporting segments**	**Other**	**Total**
Key operating indices					
Revenue					
Transportation revenue from third parties	849,036	84,219	933,255	-	933,255
Transportation income from operations among segments	29,171	2,422	31,593	-	31,593
Government grants	-	20,751	20,751	-	20,751
Other revenue from third parties	70,699	4,341	75,040	15,128	90,168
Other income from operations among segments	7,918	272	8,190	5,672	13,862
Eliminations	(35,936)	(3,848)	(39,784)	(5,671)	(45,455)
Revenue	920,888	108,157	1,029,045	15,129	1,044,174
Cost of sales	(696,098)	(110,488)	(806,586)	(11,862)	(818,448)
General and administrative expenses	(85,680)	(6,951)	(92,631)	(4,923)	(97,554)
Assets impairment	(850)	(278)	(1,128)	(4,881)	(6,009)
Other profit or losses, net	1,912	478	2,390	205	2,595
Finance income	7,170	421	7,591	624	8,215
Finance costs	(99,485)	(453)	(99,938)	(3,596)	(103,534)
Foreign exchange loss	(111,178)	(122)	(111,300)	(1,215)	(112,515)
Share of the profit/(loss) of associates and joint ventures	4,466	-	4,466	(985)	3,481
Gain from the disposal of shares in associates, joint ventures and subsidiaries not qualifying as discontinued operations	32	-	32	8,301	8,333
Profit before income tax	**(58,823)**	**(9,236)**	**(68,059)**	**(3,203)**	**(71,262)**
Income tax (expense)/benefit	(2,630)	943	(1,687)	(627)	(2,314)
Loss for the year from continuing operations	**(61,453)**	**(8,293)**	**(69,746)**	**(3,830)**	**(73,576)**
Other key segment information					
Capital expenditures	195,784	751	196,535	9,846	206,381
Depreciation of property, plant and equipment	109,708	8,373	118,081	2,312	120,393

(in millions of Tenge, unless stated otherwise)

	For the year ended 31 December 2017 (restated)				
	Freight transportation	Passenger transportation	Total reporting segments	Other	Total
Key operating indices					
Revenue					
Transportation revenue from third parties	749,571	81,886	831,457	-	831,457
Transportation income from operations among segments	19,998	2,316	22,314	-	22,314
Government grants	-	20,460	20,460	-	20,460
Other revenue from third parties	45,905	3,750	49,655	11,541	61,196
Other income from operations among segments	4,354	801	5,155	5,325	10,480
Eliminations	(24,352)	(3,117)	(27,469)	(5,325)	(32,794)
Revenue	795,476	106,096	901,572	11,541	913,113
Cost of sales	(617,990)	(94,493)	(712,483)	(8,847)	(721,330)
General and administrative expenses	(76,811)	(5,618)	(82,429)	(4,252)	(86,681)
Assets impairment	(210)	(2,659)	(2,869)	(883)	(3,752)
Other profit or losses, net	2,762	750	3,512	119	3,631
Finance income	5,758	689	6,447	1,439	7,886
Finance costs	(96,266)	(201)	(96,467)	(1,247)	(97,714)
Foreign exchange (loss)/gain	(7,788)	73	(7,715)	307	(7,408)
Share of the profit/(loss) of associates and joint ventures	2,234	-	2,234	(96)	2,138
Gain from the disposal of shares in associates, joint ventures and subsidiaries not qualifying as discontinued operations	8,396	-	8,396	-	8,396
Profit/(loss) before income tax	**17,850**	**2,348**	**20,198**	**(1,919)**	**18,279**
Income tax expenses	(5,459)	(58)	(5,517)	(627)	(6,144)
Profit/(loss) for the year from continuing operations	**12,391**	**2,290**	**14,681**	**(2,546)**	**12,135**
Other key segment information					
Capital expenditures	220,908	19,212	240,120	1,884	242,004
Depreciation of property, plant and equipment	96,423	8,071	104,494	2,431	106,925

Geographical information for the Group

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

Customer location	2018	2017
Kazakhstan	1,006,155	893,305
Russia	28,886	12,442
Other	9,133	7,366
	1,044,174	**913,113**

Mainly, all of the Group's non-current assets are located in Kazakhstan.

(in millions of Tenge, unless stated otherwise)

7. PROPERTY, PLANT AND EQUIPMENT

	Rail track infrastructure	Buildings and structures	Machinery and equipment	Vehicles	Land	Other	Construction in-progress	Total
Carrying amount as at 1 January 2017 (restated)	**959,909**	**178,301**	**252,799**	**832,023**	**3,646**	**13,329**	**291,249**	**2,531,256**
Additions	2,316	43	634	15,540	91	99	218,112	236,835
Finance lease additions	-	-	-	12,953	-	-	-	12,953
Disposals	(103)	(155)	(1,149)	(4,271)	(69)	(352)	-	(6,099)
Depreciation charge	(26,214)	(7,744)	(25,310)	(45,774)	-	(1,883)	-	(106,925)
Depreciation on disposal	91	140	1,106	3,435	-	363	-	5,135
(Impairment)/impairment reversal	(31)	19	14	65	-	(2)	(921)	(856)
Transfer to investment property	-	(2,671)	-	-	-	-	-	(2,671)
Transfer to assets classified as held for sale and for distribution to the Shareholder	-	(974)	(1,814)	(323)	-	(65)	-	(3,176)
Other movements and transfers	56,478	183,272	45,270	31,514	-	2,188	(320,768)	(2,046)
Carrying amount as at 31 December 2017 (restated)	**992,446**	**350,231**	**271,550**	**845,162**	**3,668**	**13,677**	**187,672**	**2,664,406**
Cost	1,182,494	400,348	418,959	1,221,591	3,668	24,682	197,140	3,448,882
Accumulated depreciation and impairment	(190,048)	(50,117)	(147,409)	(376,429)	-	(11,005)	(9,468)	(784,476)
Carrying amount as at 1 January 2018 (restated)	**992,446**	**350,231**	**271,550**	**845,162**	**3,668**	**13,677**	**187,672**	**2,664,406**
Additions	56	341	372	38,811	-	77	163,194	202,851
Finance lease additions	-	-	-	8,478	-	-	-	8,478
Disposals	(976)	(653)	(1,711)	(4,498)	(3)	(313)	-	(8,154)
Depreciation charge	(34,568)	(5,042)	(27,286)	(51,521)	-	(1,976)	-	(120,393)
Depreciation on disposal	666	238	1,487	4,478	-	306	-	7,175
Impairment reversal/(impairment)	14	(9)	(21)	(472)	-	(7)	43	(452)
Transfer to investment property	-	(250)	(253)	(1,040)	(68)	(6)	-	(1,617)
Transfer to assets classified as held for sale and for distribution to the Shareholder	-	(8,198)	(401)	(9)	(1,781)	(182)	(10)	(10,581)
Other movements and transfers	139,724	(15,187)	18,408	42,016	4	753	(186,036)	(318)
Carrying amount as at 31 December 2018	**1,097,362**	**321,471**	**262,145**	**881,405**	**1,820**	**12,329**	**164,863**	**2,741,395**
Cost	1,319,489	371,125	434,593	1,302,088	1,820	24,827	174,288	3,628,230
Accumulated depreciation and impairment	(222,127)	(49,654)	(172,448)	(420,683)	-	(12,498)	(9,425)	(886,835)

In 2018, the Group received property, plant and equipment from the Shareholder of 290 million tenge (2017: 2,323 million tenge) and recognised it in a consolidated statement of changes in equity as an additional paid-in capital (Note 16).

As at 31 December 2018, construction-in-progress predominantly consisted of project costs to build the Zhezkazgan-Beineu, Arkalyk-Shubarkol and Almaty-Shu railways of 21,082 million tenge (2017: 70,830 million tenge), to build a ferry complex at the Kuryk port of 43,362 million tenge (2017: 35,294 million tenge) and to develop a railway junction at the Astana station, including the construction of station building facilities of 43,966 million tenge (2017: 31,286 million tenge).

As at 31 December 2018 and 2017, Group property, plant and equipment with a carrying amount of 130,129 million tenge and 134,091 million tenge, respectively, was used as collateral for specific borrowings.

For the years ended 31 December 2018 and 2017, capitalised borrowing costs amounted to 2,130 million tenge and 2,989 million tenge, respectively. The Group's average capitalisation rate varies between 3.2% and 8.55% (2017: between 2.59% and 10%).

As at 31 December 2018 and 2017, the cost of the Group's fully depreciated property, plant and equipment in use was 269,280 million tenge and 246,544 million tenge, respectively.

(in millions of Tenge, unless stated otherwise)

8. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

			31 December 2018		31 December 2017	
Name	**Core activity**	**Main country of operation/ incorporation**	**Carrying amount**	**Ownership interest**	**Carrying amount**	**Ownership interest**
Associates						
Chinese-Kazakhstan International Logistics Company in Lianyungang	International multimodal transportation	China	11,558	49%	10,552	49%
United Transport and Logistics Company - Eurasian Rail Alliance JSC	Domestic and international rail transportation and freight forwarding	Russia	5,308	33.33%	-	
Other			-	30-47%	986	25-47%
Total investment in associates			**16,866**		**11,538**	
Joint ventures						
Logistic System Management B.V.	Freight forwarding, rolling stock management and terminal management	Kazakhstan / Netherlands	15,493	50%	15,866	50%
Total investment in joint ventures			**15,493**		**15,866**	

(in millions of Tenge, unless stated otherwise)

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

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

	2018	2017
Associates		
As at 1 January	11,538	11,358
Recalculation of foreign currencies	1,097	634
Charter capital contributions	2,611	1,358
Share of profit/(loss)	1,727	(2,008)
Fair value of guarantees provided	-	196
Dividends declared	(263)	-
Transfer from other non-current assets	156	-
As at 31 December	**16,866**	**11,538**
Joint ventures		
As at 1 January	15,866	11,720
Share of profit	1,754	4,146
Dividends declared	(2,127)	-
As at 31 December	**15,493**	**15,866**

In April 2018, United Transportation and Logistics Company JSC (UTLC) was reorganised, resulting in the spin-off of United Transportation and Logistics Company - Eurasian Railway Alliance JSC (UTLC ERA), whose share capital was distributed equally among the Group, Russian Railways OJSC and Belarussian Railways. Thus, a 0.08% interest in UTLC belonging to the Group was converted into a 33.33% interest in UTLC ERA and, as a result, the Group transferred investments from other non-current assets to associates. Share of profit in UTLC ERA recognised in 2018 since acquisition amounted to 5,309 million tenge.

In 2018, the Group, represented by subsidiary KTZ Express JSC, made additional cash contributions without change in ownership interest in the charter capital of the associate Continental Logistics LLP of 2,611 million tenge.

During 2018, dividends were received in cash for 2018 H1 from the associate UTLC ERA and for 2016 from the associate Logistic System Management B.V. of 237 million tenge and 2,011 million tenge, respectively (in 2017: for 2015 - 1,664 million tenge).

During 2018, the Group sold a 25% interest in the associate Elektrovoz Kurastyru Zauyty LLP for 8,301 million tenge.

