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Dear Sirs,

We live in an amazing time when the world is changing rapidly, society and business must quickly respond to changes and adapt to new conditions. Since the beginning of 2020, there have been events that will have a big impact on the conventional way of life of all mankind. The unprecedented quarantine measures around the world due to the COVID-19 pandemic have made all of humanity once again understand the value of health, freedom of movement and companionship. However, the restrictions introduced gave an impetus to the development of remote work from home, the ability to communicate online, if earlier technologies were associated with the younger generation, in this situation, regardless of age, we are exploring new opportunities and IT products.

The 2019 was the most successful year for the Company over the past 5 years, during the year there was an increase in market rates for the use of freight railcars in both Kazakhstan and Russia. The freight turnover of the railway transport of the Republic of Kazakhstan amounted to 289.2 bn tons/km in 2019, showing an increase of 2% compared to 2018.

The total inventory fleet of freight railcars in Kazakhstan equals 132 thousand units, the share of Eastcomtrans reaches 9%. The average age of own rolling stock is 10 years. At the end of 2019 the Company signed a contract for the purchase of container platforms (flatcars), and in March 2020 Company’s own wagon fleet reached 12,098 units. During 2019 the Company managed more than 12,000 cars, of which 37% were the universal wagon fleet bringing 47% of the total revenues.

The wide geography of transportation covers not only Kazakhstan and Russia, but also the Central Asian and the Baltic states. In 2019, the Company opened its branch in Moscow, and part of the rolling stock successfully works with major Russian customers. The Company provides services to oil and gas, mining, metallurgy, agriculture and manufacturing market segments.

The Company's revenue for 2019 amounted to KZT41.3 bn and increased by 27% compared to 2018, the main increase in revenue was due to an increase in rates for the use of open wagons (gondolas) and oil tanks.

During 2019, there was an increase in the cost of large castings, due to the shortage the price of wheel sets increased 1.5 times. The cost of repair services during the year increased as well. Compared to 2018, current repairs went up by 40%, whereas depot and overhaul repairs by 5% and 17% respectively.
The Company continues to develop its own wagon repair plants (WRPs); in 2019 approximately 2,000 wagons were repaired at the WPR in Kulsary. During the year, the Company's technical specialists successfully equipped and launched a WRP in Kostanay, which currently provides the following types of services – current uncoupling repairs, current and middle repairs of wheelsets, and plans to launch depot and overhaul repairs. For the purpose of fully equipping two repair plants with equipment, the Company raised funds from financial development institutions such as DBK-Leasing and Eurasian Development Bank.

The Company successfully completed 2019 with the following financial results:

- Revenue – KZT41.3bn, which is 27% higher compared to 2018.
- Gross profit – KZT25.8bn, an increase of 29% compared to 2018.
- Gross profit margin was 62%.
- EBITDA – KZT28.2bn, which is 26% higher compared to the last year.
- Net profit – KZT12.6bn.

The loan portfolio as of 31 December 2019 amounted to KZT56bn, the share of loans in foreign currency reached 54%, there is an ongoing work to reduce currency risk by replacing the funding base to KZT. During 2019, the average interest rate on loans in KZT decreased by 82 basis points to 10% per annum. The Company opened a new EBRD credit line for investment needs in the amount of KZT10.7bn. Based on to the results of 2019, the Company meets the requirements of all financial covenants outlined in the existing loan agreements.

The Company’s credit rating was confirmed by the Moody’s Investors Service international rating agency at ‘B3’ with ‘Positive’ outlook.

The Company pays special attention to the health and safety of its employees. Since the beginning of 2020, news on the coronavirus situation has been closely monitored and as soon as the World Health Organization (WHO) declared COVID-19 a pandemic, the staff were provided with recommended personal protective equipment.

On a regular basis, employees are informed and instructed regarding the observance of protective measures – washing hands, keeping a distance, airing the premises, etc. Since the introduction of the State of Emergency in Kazakhstan, office employees have been transferred to remote work, provided with office equipment and software products. Our team has shown the ability to provide all the vital business functions remotely.

Thanks to the professional and well-coordinated work of the IT Department specialists and a well-thought-out IT strategy, the workflow did not stop for a minute – the customers received services as before.

The well-being of employees is one of the priorities of doing business, so the Company’s management decided to maintain the average salary for the period of quarantine. Due to the COVID-19 pandemic and the sharp drop in oil prices in March 2020, it is difficult to predict the future performance of the Company, but I believe that the slowdown in the economy as a whole may adversely affect the Company’s operations. I hope that the railway transportation sector and our country will be able to get out of this situation with minimal losses and the economic recovery will begin at a fast pace.

Eastcomtrans has been on the market for more than 18 years, during this period various crises have been experienced – the devaluation of Kazakhstani Tenge, drop in profitability, reduced demand for freight rail transport. We are on the verge of new reality of doing business — this is not an easy challenge for the Company. I am sure that our close-knit team will once again overcome difficulties, and the Company will reach a new quality level.