(in millions of Tenge, unless stated otherwise)

Summary financial information in relation to significant associates as at and for the years ended 31 December:

	2018					2017				
	Chinese-Kazakhstan International Logistics Company in Lianyungang	**Aktobe Rail and Section Mill Plant LLP**	**Continental Logistics LLP**	**Aktau Marine North Terminal LLP**	**United Transportation and Logistics Company – Eurasian Railway Alliance JSC**	**Chinese-Kazakhstan International Logistics Company in Lianyungang**	**Aktobe Rail and Section Mill Plant LLP**	**Continental Logistics LLP**	**Aktau Marine North Terminal LLP**	**Electrovoz kurastyru zauyty LLP**
Current assets	2,571	31,198	12,169	874	21,195	3,243	19,172	11,352	1,951	15,259
Non-current assets	22,497	69,796	31,805	43,742	3,409	21,203	75,504	31,037	42,451	21,516
Total assets	**25,068**	**100,994**	**43,974**	**44,616**	**24,604**	**24,446**	**94,676**	**42,389**	**44,402**	**36,775**
Current liabilities	1,264	24,460	22,136	3,390	5,804	2,716	20,678	18,576	1,844	31,959
Non-current liabilities	218	97,061	24,963	49,578	2,874	195	97,151	28,530	40,094	16,912
Total liabilities	**1,482**	**121,521**	**47,099**	**52,968**	**8,678**	**2,911**	**117,829**	**47,106**	**41,938**	**48,871**
Total net assets/ (liabilities)	**23,586**	**(20,527)**	**(3,125)**	**(8,352)**	**15,926**	**21,535**	**(23,153)**	**(4,717)**	**2,464**	**(12,096)**
Ownership interest	49%	30%	30%	40%	33.33%	49%	30%	30%	40%	25%
Net assets/(liabilities) attributable to the Group	11,557	(6,158)	(938)	(3,341)	5,308	10,552	(6,946)	(1,415)	986	(3,024)
Accumulate unrecognised loss	-	(9,706)	(938)	(3,341)	-	-	(6,946)	(1,415)	-	(3,024)
Adjustment to a carrying value of investment in the change of the investee's net assets (fair value adjustment of the concessional loan from another shareholder)	-	3,548	-	-	-	-	-	-	-	-
Investment carrying amount	**11,557**	**-**	**-**	**-**	**5,308**	**10,552**	**-**	**-**	**986**	**-**
Revenue	8,046	42,072	2,132	3,476	108,372	1,594	32,972	3,428	1,954	2,360
Profit/(loss) for the year and total comprehensive income/(loss)	31	(9,203)	(7,112)	(10,816)	15,929	24	(8,404)	(3,367)	(4,142)	(5,332)
Group's recognised share of comprehensive income/(loss)	**15**	**-**	**(2,611)**	**(986)**	**5,309**	**12**	**(97)**	**(99)**	**(1,657)**	**-**

(in millions of Tenge, unless stated otherwise)

Summary financial information in relation to the joint venture Logistic System Management B.V. as at and for the years ended 31 December:

	2018	2017
Current assets, including:	14,152	18,964
Cash and cash equivalents	*7,120*	*6,297*
Non-current assets	18,357	14,968
Total assets	**32,509**	**33,932**
Current liabilities, including	4,006	4,529
Current financial liabilities (except for trade and other accounts payable and allowances)	*113*	*113*
Non-current liabilities, including	864	1,019
Non-current financial liabilities (except for trade and other accounts payable and allowances)	*113*	*225*
Total liabilities	**4,870**	**5,548**
Net assets	**27,639**	**28,384**
Ownership interest		50%
Net assets of joint ventures attributable to the Group	13,819	14,192
Goodwill	1,674	1,674
Carrying amount of investments	**15,493**	**15,866**
Revenue	58,549	53,093
Depreciation and amortisation	(986)	(990)
Finance income	64	159
Finance costs	(33)	(46)
Income tax expenses	(1,604)	(2,107)
Profit for the year and total comprehensive income	3,507	8,292
Group's recognised share of comprehensive income	**1,754**	**4,146**

9. OTHER FINANCIAL ASSETS

	31 December 2018	31 December 2017
Funds in credit institutions (short-term financial investments)	345	15,913
Loans provided	487	24,497
Less: allowance for impairment on loans provided and funds in credit institutions	(545)	(955)
	287	**39,455**
Current portion of other financial assets	287	37,129
Long-term portion of other financial assets	-	2,326
	287	**39,455**

During 2018, interest-free financial aid provided to an organisation under trust management, Astana International Airport JSC, a related party, was repaid in full to the amount of 24,000 million tenge.

As at 31 December 2018 and 2017, all loans provided were denominated in tenge.

As at 31 December 2018, the weighted average interest rate on funds in credit institutions was 1.87% in US$ and 10% in tenge (2017: 3.5% in US$ and 11.17% in tenge).

(in millions of Tenge, unless stated otherwise)

As at 31 December 2018, there were no funds in credit institutions used as collateral (2017: pledged as collateral – 2,376 million tenge). Ratings as at 31 December 2018 and 2017 ranged between B+(B1) and B-(B3).

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

	31 December 2018	31 December 2017
US$	61	15,497
Tenge	226	416
	287	**15,913**

10. TRADE ACCOUNTS RECEIVABLE

	31 December 2018	31 December 2017 (restated)
Trade accounts receivable	23,191	30,931
Less: allowance for expected credit losses on accounts receivable	(1,520)	(8,549)
	21,671	**22,382**
Current portion of trade accounts receivable	21,639	22,340
Long-term portion of trade accounts receivable (Note 11)	32	42
	21,671	**22,382**

As at 31 December 2018, trade accounts receivable arising from the contracts with customers amounted to 18,437 million tenge, and expected credit losses on those trade accounts receivable for 2018 were 3,141 million tenge.

The average term of payment for services rendered is 30 days. During this period, interest on outstanding trade receivables is not charged.

31 December 2018	**Total**	**Not overdue**	**Overdue** up to 90 days	**Overdue** 90 - 120 days	**Overdue** over 120 days
Gross book value	23,191	16,297	4,428	1,103	1,363
Expected credit losses (%)		up to 5.61%	up to 37.15%	1.37%-44.59%	2.57%-100%
Allowance for expected credit losses	(1,520)	(75)	(152)	(139)	(1,154)
Carrying value	21,671	16,222	4,276	964	209

1 January 2018	**Total**	**Not overdue**	**Overdue** up to 90 days	**Overdue** 90 - 120 days	**Overdue** over 120 days
Gross book value	30,931	19,053	3,312	23	8,543
Expected credit losses (%)		up to 1%	1% - 25.52%	1.11%-32.37%	2.8%-100%
Allowance for expected credit losses	(8,554)[7]	(18)	(11)	(17)	(8,508)
Carrying value	22,377	19,035	3,301	6	35

[7] The provision includes the amount of debt of 7,931 million tenge, for which the Group has no reasonable expectations of recovering. Accordingly, when applying IFRS 9, the Group directly reduced the gross carrying value for this amount.

(in millions of Tenge, unless stated otherwise)

Changes in the allowance for expected credit losses on trade accounts receivable for the years ended 31 December are as follows:

	2018	2017 (restated)
Allowance for doubtful accounts receivable under IAS 39 at the beginning of the year	**8,549**	**8,220**
Adjustment in connection with the application of IFRS 9	(7,926)	-
Allowance for expected credit losses on accounts receivable under IFRS 9 at the beginning of the year	**623**	**8,220**
Accrued for the year	3,657	606
Written off during the year against a previously created allowance	(2,702)	(277)
Disposal of a subsidiary	(58)	-
Allowance for expected credit losses on accounts receivable under IFRS 9 at the end of the year	**1,520**	**8,549**

11. OTHER NON-CURRENT ASSETS

	31 December 2018	31 December 2017 (restated)
Advances paid for property, plant and equipment	59,795	56,536
VAT recoverable	43,627	36,488
Loans to employees	4,928	5,550
Investment property	11,557	2,663
Prepaid expenses	3,856	1,874
Long-term trade accounts receivable (Note 10)	32	42
Other	3,516	5,174
	127,311	**108,327**
Less: allowance for advances for property, plant and equipment	(5,985)	(1,350)
Less: allowance for non-recoverable VAT	(17,772)	(17,551)
Less: allowance for other non-current assets	(754)	-
	102,800	**89,426**

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

	31 December 2018	31 December 2017 (restated)
Supply of locomotives	34,468	20,354
Construction of a ferry complex at Kuryk Port and the operation of universal freight and passenger ferries	10,976	22,276
Supply of freight wagons	5,655	-
Supply of spare parts for passenger wagons	4,328	8,131
Construction of the Astana station complex	-	412
Other	4,368	5,363
	59,795	**56,536**

(in millions of Tenge, unless stated otherwise)

12. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017 (restated)
Short-term bank deposits, in tenge	30,434	19,287
Cash in bank current accounts, in tenge	22,750	40,521
Cash in bank current accounts, in US$	9,867	4,202
Cash in bank accounts, in other currencies	3,278	17,147
Short-term bank deposits in other currencies	287	-
Petty cash	9	12
Less: allowance for expected credit losses on cash	(19)	-
	66,606	81,169
Cash included in assets held for sale and for distribution to the Shareholder (Note 15)	1,617	3,215
	68,223	**84,384**

As at 31 December 2018, the weighted average interest rate on cash in current accounts was 1.3% in tenge and 0.94% in other currencies (31 December 2017: 2.11% in tenge, 0.2% в US$ and 0.28% in other currencies).

Short-term bank deposits in tenge and foreign currency are opened for up to three months, depending on the Group's cash needs. As at 31 December 2018, the weighted average interest rate on short-term bank deposits was 7.49% in tenge and 5.69% in other currencies (31 December 2017: 8.11% in tenge; while there were no deposits in other currencies).

The Group places cash and cash equivalents in banks and other financial institutions rated between B- and BB+. Based on this, the Group believes that the cash and cash equivalent credit risk as at 31 December 2018 is low.

The allowance for expected credit losses on cash is based on 12-month expected credit losses, which matches their maturity date.

13. INVENTORIES

	31 December 2018	31 December 2017
Spare parts	14,587	9,443
Materials and supplies	8,766	8,359
Railway materials	6,294	5,590
Fuel and lubricants	3,526	5,129
Work-in-progress	537	422
Finished goods	371	380
Construction materials	540	334
Other	1,166	1,021
	35,787	**30,678**
Less: allowance for inventories	(625)	(361)
	35,162	**30,317**

(in millions of Tenge, unless stated otherwise)

14. OTHER CURRENT ASSETS

	31 December 2018	31 December 2017 (restated)
Other taxes prepaid	27,028	20,868
Advances paid	18,373	13,265
Claims, interest and fines	8,610	8,325
Receivables from the sale of subsidiaries	3,515	3,515
Amounts due from employees	1,447	1,476
Prepaid expenses	1,222	1,803
Restricted cash	303	518
Dividends receivable	410	386
Other	12,070	13,559
	72,978	**63,715**
Less: allowance for the impairment of advances paid and allowance for expected credit losses on other current assets	(16,088)	(12,500)
	56,890	**51,215**

Changes in the allowance for impairment on advances issued and allowance for expected credit losses on other current assets for the years ended 31 December are represented as follows:

	2018	2017 (restated)
Allowance for the impairment of advances issued and other current assets at the beginning of the year	12,500	11,430
Foreign currency translation	-	13
Accrued for the year	3,579	1,235
Written off during the year against previously created allowance	(524)	(178)
Translation from other non-current assets	533	-
Allowance for the impairment of advances issued and allowance for expected credit losses on other current assets at the end of the year	**16,088**	**12,500**

15. DISCONTINUED OPERATIONS AND ASSETS, CLASSIFIED AS HELD FOR SALE AND FOR DISTRIBUTION TO THE SHAREHOLDER

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

As at 31 December 2018 and 2017, the assets and liabilities of the subsidiaries meeting the criteria of non-current assets held for sale criteria were classified as 'disposal groups classified as held for sale' in the consolidated statement of financial position.

In 2018, the Group completed a transaction to sell shares to a third party in the subsidiary M. Tynyshpayev Kazakh Transport and Communications Academy JSC. As a result of the sale, the Group lost control over the subsidiary, which does not represent a major line of business, and recognised the results of the sale in profit from the disposal of subsidiaries that are not a component of discontinued operations (Note 29).

Transtelecom JSC

In April 2018, an agreement was concluded to sell a 26% interest -1 share of Transtelecom JSC. Consequently, Transtelecom JSC assets and liabilities as at 31 December 2018 and 2017 were classified as assets held for sale. Management expects that the transaction will be completed within 12 months of the reporting date.

Sales of interests in associates and joint ventures

During 2018, the Group completed a transaction to sell a 25% interest in the associate Elektrovoz Kurastyru Zauyty JSC to a third party. After the sale, the Group lost significant influence over the company and recognised a gain of 8,301 million tenge in profit from the sale of interests in associates.

During 2017, the Group entered into a transaction to sell a 50% interest in the joint ventures Astyk-Trans JSC and Locomotiv Kurastyru Zauyty JSC to a third party. After the sale, the Group lost joint control over the companies and recognised the gain of 8,145 million tenge in profit from the sale of interests in joint ventures.

(in millions of Tenge, unless stated otherwise)

	As at 31 December 2018			As at 31 December 2017 (restated)		
	Transtelecom JSC	Other	Total	Transtelecom JSC	Other	Total
Assets						
Property, plant and equipment	79,349	2	79,351	67,239	5	67,244
Intangible assets	5,093	-	5,093	4,132	-	4,132
Other non-current assets	2,706	-	2,706	5,865	-	5,865
Inventories	942	-	942	1,333	-	1,333
Trade accounts receivable	6,457	-	6,457	3,525	-	3,525
Other current assets	2,867	21	2,888	4,127	21	4,148
Cash and cash equivalents	1,615	2	1,617	3,215	-	3,215
Total assets of the disposal group held for sale	**99,029**	**25**	**99,054**	**89,436**	**26**	**89,462**
Asset for distribution to the Shareholder (Note 33)	-	282	282	-	290	290
Other (wagon repair depot assets)	-	-	-	-	2,890	2,890
Total non-current assets held for sale and for distribution to the Shareholder	**-**	**282**	**282**	**-**	**3,180**	**3,180**
Total assets held for sale and distribution to the Shareholder	**99,029**	**307**	**99,336**	**89,436**	**3,206**	**92,642**
Liabilities						
Borrowings	52,268	-	52,268	47,111	-	47,111
Finance lease liabilities	1,821	-	1,821	2,008	-	2,008
Employee benefit obligations	499	-	499	407	-	407
Deferred tax liabilities	4,140	-	4,140	3,471	-	3,471
Other non-current liabilities	16	-	16	-	-	-
Trade accounts payable	17,839	113	17,952	6,385	113	6,498
Other taxes payable	202	-	202	155	-	155
Contracts liabilities	113	-	113			
Other current liabilities	5,198	3	5,201	2,786	2	2,788
Total liabilities attributable to assets held for sale	**82,096**	**116**	**82,212**	**62,323**	**115**	**62,438**
Net assets of the disposal group	**16,933**	**-**	**-**	**27,113**	**-**	**-**

(in millions of Tenge, unless stated otherwise)

Discontinued operations

The Group presented the operating results of the subsidiary Transtelecom JSC as discontinued in the consolidated statement of profit or loss and other comprehensive income.

The results of discontinued operations for 2018 and 2017 are as follows:

	2018	2017 (restated)
Revenue	36,500	37,724
Cost of sales	(25,217)	(25,284)
General and administrative expenses	(6,598)	(4,219)
Asset impairment	(293)	(22)
Write down of disposal group value to fair value less costs to sell	(11,049)	-
Other profit and losses	315	82
Finance income	486	257
Finance costs	(5,833)	(5,989)
Foreign exchange rate gain/(loss)	98	(275)
(Loss)/profit before tax	**(11,591)**	**2,274**
Income tax expenses	(1,288)	(1,498)
(Loss)/profit from discontinued operations for the year	**(12,879)**	**776**
Basic (loss)/earnings per share (tenge)	(26)	2

Changes in cash from the discontinued operations of subsidiaries are as follows:

	2018	2017
Net cash received from operating activities	15,960	4,621
Net cash used in investing activities	(21,407)	(6,932)
Net cash received/(used) in finance activities	3,847	(7,610)
Net cash outflow	**(1,600)**	**(9,921)**

16. EQUITY

As at 31 December 2018 and 2017, share capital is presented as follows:

	No. of shares authorised for issue	No. of shares issued and paid for	Share capital, millions of tenge	Additional paid-in capital, mln. tenge
As at 1 January 2017	502,040,458	496,063,720	993,460	-
Shares issued	-	93,852	69,175	-
As at 31 December 2017	502,040,458	496,157,572	1,062,635	-
Shares issued	-	290,037	-	290
As at 31 December 2018	**502,040,458**	**496,447,609**	**1,062,635**	**290**

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

Contributions

Shares issue

In 2018, the Shareholder contributed 51 open wagons with a total market value of 290 million tenge for 290,037 shares issued by the Group (Note 7). As at 31 December 2018, the Group recognised the transaction in additional paid-in capital, as the shares registration had not been completed (Note 35).

In 2017, shares were issued as follows:

a) 66,852 shares, as payment for which it received cash of 66,852 million tenge, to build the ferry complex at the Kuryk Port and operate universal freight and passenger ferries and
b) 27,000 shares, as payment for which it received property (Karabatan railway station (development of railway tracks and auxiliary facilities)) and land use rights for two land plots for a total value of 2,323 million tenge (Note 7).

Foreign currency translation reserve

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

Hedging reserve

The cash flow hedge reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges related to revenue in foreign currency. The cumulative deferred gain or loss on the hedging instrument is recognized in profit or loss only when the hedged transaction impacts the profit or loss, or is included directly in the initial cost or other carrying amount of the hedged non-financial items (basis adjustment).

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

As at 31 December 2018, the effective part of 14,026 million tenge was recorded in the cash flow hedging reserve through other comprehensive income (2017: 3,479 million tenge). The ineffective part of 167 million tenge was recorded in finance costs (2017: 75 million tenge).

Dividends

In 2018, the Company declared and paid dividends for 2017 of 1,710 million tenge.

As at 31 December 2018, dividends payable to the Shareholder amounted to 16,425 million tenge (31 December 2017: 16,425 million tenge) (Notes 23 and 33).

Other distributions

In December 2018, the Kazakhstan Government and Shareholder charged the Group with financing the construction of a Children's Centre in Turkestan. As a consequence, the Group accepted the irrevocable commitment to build it and as a result recognised the distribution to the Shareholder of estimated construction costs of 5,300 million tenge.

In 2018, the Group recognised an additional imputed VAT obligation of 1 million tenge, which arose as a result of the transfer of several kindergarten facilities to local authorities.

In 2017, the Group recognised an additional irrevocable commitment related to construction of a multifunctional ice palace as a distribution for the amount of VAT of 5,733 million tenge as a result of the Ice Palace's transfer free of charge to the Astana city administration (Note 33).

In 2017, the Group entered into an irrevocable commitment to finance restoration work on the Kazakhstan Trade and Exhibition Centre in Moscow and recognised a distribution to the Shareholder of 1,388 million tenge.

In 2017, the Group recognised an impairment adjustment for bonds purchased from Special Investment Company DSFK LLP of 2,111 million tenge in other distributions to the Shareholder, net of deferred tax of 88 million tenge.

(in millions of Tenge, unless stated otherwise)

Change in ownership share in subsidiaries without loss of control

In July 2017, the Group, represented by its subsidiary KTZ Express JSC, sold a 49% interest in KTZE-Khorgos Gateway LLP to a third party for 24,063 million tenge, resulting in the recognition of a non-controlling interest in KTZE-Khorgos Gateway LLP of 16,516 million tenge. The 7,547 million tenge difference was recognised in the Group's retained earnings.

17. BORROWINGS

As at 31 December, borrowings, including accrual interest, consisted of the following:

	31 December 2018		31 December 2017	
	Amount	**Weighted average effective interest rate (%)**	**Amount**	**Weighted average effective interest rate (%)**
Fixed interest rate borrowings				
Borrowings received	223,280		277,429	
- in tenge	*159,669*	*8.52*	*145,120*	*8.99*
- in US$	*2,104*	*2.55*	*65,866*	*3.28*
- in Euros	*58,808*	*5.89*	*63,012*	*6.11*
- in other currencies	*2,699*	*4.25*	*3,431*	*4.00*
Debt securities issued	1,082,402		839,965	
- in tenge	*103,015*	*9.69*	*25,512*	*11.00*
- in US$	*718,771*	*6.64*	*629,359*	*6.86*
- in Swiss Francs	*177,855*	*3.26*	*98,687*	*3.35*
- in other currencies	*82,761*	*8.75*	*86,407*	*8.75*
Variable interest rate borrowings				
Borrowings received	23,424		93,780	
- in tenge	*18,039*	*11.41*	*71,151*	*11.57*
- in US$	*5,385*	*5.79*	*22,629*	*5.73*
Debt securities issued	53,171		53,546	
- in tenge	*53,171*	*9.32*	*53,546*	*10.42*
	1,382,277		**1,264,720**	
Current portion of borrowings	175,164		93,751	
Long-term portion of borrowings	1,207,113		1,170,969	
	1,382,277		**1,264,720**	

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

	31 December 2018	31 December 2017
During the year	126,434	74,020
1-2 years	9,737	37,064
2-3 years	7,851	37,252
3-4 years	4,357	32,580
4-5 years	1,642	30,849
Over 5 years	96,683	159,444
	246,704	**371,209**

Early repayment

In 2018, the Group, represented by its subsidiary KTZ-Freight Transportation JSC, within the framework of a credit agreement with dated 12 December 2016 Halyk Bank JSC made an early repayment of the loan 25,246 million tenge.

Within the framework of a credit agreement dated 26 November 2012 with the US Export-Import Bank, the Group, represented by its subsidiary KTZ-Freight Transportation JSC, made a full repayment of its debt of 61,803 million tenge.

(in millions of Tenge, unless stated otherwise)

The Group, represented by the Company and its subsidiary Kaztemirtrans JSC, within the framework of a loan restructuring agreements with EBRD dated 22 December 2016 made an early repayment of the loan of 43,578 million tenge.

The early repayment of these borrowings did not lead to additional finance costs.

Borrowings received

In 2018, the Group received the following borrowings:

Halyk Bank JSC

In 2018, the Group, represented by its subsidiary KTZ-Freight Transportation JSC, within the framework of a credit line agreement concluded 26 February 2015, borrowed 48,800 million tenge at 12% interest per annum for up to one year. The Group repaid the funds ahead of schedule.

In 2018, the Group, represented by the Company, within the framework of a credit line agreement concluded 26 February 2015, borrowed 30,490 million tenge at 12% interest per annum for up to one year. During 2018, the Group made a partial repayment of 2,500 million tenge.

In June 2018, an addendum was signed with Halyk Bank JSC to the credit line agreement dated 26 February 2015, which stipulated KTZ-Express JSC's inclusion as a co-borrower for 15,000 million tenge at 12% interest per annum for up to one year. During 2018, the Group made a partial repayment of 7,100 million tenge.

Debt securities issued

As at 31 December, debt securities issued included:

	Repayment date	Exchanges	31 December 2018	31 December 2017
Bonds issued, by price				
6.95% Eurobonds (105.521%) in US$	10 July 2042	LSE/KASE	441,797	395,123
4.85% Eurobonds (100.393%) in US$	17 November 2027	ISE/KASE	276,974	234,235
8.75% Bonds (100%) in Russian Roubles	7 June 2022	MOEX	82,761	86,408
9.25% Bonds (100%) in tenge	15 November 2024	KASE	76,831	-
3.638% Eurobonds (100%) in Swiss Francs	20 June 2022	SIX Swiss Exchange	73,574	64,174
3.25% Eurobonds (100%) in Swiss Francs	5 December 2023	SIX Swiss Exchange	64,710	-
Inflation rate +2.52% (9.32%) Bonds (100%) in tenge	25 April 2026	KASE	53,171	53,546
2.59% Eurobonds (100%) in Swiss Francs	20 June 2019	SIX Swiss Exchange	39,570	34,513
11% Bonds (100%) in tenge	23 July 2027	KASE	26,185	25,512
Total debt securities issued			**1,135,573**	**893,511**
Current portion of debt securities issued			48,730	19,731
Long-term portion of debt securities issued			1,086,843	873,780
			1,135,573	**893,511**

On 25 September 2018, to refinance currency borrowings and borrowings in tenge with high interest rates, the Company issued bonds on KASE for 75,000 million tenge with a coupon rate of 9.25% per annum and maturity date of 15 November 2024. The coupon is paid once a year.

On 5 December 2018, to refinance a US$ loan of KTZ-Freight Transportation JSC, the Company issued Eurobonds on SIX Swiss Exchange for 170,000,000 Swiss Francs, with a coupon rate of 3.25% per annum and maturity date of 5 December 2023. The coupon is paid once a year.

The fair value of the borrowings is presented in Note 34.

Credit agreements and breaches of credit agreements

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

EBRD and HSBC France loan agreements with a carrying value of 23,320 million tenge and 58,808 million tenge, respectively, include certain financial covenants, such as Adjusted Debt to Adjusted EBITDA, Adjusted Debt to Equity[8] and Interest Coverage Ratios (based on Adjusted EBITDA).

As at 31 December 2018, the Group had failed to meet one of the HSBC France financial covenants, and, as a result, classified long-term portion of the loan of 46,238 million tenge as current liability. After the reporting date, the Group received a waiver from HSBC France to reset covenant threshold as at 31 December 2018 (Note 35). As at 31 December 2018, the Group was in compliance with the reset covenant. Accordingly, this event had not resulted in payment acceleration of HSBC France loan and had not impacted the Group's obligations under its other borrowing arrangements.

In order to avoid noncompliance with obligations to EBRD and DBK, prior to year-end, the Group received a waiver from creditors agreeing not to apply financial covenants as at 31 December 2018.

[8] As per HSBC France loan agreement terms.

(in millions of Tenge, unless stated otherwise)

Reconciliation of changes in liabilities and cash flows from financing activity

	2018			2017		
	Borrowings and debt securities issued	Finance lease liabilities (Note 18)	Total	Borrowings and debt securities issued	Finance lease liabilities (Note 18)	Total
As at 1 January in accordance with IAS 39 requirements	**1,264,720**	**14,885**	**1,279,605**	**1,239,680**	**-**	**1,239,680**
Adjustment in connection with the application of IFRS 9	4,505	-	4,505	-	-	-
As at 1 January 2018, in accordance with IFRS 9 requirements	**1,269,225**	**14,885**	**1,284,110**	**1,239,680**	**-**	**1,239,680**
Changes due to cash flows from financing activities						
Principal payment	(283,608)	-	(283,608)	(431,847)	-	(431,847)
Proceeds from borrowings received	271,996	-	271,996	419,633	-	419,633
Payments on finance lease liabilities	-	(784)	(784)	-	(128)	(128)
Total changes due to cash flows from financing activities	**(11,612)**	**(784)**	**(12,396)**	**(12,214)**	**(128)**	**(12,342)**
Other changes						
Effect of changes in foreign exchange rates	112,798	-	112,798	2,534	-	2,534
Cash flow hedging	14,193	-	14,193	3,554	-	3,554
New finance lease agreements	-	5,287	5,287	-	14,414	14,414
Interest expenses on loans and finance leases and discount amortisation (Note 28)	90,306	1,092	91,398	89,312	195	89,507
Interest paid	(93,936)	(572)	(94,508)	(73,253)	(190)	(73,443)
Effect of modifications or exchange of debt assets and liabilities that do not lead to derecognition	(1,036)	-	(1,036)	-	-	-
Other changes	2,339	(1,836)	503	15,107	594	15,701
Total other changes attributable to liabilities	**124,664**	**3,971**	**128,635**	**37,254**	**15,013**	**52,267**
As at 31 December	**1,382,277**	**18,072**	**1,400,349**	**1,264,720**	**14,885**	**1,279,605**

(in millions of Tenge, unless stated otherwise)

18. FINANCE LEASE LIABILITIES

As at 31 December, Group finance lease liabilities included:

	2018		2017	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
During one year	1,513	1,677	1,222	1,135
Between two and five years inclusive	7,256	5,021	3,143	2,512
Over five years	22,794	11,374	15,603	11,238
Net minimum liabilities	**31,563**	**18,072**	**19,968**	**14,885**
Less future finance costs	(13,491)	-	(5,083)	-
Present value of lease payments	**18,072**	**18,072**	**14,885**	**14,885**
Less amounts due within 12 months		(1,677)		(1,135)
Amount to be repaid after 12 months		**16,395**		**13,750**

Passenger wagons

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

During 2017, the Group had received 43 passenger cars of 11,552 million tenge and recognised them as property, plant and equipment at present value of minimum lease payments inclusive of paid advances.