Malakhov Vadim Aleksandrovich
General Director
Eastcomtrans LLP
1. Company Overview
Eastcomtrans LLP — the largest private rail freight operator in Kazakhstan and Central Asia

MISSION

To become the largest and one of the most efficient rail freight operators on the market offering a wide range of transportation and logistics services.

STRATEGIC GOALS

• To secure sustainable business development and enhance long term growth of the Company’s value
• To provide high-quality services to our clients at competitive prices
• To support the development of Kazakhstan’s rail freight transportation market
The well-balanced client portfolio of the Company includes about 40 large consignors, of which 80% are the leading industrial companies of Kazakhstan. ECT meets the needs of major enterprises in oil and gas, metals and mining, coal and other industries in transportation services.

The Company operates more than 12,000 railcars, of which 97% is owned by ECT.

The head office of the Company is located in Almaty. The Company has a branch in Nur-Sultan, as well as regional structural divisions all over the country.

As of 31 December 2019 the Company’s headcount amounted to 283 employees (incl. 83 employees at Kulsary and Kostanay WRPs).

Current credit ratings:
✓ 16 October 2019: Moody’s – ‘B3’ with a ‘Stable’ outlook
✓ 26 February 2020: Moody’s rating agency confirmed the Company’s corporate credit rating at the level of ‘B3’ on the international scale or ‘B1.kz’, and the outlook was changed from ‘Stable’ to ‘Positive’.

Eastcomtrans LLP (the “Company” or “ECT”) was established in the form of a limited liability partnership in October 2002.

In 2013, International Finance Corporation provided ECT with a USD50 mln financing in the following form:

- USD20 mln as an equity capital investment
- USD30 mln as a loan

The Company provides its clients with a wide range of rail transportation and logistics services:

Rail freight transportation (incl. oversized cargo)  
Operating lease and forwarding services  
Consignor and consignee services at the Seaport of Aktau  
Railcars repair and maintenance  
Enterprise internal logistics management  
Railcars pre-loading preparation.
<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>Launch of WRP in Kostanay (current uncoupling repair, current and middle repair of wheelsets).&lt;br&gt;461 wagons and WRP equipment were purchased using funds borrowed from financial institutions.&lt;br&gt;Long-term contracts with major clients were extended up to 3 years.&lt;br&gt;A branch was opened in Moscow, part of the wagon fleet successfully works with large Russian customers.&lt;br&gt;Reduction of interest rates on credit lines.</td>
</tr>
<tr>
<td>2018</td>
<td>Obtaining a carrier's license – 2 electric locomotives were purchased.&lt;br&gt;A wagon repair facility was purchased in Kostanay.&lt;br&gt;Reducing the share of foreign currency loans to 60% in the loan portfolio.&lt;br&gt;Improving financial performance and restoring financial covenants.</td>
</tr>
<tr>
<td>2014 - 2017</td>
<td>The rolling stock reached 12,235 units.&lt;br&gt;2014: Gazprombank provided a loan of USD50 mln for investment purposes.&lt;br&gt;2014: The Company raised a loan from EBRD in the amount of USD130 mln&lt;br&gt;2015: USD36 mln was raised as part of a repayable leasing loan from DBK-Leasing.&lt;br&gt;2016: The long-term contracts with TCO for the rental of wagons until 2019 were renewed with the right to further extend for another 3 years.&lt;br&gt;2016: KZT1.1 bn was raised on the basis of “Ijara” Islamic leasing from DBK-Leasing.&lt;br&gt;2017: 900 LPG tanks were sold and 316 open wagons (gondolas) were purchased.&lt;br&gt;2017: Changes were made to the terms of the Eurobond prospectus, and the circulation period was extended.&lt;br&gt;2017: A wagon repair facility was purchased in Kulsary, Atyrau region.&lt;br&gt;2017: Moody's assigned a long-term issuer rating of 'B3' with a ‘Stable’ outlook.</td>
</tr>
<tr>
<td>2013</td>
<td>The rolling stock reached 10,894 units.&lt;br&gt;IFC invested USD50 mln and became a partnership member with a share in the capital of 6.67%.&lt;br&gt;The Company successfully placed a USD100 mln Eurobonds on the LSE.&lt;br&gt;Moody's assigned a long-term issuer rating of 'B3' with a ‘Stable’ outlook.</td>
</tr>
<tr>
<td>2002 – 2012</td>
<td>The Company was founded.&lt;br&gt;2002-2012: Wagon fleet increased from 700 units up to 9,782 units.&lt;br&gt;2002: The first contract for the use of railcars was signed with Tengizchevroil (TCO).&lt;br&gt;2005-2007: The customer base has been increased. The use and forwarding contracts have been signed with large oil and gas companies.&lt;br&gt;2008: A USD25 mln loan agreement was signed with HSBC Bank Kazakhstan.&lt;br&gt;2008: Successful ISO audit.&lt;br&gt;2009: The Company becomes an individual member of FIATA.&lt;br&gt;2010: Fitch Ratings assigned a long-term issuer default rating of ‘B’ with a ‘Stable’ outlook.&lt;br&gt;2011: Attraction of a BNP Paribas syndicated loan in the amount of USD100 mln.&lt;br&gt;2012: Fitch Ratings upgraded Company’s rating to ‘B’ with a ‘Stable’ outlook.</td>
</tr>
</tbody>
</table>
The Company invests in expanding its own rolling stock and in the development of wagon repair infrastructure.