Platform cars

In August 2017, the Group, represented by its subsidiary KTZ Express JSC, entered into a finance lease agreement with DBK-Leasing JSC, a related party, to lease 1,995 platform cars for 33,264 million tenge, for 15 years and at interest of 15% per annum, of which 10% is subsidised by the Transport Committee of the Ministry of Investment and Development ("Transport Committee") under National Budget Programme №212 *Interest Rate Subsidies for Loans and Finance Leases to Purchase Wagons for Passenger Carriers on Socially Significant Routes and Car (Container) Operators*. The concession period for principal repayments is five years. The Group acts as the lessee. The effective interest rate is 15.62%.

During 2018, the Group received 351 platform cars (in 2017: 30) in accordance with the contractual supply schedule.

Low-sided cars

In August 2017, the Group, represented by its subsidiary Kaztemirtrans JSC, entered into a finance lease agreement with DBK-Leasing JSC, a related party, to lease 1,000 low-sided cars for 15,077 million tenge, for 15 years and at interest of 15% per annum, of which 10% is subsidised by the Transport Committee under National Budget Programme №212 *Interest Rate Subsidies for Loans and Finance Leases to Purchase Wagons for Passenger Carriers on Socially Significant Routes and Car (Container) Operators*. The concession period for principal repayments is 7 years. The Group acts as lessee. The effective interest rate is 15.095% per annum.

During 2018, the Group received 228 low-sided cars (2017: 81) in accordance with the contractual supply schedule.

All lease liabilities are denominated in tenge.

(in millions of Tenge, unless stated otherwise)

19. EMPLOYEE BENEFIT OBLIGATIONS

Defined benefits scheme and other non-current employee benefits

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

Employee benefit obligations and other non-current employee benefits are payable in accordance with the Collective Agreement between the Group and its employees for 2018-2020. Pursuant to this agreement, the Group provides the following benefits under an unfunded scheme:

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

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

	2018	2017 (restated)
Total liabilities at the beginning of the year	31,241	29,131
Current service cost	1,172	1,034
Past service cost	1,480	(72)
Interest cost	2,944	2,795
Actuary remeasurement recognised in other comprehensive losses	1,137	1,558
Payments made during the year	(3,211)	(3,547)
Actuary loss recognised in profit or loss for the year	19	342
Disposal of subsidiaries	(37)	-
Total liabilities as at the end of the year	**34,745**	**31,241**
Including liabilities due within one year	2,797	2,858
Liabilities due after one year	31,948	28,383
	34,745	**31,241**

Defined benefit obligations and other long-term employee benefits recognised in profit or loss during 2018 and 2017 are as follows:

	2018	2017 (restated)
Cost of sales (Note 26)	4,893	3,529
General and administrative expenses (Note 27)	722	571
Total recognised in profit or loss for the year	**5,615**	**4,100**

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

	2018	2017
Discount rate	8.3%	9.0%
Expected annual growth in material aid in the future	3.4% (average)	4.0% (average)
Expected annual minimum salary growth in the future	4.9% (average)	4.3% (average)
Expected annual future growth in rail ticket cost	6.3% (average)	6.6% (average)

According to an actuary sensitivity analysis, the maximum increase in the employee benefit obligations is 10.1% caused by an inflation rate increase of 1%.

(in millions of Tenge, unless stated otherwise)

20. CORPORATE INCOME TAX

Income tax expenses for the year ended 31 December included:

	2018	2017 (restated)
Current income tax expenses	667	526
Adjustment in relation to income tax for prior years	828	(308)
Income tax paid withheld	686	306
Deferred income tax expense	133	5,620
	2,314	**6,144**

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

	2018	2017 (restated)
(Loss)/profit before tax from continuing operations	(71,262)	18,279
Official tax rate	20%	20%
Theoretical tax (benefit)/expense at the official rate	(14,252)	3,656
Tax effect of non-deductible expenses for tax calculation purposes, and other effect:		
Adjustment of income tax from prior years	828	(308)
Non-deductible expenses	9,334	1,164
Change in unrecognised deferred tax assets	6,404	1,632
Income tax expense recognised in profit or loss (attributable to continuing activities)	**2,314**	**6,144**

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

	31 December 2018	31 December 2017 (restated)
Deferred tax assets:		
Tax losses carried forward	143,256	134,504
Difference in accounts receivable	4,232	3,295
Financial guarantee contracts liabilities	2,918	-
Accrued employee liabilities	2,718	2,544
Discount on loan accounts receivable	2,178	2,305
Other	1,470	2,193
	156,772	**144,841**
Less: deferred tax assets offset against deferred tax liabilities	(150,348)	(138,888)
Deferred tax assets	**6,424**	**5,953**
Deferred tax liabilities:		
Property, plant and equipment and other non-current assets	(332,719)	(321,557)
Adjustment to borrowings to fair value	(43,881)	(44,353)
Deferred expenses	(78)	(259)
Other	(8)	(317)
	(376,686)	**(366,486)**
Less: deferred tax liabilities offset against deferred tax assets	150,348	138,888
Deferred tax liabilities	**(226,338)**	**(227,598)**
Total net deferred tax liabilities	**(219,914)**	**(221,645)**

(in millions of Tenge, unless stated otherwise)

	2018	2017 (restated)
Net deferred tax liabilities as at the beginning of the year	(221,645)	(216,044)
Recognised in profit or loss	(133)	(5,620)
Recognised in a consolidated statement of changes in equity	-	107
Disposal of subsidiaries	1,030	-
Recognised in investments in associates	834	(88)
Net deferred tax liabilities as at the end of the year	**(219,914)**	**(221,645)**

The Group has not recognised deferred tax assets relating to the portion of tax losses carried forward. Management believes it is improbable that there will be sufficient taxable income available in the future against which any such deferred tax assets can be utilised. As at 31 December 2018, the total tax effect of unrecognised tax losses carried forward amounted to 11,842 million tenge (31 December 2017: 5,438 million tenge). These tax losses carried forward expire in 10 years from the date they were incurred.

21. TRADE ACCOUNTS PAYABLE

	31 December 2018	31 December 2017 (restated)
Accounts payable for the supply of property, plant and equipment	59,154	39,096
Accounts payable for services provided	49,838	52,583
Accounts payable for inventories received	30,451	25,475
Other accounts payable	2,460	723
	141,903	**117,877**
Current portion of trade accounts payable	140,222	117,624
Long-term portion of trade accounts payable (Note 23)	1,681	253
	141,903	**117,877**

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

	31 December 2018	31 December 2017 (restated)
Tenge	128,623	100,772
US$	6,325	7,496
Swiss Francs	813	806
In other currencies	6,142	8,803
	141,903	**117,877**

The average turnover period for accounts payable is 56 days (2017: 59 days).

22. CONTRACTS LIABILITIES

	31 December 2018
Advances received on contracts with customers	61,302
Deferred income	7,708
	69,010

The revenue recognized in the reporting period, which was included in the balance of advances received and deferred income at the beginning of the period amounted to 48,162 million tenge.

(in millions of Tenge, unless stated otherwise)

23. OTHER LIABILITIES

	31 December 2018	31 December 2017 (restated)
Salaries payable	17,506	15,526
Dividends payable (Note 16)	16,425	16,425
Liabilities under financial guarantee contracts	14,588	4,194
Provision for unused vacation	11,705	10,880
Deferred income	7,229	8,414
Obligatory pension contributions and social contributions, insurance and obligatory medical insurance contributions	6,034	5,323
Advances received	2,797	83,697
Trade accounts payable (Note 21)	1,681	253
Other liabilities	11,437	17,898
	89,402	**162,610**
Current portion of other liabilities	68,418	158,163
Long-term portion of other liabilities	20,984	4,447
	89,402	**162,610**

As at 31 December 2018 and 2017, other liabilities were, predominantly, expressed in tenge.

As disclosed in Note 31, in 2018, the Company provided a financial guarantee to Development Bank of Kazakhstan JSC for the loan received by Astana International Airport JSC, which is under trust management of the Group, and recognised a liability under financial guarantee contract of 6,451 million tenge.

The Group provided financial guarantees on bank loans obtained by its associates Elektrovoz Kurastyru Zauyty LLP and Aktobe Rail and Section Mill Plant LLP. As at 31 December 2018, the amortised cost of these financial guarantees was 8,137 million tenge (2017: 4,194 million tenge).

24. REVENUE

In 2018 and 2017, revenue from freight transportation included:

	2018	2017 (restated)
Revenue received on contracts with customers:		
Domestic routes	283,878	254,723
International (transit) routes	243,760	209,217
International (export) routes	178,063	158,203
International (import) routes	95,915	88,719
Additional charges related to the transportation process	33,618	28,557
Other revenue from freight transportation	13,802	10,152
	849,036	**749,571**

In 2018 and 2017, revenue from passenger transportation included:

	2018	2017
Revenue received on contracts with customers:		
On domestic routes	60,461	56,893
On international routes	16,841	19,519
Other revenue	6,917	5,474
	84,219	**81,886**

(in millions of Tenge, unless stated otherwise)

25. OTHER REVENUE

	2018	2017 (restated)
Revenue from wagon lease	44,562	22,937
Revenue from the sale of goods and provision of other services	39,848	33,561
Revenue from fines	5,758	4,698
	90,168	**61,196**

Revenue from the sale of goods and provision of other services consists primarily of revenue from loading and unloading services, vessel servicing, the sale of inventory and scrap, locomotive haulage, and from the provision of services of the main railway network in passenger traffic. Revenue of 19,075 million tenge was recognized at a certain point in time, revenue of 20,773 million tenge was recognized over time as services were rendered.

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

26. COST OF SALES

	2018	2017
Staff costs, including taxes, contributions and provision for unused vacations	266,930	240,736
Fuel and lubricants	120,476	89,420
Depreciation and amortisation	114,431	101,677
Repairs and maintenance	99,219	88,006
Work and services of a production nature	52,485	48,407
Electricity	45,679	43,893
Materials and supplies	42,728	45,040
Taxes	20,287	17,338
Operating lease	15,554	4,559
Communication services	5,315	4,753
Employee benefit expenses and other long-term employee benefits (Note 19)	4,893	3,528
Utilities and building maintenance	3,901	3,172
Business trip expenses	2,810	2,787
Insurance	2,472	1,589
Transportation services	839	1,116
Other	20,429	25,308
	818,448	**721,330**

(in millions of Tenge, unless stated otherwise)

27. GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017 (restated)
Staff costs, including taxes, contributions and provision for unused vacations	41,231	39,028
Property tax and other taxes	16,583	17,813
Allowances for expected credit losses	7,231	1,841
Depreciation and amortisations	6,547	5,230
Consulting, audit and legal services	3,659	3,753
Other third party services	3,215	1,264
Business trip expenses	1,577	1,434
Operating lease expenses	1,438	1,407
Advertising	1,373	1,891
Materials	1,095	689
Expenses to hold celebrations and cultural events	970	851
Banking services	928	793
Utilities and building maintenance	872	840
Employee benefit expenses and other long-term employee benefits (Note 19)	722	571
Expenses to maintain social sphere facilities	413	417
Vocational and professional training expenses	364	233
Insurance	347	275
Repairs and maintenance	273	260
Other expenses	8,716	8,091
	97,554	**86,681**

28. FINANCE COSTS

	2018	2017 (restated)
Interest and borrowing costs	90,306	89,312
Other finance costs	13,228	8,402
	103,534	**97,714**

29. DISPOSAL OF SUBSIDIARIES

In 2018, the Group sold a 100% interest in the subsidiary M Tynyshpayev Kazakh Transport and Communications Academy JSC to a third party at the selling price of 10,251 million tenge (in 2017: shares and participation interest in the subsidiaries Transportation Service Centre JSC and Regional Forwarding Logistics OJSC, Rauan-Burabai LLP, Make-Ekibastuz LLP and Bas Balkhash LLP). As a result of the sale, the Group lost control over the subsidiaries.

Gain from the disposal of subsidiaries:

	2018	2017
Consideration received	10,251	1,033
Net assets disposed off	(10,219)	(899)
Non-controlling interests	-	9
Foreign currency translation reserve	-	108
Gain from disposal	**32**	**251**

Net cash inflows from the disposal of subsidiaries:

	2018	2017
Cash consideration	10,251	1,033
Less disposed of cash and cash equivalents	(855)	(608)
Total	**9,396**	**425**

(in millions of Tenge, unless stated otherwise)

30. EARNINGS PER SHARE

Basic earnings per share are calculated using the weighted average number of common shares issued during the year. Basic and diluted per share data are the same, as there are no dilutive instruments outstanding. During 2018 and 2017, there were no antidilutive instruments outstanding.

	2018	2017 (restated)
Weighted average quantity of common shares	496,160,750	496,098,049
(Loss)/profit for the year attributable to the Shareholder (millions of tenge)	(87,219)	11,355
(Loss)/profit per common share (tenge)	**(176)**	**23**
(Loss)/profit per year from continuing operations attributable to the Shareholder (millions of tenge)	(74,340)	10,579
(Loss)/profit per common share from continuing operations (tenge)	**(150)**	**21**
Net assets not including intangible assets and non-controlling interests	1,102,607	1,217,272
Quantity of common shares in circulation (registered)	496,157,572	496,157,572
Carrying amount of one share (tenge)[9]	**2,222**	**2,453**

31. FINANCIAL AND CONTINGENT LIABILITIES

Capital commitments

As at 31 December 2018, the Group had commitments to purchase long rails and purchase freight and passenger electric locomotives, freight and passenger steam locomotives for a total of 1,459,577 million tenge (31 December 2017: 1,119,544 million tenge).

Other contractual liabilities

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

In 2018, according to an agreement dated 20 November 2015, the Group did not meet conditions to acquire minimum freight storage services from Continental Logistics LLP. However, the Group does not expect that it will incur losses in connection with the failure to execute minimum freight storage services, because it received confirmation that Continental Logistics LLP does not intend to make claims with respect to the agreement in question.

Based on an assessment, Group management believes that as at 31 December 2018 and 31 December 2017 that there is no high probability of non-performance of its obligation in the future to acquire minimum freight storage service volumes. Accordingly, the Group had not provided for the contingent liability.

[9] The carrying amount of shares is calculated in accordance with KASE requirements.

(in millions of Tenge, unless stated otherwise)

Contingent liabilities

Litigations

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

Contingent liabilities related to the Kazakhstan tax system

Due to the uncertainties inherent in the Kazakhstan tax system, the ultimate amount of taxes, fines and late payment interest may exceed the amount expensed as at 31 December 2018 and 2017. It is not possible to determine the value of any unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome.

In 2017 after a thematic tax audit of the VAT refund for the reporting periods 2011-2015, the subsidiary Suburban Transportation JSC was subject to additional VAT of KZT 1,473 million and late payment interest of KZT 130 million because budget subsidies allocated to compensate carrier losses to transport passengers on socially significant routes were not included in taxable turnover.

According to the results of the appeal in the specialized interdistrict economic court of Astana, the Decision dated 24 December 2018 on the cancellation of the above accrual was received.

As at 31 December 2018 and 2017, the Group had not provided for the above amounts because it believes that the tax authorities' actions contradict tax law and is disputing the charges in court and with the state authorities.

Insurance

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

Guarantees

As at 31 December 2018, guarantees were represented as follows:

Creditor	Guarantee purpose	Guarantee issue date	Guarantee period	Guarantee amount
Eurasian Development Bank	Execute the obligations of Elektrovoz Kurastyru Zauyty LLP to finance construction of a locomotive production plant (an associate until November 2018)	17 September 2012	until 2023	2,370 million tenge
Development Bank of Kazakhstan JSC	Execute the obligations of the associate Aktobe Rail and Section Mill Plant LLP to finance the construction of a rail and section mill plant in Aktobe	4 July 2013	until 2033	23,070 million tenge
Development Bank of Kazakhstan JSC	Execute the obligations of an organisation under trustee management, Astana International Airport JSC to finance its upgrade	28 March 2018	until 2033	22,500 million tenge

Note 23 discloses the fair value of these guarantees.

(in millions of Tenge, unless stated otherwise)

In order to avoid non-compliance with respect to obligations to its creditors, prior to year-end, the Group received a waiver related to the non-application of financial covenants as at 31 December 2018 under the financial guarantee contract with Development Bank of Kazakhstan JSC.

Finance lease

In July 2017, the Group, represented by its subsidiary Passenger Transportation JSC, entered into a finance lease agreement with DBK-Leasing JSC to lease 62 passenger cars produced by Tulpar-Talgo LLP for 18,892 million tenge, for 20 years and at interest of 1.75% per annum. The concession period for the principal is 6 years. The Group acts as a lessee. The finance lease is due to commence in December 2020.

In addition, as disclosed in Note 18, the Group, represented by its subsidiaries KTZ Express JSC and Kaztemirtrans JSC, entered into finance lease agreements with DBK-Leasing JSC for platform cars and low-sided cars, which are expected to be supplied during 2019.

32. SUBSIDIARIES

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

			Ownership interest, %	
Subsidiary	**Activities**	**Country**	**2018**	**2017**
1. Kaztemirtrans JSC	Freight wagon operation	Kazakhstan	100	100
2. Passenger Transportation JSC	Passenger transportation	Kazakhstan	100	100
3. KTZ-Freight Transportation JSC	Freight transportation and locomotive haulage	Kazakhstan	100	100
4. KTZ Express JSC	Multimodal transportation	Kazakhstan	100	100
5. Temirzholsu JSC	Utilities	Kazakhstan	100	100
6. Remlocomotive JSC	Rolling stock production	Kazakhstan	100	100
7. Transtelecom JSC	Telecommunication services	Kazakhstan	51	51
8. Militarised Railway Security JSC	Security	Kazakhstan	100	100
9. Kamkor Repair Corporation LLP	Machinery production	Kazakhstan	100	100
10. Vokzal-Service JSC	Station management	Kazakhstan	-	100
11. M Tynyshpayev Kazakh Academy of Transport and Communications JSC	Staff training, vocational training and retraining	Kazakhstan	-	100
12. Aktau Sea Commercial Port National Company JSC[10]	Vessel loading and unloading work	Kazakhstan	100	100
13. Port Kuryk LLP	Freight transhipment and vessel servicing	Kazakhstan	100	100
14. KTZ Finance OJSC	Bond issues to finance projects and the operations of KTZ group companies	Russia	100	100

In 2018, a 100% interest in the M Tynyshpayev Kazakh Academy of Transport and Communications JSC was sold to a third party while Vokzal-Service JSC was liquidated.

[10] In November 2013, the Shareholder transferred a 100% ownership interest in National Company Aktau Sea Commercial Port JSC to the Group's trust management. National Company Aktau Sea Commercial Port JSC is recognised as a Group subsidiary although the Group does not legally hold shares in it.

(in millions of Tenge, unless stated otherwise)

33. RELATED PARTY TRANSACTIONS

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

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

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

		Shareholder	Associates	Joint ventures in which the Group is a partner	Companies making up the Shareholder Group	Other related parties
Amounts due from related parties for goods, services and non-current assets	2018	11	37,614	500	3,537	3,076
	2017	7	9,135	305	1,009	-
including allowances for expected credit losses	2018	-	(1,000)	(26)	(71)	-
	2017	-	(12)	(24)	(32)	-
Amounts due to related parties for goods, services and non-current assets	2018	-	15,346	2,177	2,261	21,591
	2017	-	4,336	2,173	2,689	18,792
Restricted cash	2018	-	-	-	-	86
	2017	-	-	-	-	-
Loans receivable	2018	-	-	-	-	-
	2017	-	-	-	-	-
including allowances for expected credit losses	2018	-	-	-	-	-
	2017	-	-	-	-	-
Borrowings received	2018	107,906	-	-	-	30,112
	2017	105,739	-	-	-	37,476
Finance lease liabilities	2018	1,903	-	-	-	16,169
	2017	996	-	-	-	13,889
Dividends payable	2018	16,425	-	-	-	-
	2017	16,425	-	-	-	-

Transactions with related parties for the years ended 31 December are presented as follows:

		Shareholder	Associates	Joint ventures in which the Group is a partner	Companies making up the Shareholder group	Other related parties
Sale of goods, services and non-current assets	2018	54	9,922	29,588	37,747	1,952
	2017	2,858	1,117	24,155	15,854	-
(Accrued)/recovered allowances for expected credit losses	2018	-	(988)	(2)	(55)	-
	2017	-	5	-	2	-
Purchase of goods, services and non-current assets	2018	-	48,203	111	13,593	2,297
	2017	2,821	45,970	662	12,319	-

(in millions of Tenge, unless stated otherwise)

		Shareholder	Associates	Joint ventures in which the Group is a partner	Companies making up the Shareholder group	Other related parties
	2018	-	-	-	-	-
Loan issue	2017	-	-	13	-	-
	2018	-	-	-	-	24,000
Loan repayment	2017	-	-	-	-	4,000
	2018	40,000	-	-	-	-
Receipt of loans	2017	25,000	-	-	-	-
Repayment of loans	2018	41,175	-	-	-	8,398
received	2017	75,000	-	-	-	6,647
New finance lease	2018	1,383	-	-	-	3,903
agreements	2017	895	-	-	-	13,519
Finance lease	2018	784	-	-	-	572
payments	2017	51	-	-	-	76
	2018	14	-	-	-	785
Finance income	2017	-	-	14	-	43
	2018	5,802				3,297
Finance expenses	2017	5,914	-	1	-	2,823
	2018	-	263	2,028	-	-
Dividends income	2017	-	-	-	-	-
	2018	1,710	-	-	-	-
Dividends declared	2017	-	-	-	-	-
	2018	81,986	-	-	-	-
Sale of financial asset	2017	-	-	-	-	-
Share capital	2018	290	-	-	-	-
contribution	2017	69,175	-	-	-	-

In 2018, the Company received short-term loans from the Parent and acquired the Parent's bonds from bondholders and sold such financial assets back to the Parent. Acquisition and sale was based on market terms. The loans were settled during 2018.

As at 31 December 2018 and 2017, certain Group borrowings of 2,104 million tenge and 2,548 million tenge, respectively, were guaranteed by the Kazakhstan Government.

As at 31 December 2018 and 2017, the Group issued guarantees on certain borrowings of associates to ensure the execution of obligations to banks (Notes 23 and 31).

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

In addition, during 2016-2017, the Group, represented by its subsidiary Airport Management Group LLP, provided interest-free, reimbursable financial aid of 28,000 million tenge to organisation under trust management, Astana International Airport JSC, to finance working capital, of which 24,000 million tenge was repaid in 2018 and 4,000 million tenge in 2017.

(in millions of Tenge, unless stated otherwise)

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

	Current liabilities				
	Children's Centre in Turkestan	Mangistau social facilities	Astana kindergarten	Ice Palace	Total
As 1 January 2017	-	247	43	47,778	48,068
Accrued for the year	-	-	-	5,733	5,733
Written off during the year	-	-	-	(53,511)	(53,511)
As at 31 December 2017	**-**	**247**	**43**	**-**	**290**
Accrued for the year	5,300	-	1	-	5,301
Written off during the year	-	-	(9)	-	(9)
As at 31 December 2018	**5,300**	**247**	**35**	**-**	**5,582**

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

	Current assets			
	Mangistau social facilities	Astana kindergarten	Ice Palace	Total
As at 1 January 2017	247	43	47,778	48,068
Disposal	-	-	(47,778)	(47,778)
As at 31 December 2017	**247**	**43**	**-**	**290**
Disposal	-	(8)	-	(8)
As at 31 December 2018	**247**	**35**	**-**	**282**

In May 2017, the Ice Palace, which was accounted for as an asset for the benefit of the Shareholder, in accordance with a decision of the Ultimate Shareholder, was transferred free of charge to the Astana city administration. As a result of the transfer, VAT of 5,733 million tenge was recognised as a distribution to the shareholder in retained earnings (Note 16).

Compensation of key management personnel of the Group

Key management personnel comprise members of the Group's Management Board and Board of Directors, totalling 17 persons for the year ended 31 December 2018 (2017: 16 persons). Total compensation to key management personnel included in personnel costs in the consolidated statement of profit or loss and other comprehensive income comprised 210 million tenge for the year ended 31 December 2018 (2017: 455 million tenge). Compensation to key management personnel mainly consists of contractual salary costs and bonuses based on operational results.

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

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

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to the Shareholder by optimising debt and equity balance. The Group's overall strategy remains unchanged from 2017.

There are no mandatory minimum capital requirements for the Group.