- In 2019, the Company began to work on a project to enter the container transportation market.
- In November 2019, a contract was signed for the acquisition of 200 platforms.

The wagon fleet under management amounts to more than 12,000 units, including own rolling stock of 11,864 units.

- In 2019, the Company's wagon fleet had an average age of about 10 years.

**Locomotive traction:** 2 electric locomotives

**Repair depots:**
- Kulsary
- Kostanay

**Wagon fleet structure, as of 31st December 2019**

Total amount: 11,864 units

- Oil tank wagons: 5,991
- LPG tank wagons: 1,206
- Open wagons / gondolas: 3,665
- Platforms / flatcars: 700
- Covered wagons: 300
- Dump cars: 2

ANNUAL REPORT 2019
2. Key Events of 2019
# Key events of 2019

## Macro environment
- Recovery of economic growth rates in Kazakhstan and Russia. The volume of Kazakhstan’s real GDP increased by 4.5%.
- The Kazakhstan’s credit rating is confirmed at ‘BBB-/A-3’ level with a ‘Stable’ outlook.
- A satisfactory oil price levels. The agreement of the oil-producing countries on cutting oil production allowed to balance supply and demand on the energy market.
- Maintaining the high level of oil production and increasing production volumes at the Kashagan field.
- Improving situation in the railway sector: an increase in freight traffic by 3% and cargo turnover by 2%.

## Operational highlights
- Increase in tariff rates under the Company’s contracts.
- Increase in utilization (load factor) of the Company's rolling stock up to 98%
- The launch of the wagon repair depot in Kostanay.
- Achievement of planned capacities at the Kulsary WRP.

## Financial results
- Revenues amounted to KZT41.3 bn (+ 28% y/y).
- Gross margin equaled 62%.
- EBITDA amounted to KZT28.2 bn (+ 26% y/y).
- Net income amounted to KZT12.6 bn (+ 81% y/y).

## Corporate governance
- In 2019, the top management team was strengthened by 2 directors with relevant experience in the field of railway freight transportation.

## Credit portfolio
- In February 2019, additional agreements were signed between the Company and Sberbank under which the funding period was extended until December 2025 and interest rates were reduced by 50 basis points.
- In June 2019, a new loan agreement was signed between the Company and the EBRD to accomplish the Company’s investment needs, the financing currency is KZT.
- In July 2019, a new loan agreement was signed between the Company and the Eurasian Development Bank (EDB) for the purpose of acquiring WRP equipment, the financing currency is KZT.
- In July 2019, a concessionary financing agreement was signed between the Company and DBK-Leasing.
- On 15 October 2019, the Company fully repaid its outstanding debt to the International Finance Corporation in accordance with the repayment schedule.

## Credit ratings
- On 16 October 2019, Moody's rating agency confirmed the Company's corporate credit rating at ‘B3’ level on the international scale (‘B1.kz’), the outlook is ‘Stable’.
3. Operational Results
By the end of 2019, over 255 mln tons of freight were loaded on the Kazakhstan’s railway network (KTZh), which is 0.261 mln tons more than in 2018. This volume is a record for the last 6 years. A third of the freight volume (82.5 mln tons) was exported. The largest increase was demonstrated by the loading rates of chemical fertilizers, iron and non-ferrous ore, construction and oil cargo.

In 2019, the share of pipeline transport in terms of the overall freight traffic indicators remained at the level of 2018. Plans for the development of pipeline transport in Kazakhstan are based on the expected increase in oil production by 10% by 2024.

In 2019, the total freight traffic by all modes of transport in the Republic of Kazakhstan amounted to 4,238 mln tons (+ 3% y/y). During the period 2015–2019, the compound annual growth rate (CAGR) of traffic volume equaled 3%. The volume of freight transportation by railway transport in 2019 amounted to 408 mln tons (+ 3% y/y), CAGR in 2015–2019 equaled to 4%.

By the end of 2019, the share of railway transport in the overall transportation structure did not change significantly compared to 2018 and amounted to 10%. Automobile transport is the main mode of transport in Kazakhstan (84% in the total structure) due to greater flexibility in the transportation of goods over short distances. However, the railway transport is more preferable for transporting industrial goods (greater efficiency and lower costs).

The total volume of freight turnover in 2019 remained almost unchanged from 2018 and amounted to 609 bn t*km (+0.1% y/y). The freight turnover of railway transport amounted to 289 bn t*km (+2% y/y), which is 48% of the total turnover in the country. The CAGR 2011-2019 amounted to 4%.
During the 2015–2019, the share of railway transport in the overall freight transportation structure remained at the level of 9% – 10%. The share of automobile transport also did not undergo major changes and remained at the level of 83% – 84%.