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

(in millions of Tenge, unless stated otherwise)

Financial risk management objectives

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

Interest rate risk

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

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

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

	31 December 2018		31 December 2017	
	Interest rate increase / (decrease) in base points	Effect on pre-tax profit/equity	Interest rate increase / (decrease) in base points	Effect on pre-tax profit/equity
US$	50/(15)	(26)/8	70/(8)	(154)/18
Tenge	50/(15)	(340)/102	70/(8)	(843)/96

Currency risk

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

A significant portion of the Group's short-term and long-term foreign currency debt is denominated in US$. A change in the tenge value against the US$, or any other foreign currency in which debt is denominated will result in a foreign exchange gain or loss. During 2018, the Group incurred a foreign exchange loss of 112,515 million tenge, of which major portion is attributable to borrowing as disclosed in Note 17 (2017: 7,408 million tenge). The Group maintains a portion of its cash and cash equivalents and other financial assets in US$ in order to partially offset any foreign currency gain or loss on borrowings.

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

	31 December 2018			31 December 2017		
	Exchange rate increase / (decrease)	Effect on pre-tax profit	Effect on equity	Exchange rate increase / (decrease)	Effect on pre-tax profit	Effect on equity
US$	14%/ (10%)	(100,256)/ 71,612	-	10%/ (10%)	(69,162)/ 69,162	-
Euros	14%/ (10%)	(8,727)/ 6,233	-	13.5%/ (9.5%)	(8,522)/ 5,997	-
Russian Roubles	14%/ (9%)	(11,393)/ 7,324	-	16%/ (16%)	(13,531)/ 13,531	-
Swiss Francs	14%/ (10%)	(77)/55	(24,900)/ 17,786	11.5%/ (11.5%)	(169)/169	(11,349)/ 11,349
Other currencies	14%/ (10%)	(165)/118	-	11.5%/ (11.5%)	(224)/224	-

On 7 August 2015, the Group began cash flow hedging to decrease the risk of a change in the tenge equivalent of revenue denominated in Swiss francs. Eurobonds issued on 20 June 2014 on the Swiss Stock Exchange are used as hedging instruments. The hedged item is revenue from transit traffic in Swiss Francs. As a result of hedging, in 2018 an effect of 14,026 million tenge was recognised in other comprehensive income (2017: 3,479 million tenge).

Credit risk

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

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

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

In addition, the Group is exposed to credit risk on financial guarantees provided to banks. The maximum risk of the Group in this regard is equal to the maximum amount that the Group will be obliged to pay in the event of claims for guarantees disclosed in Note 31. As at 31 December 2018, the amount of 14,545 million tenge (effect of IFRS 9 adoption at 1 January 2018: 8,312 million tenge) was estimated as a loss allowance in accordance with IFRS 9, however, a loss allowance of 800 million tenge was not recognized in profit or loss as the initial fair value of the premium less cumulative amount of income, was above the amount of the expected credit losses allowance.

Market risk

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

Liquidity risk

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

As at 31 December 2018, the Group has also credit lines available in Halyk Bank JSC and Citibank of Kazakhstan for a total amount of 37,878 million tenge (2017: 49,970 million tenge).

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

To refinance long-term borrowings received by the Company and subsidiaries KTZ-Freight Transportation JSC and KTZ Express JSC, the Group issued bonds domestically of 75,000 million tenge and overseas of 170,000,000 Swiss Francs.

(in millions of Tenge, unless stated otherwise)

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

	Up to 1 month	1-3 months	3 months – 1 year	1-5 years	Over 5 years	Total
2018						
Interest-free						
Accounts payable	138,621	1,430	170	1,681	-	141,902
Other current liabilities	-	-	5,579	-	-	5,579
Interest-bearing						
Borrowings	21,080	8,194	225,700	538,845	1,860,848	2,654,667
Finance lease	1,931	1,501	2,821	37,031	45,229	88,513
Financial guarantees	32	1,034	1,971	19,160	66,075	88,272
	161,664	**12,159**	**236,241**	**596,717**	**1,972,152**	**2,978,933**
2017						
Interest-free:						
Accounts payable	70,135	1,579	42,913	2,997	-	117,624
Other current liabilities	-	-	17,892	-	-	17,892
Interest-bearing:						
Borrowings	20,154	10,205	114,331	628,069	1,704,444	2,477,203
Finance lease	695	527	3,629	29,133	74,557	108,541
Financial guarantees	1,829	2,968	9,348	27,214	-	41,359
	92,813	**15,279**	**188,113**	**687,413**	**1,779,001**	**2,762,619**

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

	Up to 1 month	1-3 months	3 months – 1 year	Over 1 year	Unspecified maturity	Total
2018						
Interest-bearing:						
Short-term deposits	30,708	-	-	-	-	30,708
Interest on short-term deposits	189	-	-	-	-	189
Other financial assets	-	-	285	-	-	285
Interest on other financial assets	-	-	16	-	-	16
Cash and cash equivalents	12,907	-	-	-	-	12,907
Interest-free:						
Cash and cash equivalents	22,991	-	-	-	-	22,991
Restricted cash	-	-	303	-	-	303
Trade accounts receivable	19,920	1,667	52	32	1,520	23,191
	86,715	**1,667**	**656**	**32**	**1,520**	**90,590**
2017						
Interest-bearing:						
Short-term deposits	18,263	403	622	-	-	19,288
Interest on short-term deposits	8	4	40	-	-	52
Other financial assets	-	50	13,496	2,326	-	15,872
Interest on other financial assets	-	1	287	462	-	750
Cash and cash equivalents	48,000	-	-	-	-	48,000
Interest-free:						
Cash and cash equivalents	35,333	-	-	-	-	35,333
Restricted cash	-	-	518	-	-	518
Trade accounts receivable	21,668	588	84	42	8,404	30,786
	123,264	**1,046**	**15,047**	**2,830**	**8,404**	**150,599**

(in millions of Tenge, unless stated otherwise)

Fair value of financial instruments

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

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

Cash and cash equivalents

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

Financial assets and liabilities

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

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

Borrowings

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

Fair value of financial assets and financial liabilities not regularly measured at fair value (but fair value is mandatorily disclosed)

As at 31 December 2018 and 2017, the fair value of financial assets and financial liabilities, except for borrowings and debt securities was not significantly different from cost. The carrying value and fair value of borrowings and debt securities (bonds) as at 31 December is presented as follows:

	31 December 2018		**31 December 2017**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Loans issued	-	-	23,542	23,542
Other financial assets	1,496	1,496	15,913	15,913
Borrowings	246,704	245,146	371,209	340,652
Debt securities	1,135,573	1,199,855	893,511	983,468
Finance lease	18,072	18,072	14,885	14,885
Financial guarantees	14,588	14,588	4,194	4,194

(in millions of Tenge, unless stated otherwise)

Fair value hierarchy

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

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

The table below provides an analysis of financial instruments recognised at fair value as at 31 December 2018, broken down into the fair value hierarchy levels.

	Level 1	Level 2	Level 3	Total
Financial assets				
Other financial assets at amortised cost	-	1,496	-	1,496
Financial liabilities				
Financial liabilities recognised at amortised cost:				
- debt securities	1,199,855	-	-	1,199,855
- bank loans	-	145,390	4,803	150,193
- borrowings from related parties	-	94,953	-	94,953
- finance lease	-	18,072	-	18,072
- financial guarantees	-	14,588	-	14,588
Total	**1,199,855**	**273,003**	**4,803**	**1,477,661**

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

	Level 1	Level 2	Level 3	Total
Financial assets				
Loans issued	-	23,542	-	23,542
Other financial assets	-	15,913	-	15,913
Total	**-**	**39,455**	**-**	**39,455**
Financial liabilities				
Financial liabilities carried at amortised cost:				
- debt securities	983,468	-	-	983,468
- bank loans	-	254,446	5,979	260,425
- borrowings from related parties	-	80,227	-	80,227
- finance lease	-	14,885	-	14,885
- financial guarantees	-	4,194	-	4,194
Total	**983,468**	**353,752**	**5,979**	**1,343,199**

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

During 2018 and 2017, there were no transfers between the hierarchy levels.

35. EVENTS AFTER THE REPORTING DATE

Borrowings received

During January – March 2019, the Group, represented by its subsidiary KTZ-Express JSC, within the framework of a credit line agreement with Halyk Bank Kazakhstan concluded on 26 February 2015, made a partial early repayment of the loan of 7,900 million tenge.

Share issue

On 9 January 2019, the Group transferred from additional paid-in capital to share capital 290,037 legally registered common share, as payment for which in 2018 it received property from the Shareholder of low-sided cars with a market value of 290 million tenge (Note 16).

Sale of subsidiaries

On 4 February 2019, the Group and Transmashholding JSC terminated the purchase/sale agreement of a 99.99926% interest in Tulpar-Talgo LLP.

Trust management agreements

On 4 February 2019, the Group's contractual responsibilities for the trust management of International Airport Aktobe JSC, International Airport Atyrau JSC and Airport Pavlodar JSC had been terminated due to expiration of trust management agreement.

Loan agreements

On 28 February 2019, the Group received a waiver from HSBC France to reset the threshold value of the Adjusted Debt to Equity ratio at the reporting date to 1.53 (Note 17). The Group was in compliance with the reset ratio as at 31 December 2018.

Other

In accordance with Framework agreement between Government of Republic of Kazakhstan, national companies and shareholders of Tsesnabank JSC dated 17 January 2019, the Group, represented by its subsidiaries Aktau Sea Commercial Port National Company JSC and Transtelecom JSC, purchased bonds of Tsesnabank JSC for the total amount of 1,158 million tenge.

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

Consolidated Financial Statements
For the Year Ended 31 December 2017

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

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

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

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

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

Management is also responsible for:

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

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

On behalf of Group management:

Kanat Alpysbayev	**Zhaslan Madiyev**	**Nazira Abilova**
President	**Chief Financial Officer**	**Chief Accountant**
13 March 2018	13 March 2018	13 March 2018

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

Why the matter was treated as a key audit matter	How the matter was addressed during the audit
Potential impairment of property, plant and equipment	
The Group's property, plant and equipment, which is mainly represented by infrastructure and rolling stock, comprises 84% of the Group's total assets. Due to the existence of impairment indicators, such as a continuing economic and market downturn, increase in market interest rates and slow growth in transit freight turnover, the Group performed an impairment assessment for its property, plant and equipment. The recoverable amount of the cash generating unit ("CGU") was defined as value in use based on the Group's 2018-2022 Development Plan. Determining the recoverable amount requires management to make significant estimates concerning the future cash flows based on judgements and assumptions about future business prospects. The value in use is sensitive to the changes in key assumptions. In addition, the identification of the appropriate cash-generating unit requires significant management's judgement. Based on the above we determined the impairment of property, plant and equipment to be a key audit matter. Please refer to Note 4.	We performed the following procedures: > evaluating whether the methodology applied and the model used to calculate the value in use are in line with the requirements of IAS 36 *Impairment of Assets,* > evaluating the identification of the cash-generating unit, > validating assumptions applied in the determination of the discount rate and its mathematical recalculation with involvement of valuation specialists, > running a range of sensitivity tests to confirm that no impairment was required if less optimistic assumptions within the reasonably possible range had been applied with respect to the discount rate, projected foreign exchange rates, freight turnover growth in transit transportation, > challenging projected cash flows, including revenue and operating profit growth assumptions, based on historical data and the Group's 2018-2022 Development Plan. We analysed the accuracy of preceeding management forecasts, validity of the assumptions used in the forecasts, and their consistency with plans approved by the Board of Directors, and > assessing the completeness and correctness of the information disclosed in financial statements. We found that the assumptions used by management are comparable to historical and current data and Group forecasts.
Liquidity and the going concern principle	
As at 31 December 2017, the Group's current liabilities exceeded its current assets by KZT 90,556,549 thousand. In addition, as discussed in Note 16, the loans received from EBRD and HSBC France with a carrying value of KZT 80,157,916 thousand and KZT 63,011,636 thousand include certain financial covenants, whereby non-compliance may result in the loans becoming payable on demand. Management prepares forecasts of the expected financial position and financial results for 2017 and concluded that the Group would not be able to meet certain financial covenants, so that, as at 31 December 2017, management had received the waivers from its creditors regarding nonapplication and reset of the financial covenants. Due to the above matters, critical judgements are required by management in respect of the sufficiency of the Group's liquid assets to meet its current obligations. Management's plans in respect	Our going concern procedures were mainly focused on a critical evaluation of the key assumptions made by management and their plans to settle current liabilities. Our audit procedures included: > examining the correctness of asset and liability classification as part of our audit procedures, > analysing events and conditions, including financial and operating, which could cast doubt on the ability to continue as a going concern, > analysing management's evaluation of the principles of going concern and their plans to settle current liabilities, > examining the reliability and reasonableness of data and assumptions applied in preparing cash flow forecasts, including the consistency of input data to other tests, such as impairment, actuarial valuation and hedge effectiveness testing, > analysing downside scenarios affecting the Group's liquidity and its ability to settle obligations, including to generate a sufficient level of cash flows from operating activities to serve and settle its loans, as well as the impact of possible exchange rate change on liability and revenue amounts, > examining the documents supporting the

Why the matter was treated as a key audit matter	How the matter was addressed during the audit
of this matter are discussed in Notes 2 and 32. Given the pervasiveness of the effect of the going concern conclusion to the financial statements, this is considered to be a key audit matter.	availability of financing sources, including credit agreements, negotiations with financial institutions, and Board of Director minutes, > analysing the terms of the loan agreements, including covenants, where applicable, recalculating financial covenants for mathematical accuracy, > examining waivers received from creditors with respect to nonapplication and reset of financial covenants as at 31 December 2017, including examining the compliance with those reset covenants, and > assessing the completeness and adequacy of information disclosed in the financial statements. We found that the going concern assumption is appropriate under current circumstances and concluded that the disclosed information reflects the current situation.