In 2019, the total volume of the freight transportation market of the Republic of Kazakhstan was estimated at KZT2,457 bn (=USD6.42 bn, + 8% y/y), and the railway freight transportation sector accounted for KZT855 bn (=USD2.2 bn, + 11% y/y). At the same time, for the period 2018–2019, the share of railway transport revenues in the total market volume increased from 34% to 35%, the growth in monetary terms amounted to KZT83 bn. The increase is due to an increase in usage rates.

The container transportation segment should be highlighted separately: the transit of containerized cargo through Kazakhstan in 2019 increased by 23% compared to 2018 and amounted to 684 ths. TEU (twenty-foot equivalent). The predominant direction in the segment is the China – Europe – China route, which accounted for 347 ths. TEU or 51% of the total transit of containerized cargo. In total, more than 5,300 container platforms passed through the territory of Kazakhstan in 2019, which is 18% more than in 2018. The bulk of the transit transportation of containerized cargo through Kazakhstan falls on the Kazakh-Chinese border crossings Dostyk – Alashankou and Khorgos – Altynkol. In 2019, the fleet of fitting platforms in Kazakhstan reached 8 ths. units, whereas universal platforms – 2.9 ths. units. Most of all, consumer goods, electronics, machinery, food, as well as bulk cargo were transported in containers.

Sources: Committee on Statistics of the RK, Argus Caspian, Transportation, Company data
The modern railway freight transportation market of the Republic of Kazakhstan is represented by the state-owned Kaztemirtrans JSC, captive railway operators, which are part of large financial and industrial groups and holdings, as well as private operator companies. Also, large Russian operators are present on the market. There is a high level of concentration in the market, 4 largest companies account for ~ 60% of the total fleet of freight wagons in Kazakhstan. At the same time, the share of Eastcomtrans is 9%.

As of 31 December 2019, the total fleet of freight wagons in Kazakhstan amounted to ≈132 ths. cars. Between 2015 and 2019 the number of wagons in the total fleet remained unchanged, however, the share of the private fleet increased, while the share of KTZh (state-owned) fleet decreased.

Due to the high role of the oil and gas, mining and metallurgical industries in the economy and GDP structure of the Republic of Kazakhstan, the main share of the freight wagon fleet falls on open wagons (gondolas) and tanks, which are the main types of wagons for servicing these industries.

**Sources:** Committee on Statistics of the RK, Company data, KTZh, Provagon
In 2019, manufacturers of large railway steel castings from post-Saharan countries produced 309.3ths. tons of large railway castings (271.6ths. tons in 2018). Overall, 424.4ths. tons of small, medium and large castings were produced during 2019 (378.3ths. tons in 2018). Compared to 2018, the growth in the production of all types of castings amounted to about 12%. Large casting prices remained high in 2019. The increased price level was due to increased demand from rolling stock operators.

The shortage of wheelsets that began in 2017, continued in 2019. The shortage of seamless wheels for the period reached from 200 to 400ths. A sharp increase in the demand for railway wheels is associated with many years of pent-up demand, since previously the market actively used wheels from recycled wagons that were suitable for further use. As a result, the high demand for wheelsets led to a large-scale deficit. In addition, the deficit was also due to the ban on the use of the RU1 model axles in the Russian Federation.

Sources: Argus Caspian, Transportation, Provagon, RZD-Partner, Company data

* Costs are excluding the replacement of expensive parts
In general, 2019 was favorable for the railway freight transportation market.

Due to the single market on the 1520 gauge, rental rates in Kazakhstan follow the dynamics of changes in rates in the Russian Federation.

During the year, there was a tendency of increasing rates for oil and gas tanks and decreasing rates for open wagons due to oversupply.

By the end of 2019, the average annual rental rate for oil tank in Kazakhstan increased by 50% (y/y) and amounted to $16.1/day. Due to the higher write-off rates of oil tanks on the 1520 gauge compared to the registration of new oil tanks, the market of oil and LPG tanks has come to a balance. There was also a consolidation of the Russian oil tank fleet in the hands of three major operators: Transoil, RAILGO and NefteTransService.

Rental rates for LPG tanks in Kazakhstan for the year increased by 4% reaching $26.3/day. In August 2019, LPG transportation was launched from Russia to China by rail to Manchuria, this direction is attractive and LPG export projects in the Asian direction are expected to develop in the future.

The main cost driver of renting open wagons is the demand from coal suppliers. In 2019, coal loading in Russia decreased due to an abnormally warm winter in Europe, a reduction in coal generation from a number of EU countries, which affected the oversupply of open wagons and, consequently, a decrease in rental rates.