Other Information Included in the Annual Report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DELOITTE, LLP

Deloitte, LLP
State license on auditing in the Republic of Kazakhstan No.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 2018

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017
(in KZT thousands)

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

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

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

(in KZT thousands)

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

On behalf of Group management:

АО "НК "КТЖ" ҰК" АҚ

Kanat Alpysbayev	**Zhaslan Madiyev**	**Nazira Abilova**
President	**Chief Financial Officer**	**Chief Accountant**
13 March 2018	13 March 2018	13 March 2018

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

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

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

(in KZT thousands)

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

On behalf of Group management:

Kanat Alpysbayev	Zhaslan Madiyev	Nazira Abilova
President	**Chief Financial Officer**	**Chief Accountant**
13 March 2018	13 March 2018	13 March 2018

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

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(in KZT thousands)

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

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

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

(in KZT thousands)

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

On behalf of Group management:

Kanat Alpysbayev	**Zhaslan Madiyev**	**Nazira Abilova**
President	**Chief Financial Officer**	**Chief Accountant**
13 March 2018	13 March 2018	13 March 2018

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

KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
(in KZT thousands)

	Share capital	Cash flow hedging reserve	Foreign currency translation reserve	Retained earnings	Equity attributable to the Shareholder	Non-controlling interests	Total equity
As 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 15)	128,066,584	-	-	-	128,066,584	-	128,066,584
Dividends declared	-	-	-	-	-	(39,682)	(39,682)
Other distributions (Note 15)	-	-	-	657,924	657,924	-	657,924
Other contributions (Note 15)	-	-	-	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 15)	-	-	-	(2,425,063)	(2,425,063)	11,425,063	9,000,000
As 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**
As 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 year	-	-	-	11,399,401	11,399,401	1,555,725	12,955,126
Other comprehensive income/(loss) for the year	-	(3,479,319)	841,353	(1,553,621)	(4,191,587)	-	(4,191,587)
Total comprehensive income/(loss) for the year	-	(3,479,319)	841,353	9,845,780	7,207,814	1,555,725	8,763,539
Shares issue (Note 15)	69,174,567	-	-	-	69,174,567	-	69,174,567
Dividends declared	-	-	-	-	-	(2,142,736)	(2,142,736)
Other distributions (Note 15)	-	-	-	(9,145,190)	(9,145,190)	-	(9,145,190)
Disposal of subsidiaries (Note 27)	-	-	(107,775)	-	(107,775)	(9,444)	(117,219)
Change in ownership share in subsidiaries without loss of control (Note 15)	-	-	-	7,546,710	7,546,710	16,516,570	24,063,280
As at 31 December 2017	**1,062,635,047**	**(42,553,250)**	**4,843,584**	**206,748,608**	**1,231,673,989**	**26,955,464**	**1,258,629,453**

On behalf of Group management:

Kanat Alpysbayev
President
13 March 2018

Zhaslan Madiyev
Chief Financial Officer
13 March 2018

Nazira Abilova
Chief Accountant
13 March 2018

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

1. GENERAL INFORMATION

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

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

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

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

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

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

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

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

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

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

2. BASIS FOR THE PREPARATION OF FINANCIAL STATEMENTS

Statement of compliance

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

Going concern

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

Basis for measurement

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

Basis of consolidation

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

Functional and presentation currency

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

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

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

(in KZT thousands, unless indicated otherwise)

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Adoption of new and revised standards

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

Amendments to IAS 7 Disclosure Initiative

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

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

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

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

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

New or revised standards issued but not yet effective

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

- IFRS 9 *Financial Instruments*[1]
- IFRS 15 *Revenue from Contracts with Customers*[1]
- IFRS 16 *Leases*[2]
- Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture[3]
- Amendments to IAS 40 Transfers of investment property[1]
- Annual Improvements to IFRS 2014-2016 Cycle[1]
- Annual Improvements to IFRS 2015-2017 Cycle[2]
- IFRIC 22 *Foreign Currency Transactions and Advance Considerations*[1]
- IFRIC 23 *Uncertainty Over Income Tax Treatments*[2]

[1] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted
[2] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted
[3] Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted

IFRS 9 Financial Instruments

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

The key requirements of IFRS 9 are:

- *Classification and measurement of financial assets.* All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- *Classification and measurement of financial liabilities.* With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- *Impairment.* In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- *Hedge accounting.* The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.
- *Accounting treatment of modification or the exchange of debt liabilities that do not lead to derecognition.* The new standard introduces a requirement for the accounting treatment of modifications or the exchange of debt liabilities that do not lead to derecognition. Profit or loss arising from the modification of a financial liability carried at amortised cost should be recognised in profit or loss. Profit or loss are calculated as a difference between initial cash flows and the contractual net present value of future cash flows discounting them using initial effective interest rate of the financial instrument.

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

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

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

The new impairment model requires the recognition of expected credit losses (rather than incurred credit losses as per IAS 39) on financial assets carried at amortised cost, debt instruments carried at fair value through other comprehensive income, contract assets and financial guarantee contracts. Group management have decided to apply the simplified approach to recognize lifetime expected credit losses for its trade receivables. For the loans issued to related parties and entities under trust management and other financial assets, including cash and cash equivalents, expected credit losses will be recognized over the lifetime or a 12-month period, depending on whether there has been a significant increase in credit risk for these items from initial recognition. After analysis, the Group expects a small increase in the allowance for doubtful debts for trade and other receivables of KZT 315,151 thousand, for debt financial assets accounted for at amortised cost (loans issued) of KZT 183,996 thousand, for funds in credit institutions (banks), including cash and cash equivalents, restricted cash and other financial assets, of KZT 272,499 thousand for financial guarantees issued of KZT 1,903,144 thousand. The Management does not expect significant changes to these estimates.

The Group estimated the effect of modification or the exchange of debt liabilities that did not result in derecognition under the new requirements of IFRS 9. Based on management estimates, the difference between the carrying amount of financial liabilities arising from application of IFRS 9 being recognised through retained earnings as at 1 January 2018 will amount to KZT 6,083,969 thousand.

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

IFRS 15 Revenue from contracts with customers

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

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

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

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

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

IFRS Leases

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

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

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

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

Furthermore, extensive disclosures are required by IFRS 16.

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

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

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

Property, plant and equipment

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

Subsequent costs

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

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

Construction-in-progress

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

Borrowing costs

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

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

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

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

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

Inventories

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

Equity

Share capital

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

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

Other contributions

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

Other distributions

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

Financial instruments

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

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

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

Hedge accounting

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

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

Cash flow hedges

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

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

Hedge accounting is discontinued when:

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

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

Revenue recognition

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

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

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

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

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

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

Government grants

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Critical judgements in applying accounting policies

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

Control assessment

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

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

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

Loans at a rate below the market interest rate

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

Assets classified as held for sale

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

Key sources of estimation uncertainty

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

Impairment of tangible assets

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

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

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

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

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

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

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

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

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

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

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

(in KZT thousands, unless indicated otherwise)

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

Recoverability of VAT

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

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

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

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

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

Taxation

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

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

(in KZT thousands, unless indicated otherwise)

5. SEGMENT INFORMATION

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

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

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

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

(in KZT thousands, unless indicated otherwise)

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

Geographical information for the Group

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

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

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

(in KZT thousands, unless indicated otherwise)

6. PROPERTY, PLANT AND EQUIPMENT

	Railway track infrastructure	Buildings and structures	Machinery and equipment	Vehicles	Land	Others	Construction in progress	Total
Carrying value as 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)/impairment reversal	(30,688)	(145,540)	(2,330,476)	16,890	-	(77,096)	(2,428,672)	(4,995,582)
Transfer from assets classified as held for sale, including from assets for sale to the Government	-	2,438,230	1,545	251	2,696	491	-	2,443,213
Transfer to assets classified as held for sale	(9,277)	(1,886,195)	(53,178,475)	(2,876,778)	(180,695)	(330,096)	(6,723,839)	(65,185,355)
Other movements and transfers	79,943,616	57,431,035	98,727,365	2,598,252	(78,398)	(857,318)	(244,537,626)	(6,773,074)
Carrying value as 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)
Carrying value as at 1 January 2017	959,908,549	171,955,569	251,172,830	830,924,426	3,646,233	12,472,812	291,248,949	2,521,329,368
Additions	2,316,150	25,339	616,345	14,986,482	91,433	97,719	218,111,550	236,245,018
Finance lease additions	-	-	-	12,953,406	-	-	-	12,953,406
Disposals	(103,417)	(152,959)	(1,148,048)	(4,270,751)	(69,902)	(351,441)	-	(6,096,518)
Depreciation charge	(26,213,610)	(7,399,980)	(25,155,492)	(45,773,425)	-	(1,825,957)	-	(106,368,464)
Depreciation on disposal	90,901	138,160	1,101,006	3,434,672	-	347,049	-	5,111,788
(Impairment)/impairment reversal	(30,701)	19,304	14,024	64,753	-	(2,059)	(920,746)	(855,425)
Transfer to investment property	-	(2,670,839)	-	-	-	-	-	(2,670,839)
Transfer to assets classified as held for sale	-	(973,899)	(1,813,677)	(323,289)	-	(65,066)	-	(3,175,931)
Other movements and transfers	56,478,428	183,271,323	45,276,488	31,514,913	-	2,211,656	(320,768,072)	(2,015,264)
Carrying value as at 31 December 2017	**992,446,300**	**344,212,018**	**270,063,476**	**843,511,187**	**3,667,764**	**12,884,713**	**187,671,681**	**2,654,457,139**
Cost	1,182,493,991	392,459,009	416,742,115	1,219,935,301	3,667,764	23,656,486	197,140,130	3,436,094,796
Accumulated depreciation and impairment	(190,047,691)	(48,246,991)	(146,678,639)	(376,424,114)	-	(10,771,773)	(9,468,449)	(781,637,657)

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

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

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

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

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

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

(in KZT thousands, unless indicated otherwise)

7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

(in KZT thousands, unless indicated otherwise)

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

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

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

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

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

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

(in KZT thousands, unless indicated otherwise)

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

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

(in KZT thousands, unless indicated otherwise)

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

	2017	2016			
	Logistic System Management B.V.	**Logistic System Management B.V.**	**Locomotive kurastyru zauyty JSC**	**Astyk Trans LLP**	**Electrovoz kurastyru zauyty LLP**
Current assets, including:	18,964,477	14,075,091	-	-	-
Cash and cash equivalents	*6,296,933*	*2,890,747*	-	-	-
Non-current assets	14,968,070	12,804,334	-	-	-
Total assets	**33,932,547**	**26,879,425**	**-**	**-**	**-**
Current liabilities, including:	4,529,238	5,817,155	-	-	
Current financial liabilities (except for trade and other accounts payable and provisions)	*112,593*	*112,593*	-	-	-
Non-current liabilities, including:	1,019,057	969,639	-	-	-
Non-current financial liabilities (except for trade and other accounts payable and provisions)	*225,185*	*337,777*	-	-	-
Total liabilities	**5,548,295**	**6,786,794**	**-**	**-**	**-**
Net assets	**28,384,252**	**20,092,631**	**-**	**-**	**-**
Ownership interest	50%	50%	50%	50%	25%
Net assets attributable to the Group	14,192,126	10,046,316	-	-	-
Goodwill	1,673,834	1,673,834	-	-	-
Carrying value of investments	**15,865,960**	**11,720,150**	**-**	**-**	**-**
Revenue	53,093,395	50,222,725	6,458,127	19,671,787	1,635,332
Depreciation and amortisation	(989,517)	(887,468)	(1,160,701)	(1,062,309)	(67,738)
Finance income	158,920	232,095	200,126	677,505	173
Finance costs	(45,708)	(58,828)	(233,922)	-	(60,050)
Income tax expenses	(2,106,697)	(2,103,863)	(81,678)	-	-
Profit/(loss) for the year and total comprehensive income/(loss)	8,291,620	8,504,787	605,523	2,237,503	(448,752)
Group's recognised share of total comprehensive income/(loss)	**4,145,810**	**4,252,394**	**302,762**	**1,118,752**	**(112,188)**

(in KZT thousands, unless indicated otherwise)

8. OTHER FINANCIAL ASSETS

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

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

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

Funds in credit institutions:

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

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

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

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

	31 December 2017	31 December 2016
US$	15,497,021	17,202,382
KZT	415,900	347,594
	15,912,921	**17,549,976**

(in KZT thousands, unless indicated otherwise)

9. TRADE ACCOUNTS RECEIVABLE

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

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

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

10. OTHER NON-CURRENT ASSETS

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

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

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

(in KZT thousands, unless indicated otherwise)

11. CASH AND CASH EQUIVALENTS

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

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

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

12. INVENTORIES

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

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

(in KZT thousands, unless indicated otherwise)

13. OTHER CURRENT ASSETS

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

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

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

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

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

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

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

Tulpar-Talgo LLP

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

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

Transtelecom JSC

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

The first stage of the tender was completed on 30 December 2016. The second stage of the tender was completed on 10 February 2017, where the buyer was identified and sale price was agreed. Management expects the sale to be completed within the 12 months period after the reporting date.