### Rental service rates for freight wagons (excl. VAT), EoP

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<tbody>
<tr>
<td>Russia</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Open wagons (gondolas)</td>
<td>$/day</td>
<td>8.5</td>
<td>14.5</td>
<td>29.0</td>
<td>29.7</td>
</tr>
<tr>
<td>Oil tanks</td>
<td>$/day</td>
<td>8.6</td>
<td>8.9</td>
<td>12.1</td>
<td>13.8</td>
</tr>
<tr>
<td>LPG tanks (84 m³)</td>
<td>$/day</td>
<td>24.4</td>
<td>23.4</td>
<td>24.8</td>
<td>23.8</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Open wagons (gondolas)</td>
<td>$/day</td>
<td>10.7</td>
<td>17.4</td>
<td>33.5</td>
<td>31.3</td>
</tr>
<tr>
<td>Oil tanks</td>
<td>$/day</td>
<td>9.8</td>
<td>6.7</td>
<td>10.7</td>
<td>10.7</td>
</tr>
<tr>
<td>LPG tanks (84 m³)</td>
<td>$/day</td>
<td>20.5</td>
<td>22.3</td>
<td>23.7</td>
<td>25.4</td>
</tr>
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### KZT/USD (NBRK), EoP

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
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<tbody>
<tr>
<td>339.47</td>
<td>333.29</td>
<td>332.33</td>
<td>384.20</td>
<td>381.18</td>
<td></td>
<td></td>
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</tbody>
</table>
Operational results

- The 2019 was marked by an improvement in the situation on the railway freight market against the backdrop of strong oil prices and a recovery of the Kazakhstan economy growth rate and its trading partners.
- The Company reached the planned budget figures for 2019.
- The Company can operate on the entire 1520-gauge railway area, but the main activity is carried out on the local market. In autumn 2019, a branch was opened in Moscow, since about 15% of the fleet is operated by Russian customers.
- The Company’s revenue is generated by providing wagons for rent and operating rolling stock for customers. The average daily rental and operating rates in 2019 amounted to KZT7,300 / day or $19 / day and KZT12,000 / day or $31 / day. The Company also provides freight forwarding and rolling stock repair services.
- The average age of the Company`s fleet is approximately 10 years. During the year, more than 3,000 scheduled repairs of rolling stock were carried out, which is 25% of the Company’s total fleet. Due to the increase in the actual mileage of the wagons, the period of the scheduled repairs comes earlier than it should have been according to the service life (standard).
- Fleet utilization in 2019 reached 100% (excluding downtime in repairs), and there was no car congestion due to lack of demand.
- The Company's fleet was replenished with 461 wagons during the year and amounted to 11,864 units as of 31 December 2019.
- In General, the 2019 is believed to be the most productive and significant year for the Company in terms of operating indicators.
- The Company completed the quality management systems (QMS) audit procedures:
  ✓ СТ РК ISO 9001-2016 «Quality Management Systems» (№ KZ.7500175.07.03.00217), April 2020
The Company continues to develop its own wagon repair facilities. At the moment, the Kulsary WRP performs current uncoupling repairs (CUR) and current repairs of wheel pairs.

The Kostanay WRP also performs current uncoupling repairs and repairs of wheel sets. In the coming years, the Company intends to launch scheduled types of repairs – depot repairs and overhauls. The Company plans to launch a wagon – wheel workshop at the enterprise.

WRPs are equipped with the latest equipment, which was purchased at the expense of Company’s own and borrowed funds of Eurasian Development Bank and DBK-Leasing.

As of May 2020, 128 employees work at repair plants, the engineering and technical personnel have practical experience in the railway industry.

The launch of repair facilities will reduce downtime while waiting for repairs, as well as reduce dependence on third-party repair service providers and will give control on the cost and quality of repairs.

<table>
<thead>
<tr>
<th>WRPs</th>
<th>Kulsary WRP (Western region)</th>
<th>Kostanay WRP (Northern region)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repairs provided</td>
<td>Current uncoupling repairs</td>
<td>Depot repairs</td>
</tr>
<tr>
<td></td>
<td>Wheelset repairs</td>
<td>Current uncoupling repairs</td>
</tr>
<tr>
<td></td>
<td>Technical maintenance</td>
<td>Wheelset repairs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Technical maintenance</td>
</tr>
<tr>
<td>2019 results</td>
<td>CUR: 2,741</td>
<td>CUR: 394</td>
</tr>
<tr>
<td></td>
<td>Wheelset repairs: 2,229</td>
<td>Wheelset repairs: 597</td>
</tr>
<tr>
<td>Scope of services and clients</td>
<td>Oil &amp; Gas service companies</td>
<td>Agribusiness, industrial and manufacturing companies</td>
</tr>
</tbody>
</table>
In 2019, not a single industrial accident related to work was recorded. This indicator is predominant since preserving the life and health of employees is a priority for the Company.

At the beginning of 2019, the orders of the General Director were updated in terms of ensuring safety and labor protection, and responsible persons were appointed for ensuring safety and labor protection in regional structural divisions as well as at the Company’s wagon repair plants. Persons responsible for ensuring safety and labor protection were trained in training centers in a timely manner and have confirmation certificates.

All administrative local regulations related to ensuring labor protection: orders, instructions, regulations, memos, etc., are immediately sent by the Department of Health and Safety all structural divisions of the Company to familiarize and conduct briefings.

Responsible persons of structural divisions submit a report on the state of safety and labor protection in the form approved by the Regulation on the labor protection management system.

**The following activities were carried out during the reporting period:**

- training with knowledge testing of rules and instructions on labor protection and safety measures for workers – 76 employees;
- training of persons responsible for labor protection, members of the commission for the verification of knowledge – 6 employees;
- on-the-job training in fire and technical standards for workers – 71 employees;
- training in fire and technical standards for workers – 9 employees;
- training with knowledge testing of the fire-technical minimum for engineers and technical assistance - 5 employees;
- responsible persons for gas heating equipment were appointed - 2 employees;
- responsible engineers for industrial safety when working with cranes were appointed - 7 employees;
- training of employees under the slinger program - 50 employees;
- introductory training – 127 employees.

Information on the state of labor protection is provided to the Department of health and safety on a daily basis by the responsible persons.

The Company is constantly working to reduce the generation of waste and emissions to the environment from stationary sources in accordance with the Program of measures for environmental protection and environmental conditions agreed with the competent authorities in the field of environmental protection. Production waste generation and movement is monitored at the Company’s production facilities.

Reports are regularly submitted to the Management and the Department of Nature Management of the Atyrau and Kostanay Regions, and fees for environmental emissions are paid to the country’s budget on time. During the reporting period, pollutant emissions into the environment did not exceed the established limits and KZT952 ths. was spent on environmental protection measures.

In June - July 2019, the Company passed the audit procedure of **ST RK OHSAS 18001-2008 "Management System for Occupational Safety and Health"** (No. KZ.7500175.07.03.00054) and **ST RK ISO 14001-2016 “Environmental Management System”** (No. KZ.7500175.07 .03.00402).
4. Financial results
During 2017-2019, there were stable gross and EBITDA margins. The trend was due to rising rental and operating rates and further market stabilization.

In 2019, the Company’s assets were revalued with the involvement of an independent appraisal company. As a result of the revaluation, the equity capital almost doubled, which affected the leverage indicators.

### Summary report on the financial performance, 2017–2019

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2017*</th>
<th>2018*</th>
<th>2019*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>KZT mln</td>
<td>KZT mln</td>
<td>KZT mln</td>
<td>USD mln</td>
<td>USD mln</td>
<td>USD mln</td>
</tr>
<tr>
<td>Revenue</td>
<td>25,766</td>
<td>32,304**</td>
<td>41,303**</td>
<td>79</td>
<td>94**</td>
<td>108**</td>
</tr>
<tr>
<td>Gross profit</td>
<td>15,465</td>
<td>19,884</td>
<td>25,783</td>
<td>47</td>
<td>58</td>
<td>67</td>
</tr>
<tr>
<td>EBITDA</td>
<td>17,466</td>
<td>22,420</td>
<td>28,229</td>
<td>54</td>
<td>65</td>
<td>74</td>
</tr>
<tr>
<td>Net profit / (loss)</td>
<td>11,231</td>
<td>6,994</td>
<td>12,636</td>
<td>34</td>
<td>20</td>
<td>33</td>
</tr>
<tr>
<td>Cash (incl. escrow accounts and deposits)</td>
<td>3,159</td>
<td>2,431</td>
<td>9,274</td>
<td>10</td>
<td>6</td>
<td>24</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>4,170</td>
<td>4,152</td>
<td>5,864</td>
<td>13</td>
<td>11</td>
<td>15</td>
</tr>
<tr>
<td>Current Assets</td>
<td>11,990</td>
<td>16,289</td>
<td>23,383</td>
<td>36</td>
<td>42</td>
<td>61</td>
</tr>
<tr>
<td>Fixed Assets</td>
<td>98,291</td>
<td>96,883</td>
<td>136,011</td>
<td>296</td>
<td>252</td>
<td>357</td>
</tr>
<tr>
<td>Total Assets</td>
<td>110,847</td>
<td>116,044</td>
<td>165,978</td>
<td>334</td>
<td>302</td>
<td>435</td>
</tr>
<tr>
<td>Total financial liabilities</td>
<td>56,953</td>
<td>53,496</td>
<td>55,211</td>
<td>171</td>
<td>139</td>
<td>145</td>
</tr>
<tr>
<td>Equity capital</td>
<td>42,348</td>
<td>49,329</td>
<td>85,938</td>
<td>127</td>
<td>128</td>
<td>225</td>
</tr>
<tr>
<td>Cash Flow from Operating activities</td>
<td>12,201</td>
<td>15,535</td>
<td>19,702</td>
<td>37</td>
<td>45</td>
<td>51</td>
</tr>
<tr>
<td>Cash Flow from Investing activities</td>
<td>9,871</td>
<td>(3,681)</td>
<td>(15,968)</td>
<td>30</td>
<td>(11)</td>
<td>(42)</td>
</tr>
<tr>
<td>Cash Flow from Financing activities</td>
<td>(22,277)</td>
<td>(10,539)</td>
<td>(2,461)</td>
<td>(68)</td>
<td>(31)</td>
<td>(6)</td>
</tr>
<tr>
<td>Gross profit margin</td>
<td>60%</td>
<td>62%</td>
<td>62%</td>
<td>60%</td>
<td>62%</td>
<td>62%</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>68%</td>
<td>69%</td>
<td>68%</td>
<td>68%</td>
<td>69%</td>
<td>68%</td>
</tr>
<tr>
<td>Net debt / EBITDA</td>
<td>3.08</td>
<td>2.28</td>
<td>1.65</td>
<td>3.02</td>
<td>2.05</td>
<td>1.66</td>
</tr>
<tr>
<td>Debt / Equity</td>
<td>1.34</td>
<td>1.08</td>
<td>0.65</td>
<td>1.34</td>
<td>1.08</td>
<td>0.65</td>
</tr>
</tbody>
</table>