Investments in joint ventures

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

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

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

(in KZT thousands, unless indicated otherwise)

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

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

(in KZT thousands, unless indicated otherwise)

Discontinued operations

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

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

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

	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 profit and losses	17,989	35,619	53,608
Finance income	817,240	32,084	849,324
Finance costs	(6,035,743)	(150,016)	(6,185,759)
Foreign exchange loss	(91,746)	(1,014,604)	(1,106,350)
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 (KZT)	(6)	(4)	(10)

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

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

15. EQUITY

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

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

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

Contributions

Shares issue

During 2017, shares issued were as follows:

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

During 2016, shares issued were as follows:

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

Other contributions

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

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

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

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

Foreign currency translation reserve

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

Cash flow hedging reserve

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

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

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

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

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

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

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

Dividends

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

Other distributions

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

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

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

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

Change in ownership share in subsidiaries without loss of control

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

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

(in KZT thousands, unless indicated otherwise)

16. BORROWINGS

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

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

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

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

Loans early extinguishment

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

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

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

(in KZT thousands, unless indicated otherwise)

Loans received

During 2017, the Group received the following loans:

HSBC France

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

Halyk Bank JSC

In May 2017 addendums were signed with Halyk Bank JSC to the credit facility agreement signed on 26 February 2015. The addendum stipulates the inclusion of subsidiary KTZ-Freight Transportation JSC as a co-borrower, the increase of the credit line to KZT 40,000,000 thousand and a change to the lending purpose to investment and replenishment of working capital. In 2017, the Group borrowed KZT 39,500,000 thousand at interest of 13% to be repaid within one year. In accordance with addendum dated 15 November 2017, repayment period was extended until 2018 and interest rate was changed from 13% to 12%. The Group made a partial early repayment of loans received of KZT 18,500,000 thousand.

EBRD

In February 2017, the Group, represented by the Company and its subsidiary Kaztemirtrans JSC, within the framework of a loan restructuring agreement with the EBRD dated 22 December 2016 for US$ 180,913,719, converted US$ 170,000,000 into KZT. Due to a substantial change in loan terms, the Group recognised the transaction as a derecognition of the original financial liability and recognition of a new financial liability. As a result, the new financial liability as at the conversion date was KZT 54,983,100 thousand and US$ 10,913,719. Interest is paid semi-annually at 6 months LIBOR + 4.35% per annum for the US$ tranche and all-in cost[2] + 4.35% for the KZT tranche.

Debt securities

As at 31 December, debt securities included:

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

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

(in KZT thousands, unless indicated otherwise)

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

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

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

The fair value of loans is presented in Note 32.

Covenants and breach of loan agreements

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

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

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

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

Reconciliation of changes in liabilities and cash flows from financing activity

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

(in KZT thousands, unless indicated otherwise)

17. FINANCE LEASE LIABILITIES

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

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

Passenger cars

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

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

Platform cars

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

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

Low-sided cars

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

(in KZT thousands, unless indicated otherwise)

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

All lease liabilities are denominated in KZT.

18. EMPLOYEE BENEFIT OBLIGATIONS

Defined benefits scheme and other non-current employee benefits

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

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

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

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

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

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

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

(in KZT thousands, unless indicated otherwise)

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

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

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

19. INCOME TAX

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

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

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

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

(in KZT thousands, unless indicated otherwise)

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

	31 December 2017	31 December 2016
Deferred tax assets:		
Tax losses carried forward	134,504,134	128,598,283
Differences in accounts receivable	3,294,879	3,109,493
Accrued liabilities to employees	2,543,759	2,336,725
Fair value adjustment on loans issued	2,304,704	2,273,781
Others	2,193,553	1,625,773
	144,841,029	137,944,055
Less: deferred tax assets offset against deferred tax liabilities	(138,888,042)	(129,312,036)
Deferred tax assets	**5,952,987**	**8,632,019**
Deferred tax liabilities:		
Property, plant and equipment and other non-current assets	(320,933,315)	(307,907,254)
Fair value adjustment on loans received	(44,353,314)	(44,890,129)
Prepaid expenses	(258,551)	(856,264)
Others	(317,672)	(15,919)
	(365,862,852)	(353,669,566)
Less: deferred tax liabilities offset against deferred tax assets	138,888,042	129,312,036
Deferred tax liabilities	**(226,974,810)**	**(224,357,530)**
Net deferred tax liabilities	**(221,021,823)**	**(215,725,511)**

	2017	2016
Net deferred tax liabilities at the beginning of the year	(215,725,511)	(229,520,855)
Recognised in profit or loss	(5,315,223)	6,096,971
Recognised in a consolidated statement of changes to equity	(88,056)	4,297,609
Transfer to disposal groups liabilities classified as held for sale	-	2,214,906
Transfer from disposal groups (liabilities)/assets classified as held for sale	-	(8,572)
Disposal of subsidiaries	-	314,581
Recognised in investments in associates	106,967	879,849
Net deferred tax liabilities at the end of the year	**(221,021,823)**	**(215,725,511)**

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

20. TRADE ACCOUNTS PAYABLE

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

(in KZT thousands, unless indicated otherwise)

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

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

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

21. OTHER LIABILITIES

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

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

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

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

22. OTHER REVENUE

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

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

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

(in KZT thousands, unless indicated otherwise)

23. COST OF SALES

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

24. GENERAL AND ADMINISTRATIVE EXPENSES

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

25. FINANCE INCOME

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

26. FINANCE COSTS

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

27. DISPOSAL OF SUBSIDIARIES

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

Gain from disposal of subsidiaries is as follows:

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

Net inflow of cash from the disposal of subsidiaries:

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

28. EARNINGS PER SHARE

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

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

[3] The carrying value of shares is calculated in accordance with KASE requirements

29. FINANCIAL AND CONTINGENT LIABILITIES

Capital commitments

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

Other contractual liabilities

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

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

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

Contingent liabilities

Legal claims

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

Contingent liabilities related to the Kazakhstan taxation system

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

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

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

(in KZT thousands, unless indicated otherwise)

Insurance

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

Guarantees

As at 31 December 2017, guarantees are as follows:

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

Note 21 discloses the fair value of these guarantees. As at 31 December 2017 and 2016, the Group had no obligations related to the guarantees listed above, which would require recognition of provisions for these guarantees.

In order to avoid non-compliance with respect to obligations to its creditors, the Group received a waiver related to the non-application of financial covenants as at 31 December 2017 under the financial guarantee contract with Development Bank of Kazakhstan JSC.

Finance lease

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

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

(in KZT thousands, unless indicated otherwise)

30. SUBSIDIARIES

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

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

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

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

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

(in KZT thousands, unless indicated otherwise)

31. RELATED PARTY TRANSACTIONS

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

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

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

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

(in KZT thousands, unless indicated otherwise)

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

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

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

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

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

(in KZT thousands, unless indicated otherwise)

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

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

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

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

	Current assets					Non-current assets
	Teleradio complex equipment	Mangistau social facilities	Astana kindergarten	Ice Palace	Total	Ice Palace
As at 1 January 2016	28,238,638	247,276	1,672,345	-	30,158,259	41,268,374
Additions	-	-	-	-	-	6,509,695
Disposals	(28,238,638)	-	(1,629,891)	-	(29,868,529)	-
Transfers	-	-	-	47,778,069	47,778,069	(47,778,069)
As at 31 December 2016	-	**247,276**	**42,454**	**47,778,069**	**48,067,799**	-
Disposals	-	-	-	(47,778,069)	(47,778,069)	-
As at 31 December 2017	-	**247,276**	**42,454**	-	**289,730**	-

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

Compensation of key management personnel of the Group

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

(in KZT thousands, unless indicated otherwise)

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

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

Capital risk management

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

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

Financial risk management objectives

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

Interest rate risk

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

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

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

	31 December 2017		**31 December 2016**	
	Increase / (decrease) in interest rates in basis points	**Effect on profit before tax / equity**	**Increase / (decrease) in interest rates in basis points**	**Effect on profit before tax / equity**
US$	70/(8)	(154,270)/17,631	60/(8)	(499,987)/66,665
KZT	70/(8)	(843,355)/96,383	60/(8)	(303,857)/40,514

Currency risk

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

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

(in KZT thousands, unless indicated otherwise)

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

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

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

Credit risk

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

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

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

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

Market risk

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

Liquidity risk

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

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

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

(in KZT thousands, unless indicated otherwise)

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

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

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

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

	Up to 1 month	1-3 months	3 months – 1 year	1-5 years	Over 5 years	Total
2017						
Non-interest bearing:						
Accounts payable	70,133,933	1,082,851	42,347,181	-	-	113,563,965
Other current liabilities	-	-	8,734,941	-	-	8,734,941
Interest bearing:						
Borrowings	20,154,364	10,205,376	114,331,234	628,068,550	1,704,444,008	2,477,203,532
Finance lease	694,836	527,195	3,628,608	29,132,709	74,556,577	108,539,925
Financial guarantees	1,829,137	2,967,968	9,347,533	27,214,045	-	41,358,683
	92,812,270	**14,783,390**	**178,389,497**	**684,415,304**	**1,779,000,585**	**2,749,401,046**
2016						
Non-interest bearing:						
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
Financial guarantees	1,688,336	1,735,191	7,414,780	30,845,534	-	41,683,841
	126,497,398	**34,127,534**	**207,279,604**	**755,214,082**	**1,501,851,781**	**2,624,970,399**

(in KZT thousands, unless indicated otherwise)

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

	Up to 1 month	1-3 months	3 months – 1 year	Over 1 year	Unspecified maturity[5]	Total
2017						
Interest bearing:						
Short-term contributions	13,250,837	402,619	621,695	-	-	14,275,151
Interest on short-term deposits	8,239	3,932	39,696	-	-	51,867
Other financial assets	-	50,000	13,495,858	2,326,310	-	15,872,168
Interest on other financial assets	-	654	286,923	462,075	-	749,652
Cash and cash equivalents	13,881,156	-	-	-	-	13,881,156
Non-interest bearing:						
Cash and cash equivalents	35,332,927	-	-	-	-	35,332,927
Restricted cash	-	-	517,943	-	-	517,943
Trade accounts receivable	21,423,223	588,443	84,091	42,321	8,404,483	30,542,561
	83,896,382	**1,045,648**	**15,046,206**	**2,830,706**	**8,404,483**	**111,223,425**
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**

Fair value of financial instruments

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

[5] Due to the uncertainty in the recoverability of doubtful debts, the Group included the presented trade accounts receivable in the 'Indefinite settlement" item

(in KZT thousands, unless indicated otherwise)

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

Cash and cash equivalents

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

Financial assets and liabilities

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

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

Borrowings

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

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

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

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

Fair value hierarchy

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

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

(in KZT thousands, unless indicated otherwise)

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

	Level 1	Level 2	Level 3	Total
Financial assets				
Loans issued	-	23,542,753	-	23,542,753
Other financial assets	-	15,912,921	-	15,912,921
Total	**-**	**39,455,674**	**-**	**39,455,674**
Financial liabilities				
Financial liabilities carried at amortised cost:				
- debt securities issued	983,468,431	-	-	983,468,431
- bank loans	-	254,446,221	5,979,219	260,425,440
- loans from related parties	-	80,226,947	-	80,226,947
- finance lease	-	14,884,770	-	14,884,770
- financial guarantees	-	4,194,045	-	4,194,045
Total	**983,468,431**	**353,751,983**	**5,979,219**	**1,343,199,633**

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

	Level 1	Level 2	Level 3	Total
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 carried at amortised cost:				
- debt securities issued	790,399,781	-	-	790,399,781
- bank loans	-	277,311,629	7,705,421	285,017,050
- loans from related parties	-	166,914,584	-	166,914,584
- financial guarantees	-	4,399,245	-	4,399,245
Total	**790,399,781**	**448,625,458**	**7,705,421**	**1,246,730,660**

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

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

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

33. EVENTS AFTER THE REPORTING DATE

Loans issued

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

Borrowings

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

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

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

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