KZT/USD (NBRK), Avg. 326.00 344.93 382.87
KZT/USD (NBRK), EoP 332.33 384.20 381.18

Note: * The P&L and CFS calculations are based on the average KZT/USD rate (NBRK) for the period, while the Balance Sheet calculations are based on the EoP exchange rate

** The Company’s revenue is calculated taking into account the empty run
The Company's total revenue in 2019 amounted to KZT41,303* mln or USD108** mln, which is 28% greater compared to 2018 in KZT terms and 15% greater in USD terms.

The revenue structure has not changed much in recent years: the share of revenue from rental services increased by 5% in 2019 and amounted to 64% of the total revenue, the share of revenue from operating services decreased by 4% and amounted to 34% of the total revenue, revenue from other services amounted to 2% of the total revenue.

The main revenue growth driver was the increase in rates for the use of rolling stock mainly for open wagons and oil tanks, which together account for 81% of the Company’s total fleet.

Revenue structure by services provided, 2015–2019

Revenue from rental services amounted to KZT26,301 mln (+37% y/y).

Revenue from operating services amounted to KZT13,875 mln (+13% y/y).

Revenue from freight forwarding and other services amounted to KZT1,127 mln (+37% y/y).

* Taking into account the empty run
** Based on the average FX rate of 382.9 KZT/USD
Cost of Goods Sold (COGS) amounted to KZT15,520 mln or USD41* mln, which is 14% or KZT 3.1 bn higher compared to the previous year.

In 2019, the general structure of COGS underwent a number of changes: depreciation expenses increased (+20% y/y) due to the acquisition of new wagons and equipment; wagon repairs and maintenance costs increased as well (+68% y/y) due to an increase in the number of scheduled repairs in 2019 and the cost of spare parts; wagon insurance costs decreased (-24% y/y); payroll expenses increased (+36% y/y) due to an increase in the number of personnel and the introduction of a performance-based motivation system (KPI).

<table>
<thead>
<tr>
<th>Item</th>
<th>2019 KZT mln</th>
<th>2018 KZT mln</th>
<th>Growth rate %</th>
<th>Share in 2019 %</th>
<th>Share in 2018 %</th>
<th>Change y/y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>5,701</td>
<td>4,748</td>
<td>20%</td>
<td>37%</td>
<td>38%</td>
<td>-1%</td>
</tr>
<tr>
<td>Railway costs</td>
<td>3,112</td>
<td>2,816</td>
<td>11%</td>
<td>20%</td>
<td>23%</td>
<td>-3%</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>1,881</td>
<td>1,118</td>
<td>68%</td>
<td>12%</td>
<td>9%</td>
<td>+3%</td>
</tr>
<tr>
<td>Insurance costs</td>
<td>188</td>
<td>248</td>
<td>-24%</td>
<td>1%</td>
<td>2%</td>
<td>-1%</td>
</tr>
<tr>
<td>Service costs</td>
<td>261</td>
<td>243</td>
<td>7%</td>
<td>2%</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>Payroll</td>
<td>1,070</td>
<td>780</td>
<td>37%</td>
<td>7%</td>
<td>6%</td>
<td>+1%</td>
</tr>
<tr>
<td>Other</td>
<td>3,305</td>
<td>2,467</td>
<td>34%</td>
<td>21%</td>
<td>20%</td>
<td>+1%</td>
</tr>
<tr>
<td>Total</td>
<td>15,520</td>
<td>12,420</td>
<td>25%</td>
<td>100%</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

* Based on the average FX rate of 382.9 KZT/USD
General and administrative expenses (G&A) amounted to KZT3,750 mln or USD9.8* mln, which is 68% or KZT 1.5 bn higher compared to the previous year.

In 2019, general and administrative expenses demonstrated an increase, mainly due to an increase in payroll expenses by 89% and the introduction of a motivational system (KPI), as well as due to an increase in administrative expenses by 7.6 times as a result of changes in the leases standard (IFRS 16), which is effective from 1 January 2019. There is a decrease in other expenses by 59% y/y, the share of which equaled 5% of total G&A expenses in 2019 against 20% in 2018. The reason for such a decrease was a change in accounting for office space rentals. The 66% increase in consulting costs is due to the Company's consideration of new investment projects in 2019.

<table>
<thead>
<tr>
<th>Item</th>
<th>2019</th>
<th>2018</th>
<th>Growth rate</th>
<th>Share in 2019</th>
<th>Share in 2018</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>KZT mln</td>
<td>KZT mln</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>y/y</td>
</tr>
<tr>
<td>Payroll</td>
<td>2,180</td>
<td>1,153</td>
<td>89%</td>
<td>58%</td>
<td>52%</td>
<td>+6%</td>
</tr>
<tr>
<td>Taxes (other than CIT)</td>
<td>562</td>
<td>321</td>
<td>75%</td>
<td>15%</td>
<td>14%</td>
<td>+1%</td>
</tr>
<tr>
<td>Depreciation</td>
<td>446</td>
<td>52</td>
<td>761%</td>
<td>12%</td>
<td>2%</td>
<td>+10%</td>
</tr>
<tr>
<td>Consulting</td>
<td>248</td>
<td>150</td>
<td>66%</td>
<td>7%</td>
<td>7%</td>
<td>0%</td>
</tr>
<tr>
<td>Travel expenses</td>
<td>56</td>
<td>56</td>
<td>1%</td>
<td>1.5%</td>
<td>2.5%</td>
<td>-1%</td>
</tr>
<tr>
<td>Office stationery and materials</td>
<td>38</td>
<td>28</td>
<td>39%</td>
<td>1.0%</td>
<td>1.2%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Insurance costs</td>
<td>34</td>
<td>24</td>
<td>38%</td>
<td>0.9%</td>
<td>1.1%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Other</td>
<td>186</td>
<td>450</td>
<td>-59%</td>
<td>5.0%</td>
<td>20.2%</td>
<td>-15.2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,750</strong></td>
<td><strong>2,234</strong></td>
<td><strong>68%</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
<td>–</td>
</tr>
</tbody>
</table>

* Based on the average FX rate of 382.9 KZT/USD
The Company's EBITDA increased by 26% and amounted to KZT28,229 mln versus KZT22,420 mln in 2018. In USD terms, this figure increased by 14% from USD65 mln in 2018 to USD74* mln in 2019.

The EBITDA growth was driven by the Company's revenue growth in 2019. The EBITDA margin equaled 68% in 2019. Overall, the EBITDA margin remained stable during 2017–2019 period.

\* Based on the average FX rate of 382.9 KZT/USD
Finance income amounted to KZT478 mln in 2019 against KZT802 mln in 2018 (-39% y/y) and was represented by discounts on repurchase of financial instruments and placement of available funds on deposits and accounts.

Total finance expenses (incl. exchange rate differences) amounted to KZT5,908 mln or USD15.4* mln, decreasing by 38% y/y due to positive exchange rate differences in 2019.

As at 31 December 2019, the share of foreign currency loans including liabilities indexed to changes in the exchange rate equaled 54% in the Company’s total loan portfolio. Loans were fully serviced in accordance with the payment schedule during 2019.

<table>
<thead>
<tr>
<th>Item</th>
<th>2019 Amount (KZT mln)</th>
<th>2018 Amount (KZT mln)</th>
<th>Growth rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remuneration expenses</td>
<td>6,283</td>
<td>6,070</td>
<td>+4%</td>
</tr>
<tr>
<td>(Positive) / Negative FX differences</td>
<td>(375)</td>
<td>3,482</td>
<td>-9.3x</td>
</tr>
<tr>
<td>Total</td>
<td>5,908</td>
<td>9,552</td>
<td>-38%</td>
</tr>
</tbody>
</table>

KZT/USD exchange rate dynamics, 2014–2019

Dynamics of loan portfolio size and financial expenses, 2018–2019

* Based on the average FX rate of 382.9 KZT/USD
5. Risk management
The Risk Management Policy (the “Policy”) was approved by the Supervisory Board in May 2015. It defines the following areas: 1) risk identification procedure; 2) risk assessment; 3) risk management; 4) exchange of information and risk monitoring; 5) confidentiality and information disclosure requirements.

The Policy is targeted to define potential risks negatively affecting operations, reputation, financial standing of the Company and diminishing the probability of its occurrence.

**Policy goals:**
- Develop and implement consistent approach to risk determination and management;
- Determine and rapid response on emerging risk events;
- Make targeted risk management actions aimed at bringing risks to acceptable level;
- Determine risk reporting minimum requirements;
- Determine minimum requirements on risk assessment procedures.

**Main objectives for the Policy:**
- Forecast an occurrence of negative events;
- Develop action plans in case of negative event occurrence to minimize potential harm;
- Ability to react fast on unexpected events and make managerial decisions to take control on the situation;
- Deliver timely information on reaction options to parties involved;
- Disseminate information to all employees and interested parties concerning their responsibilities on identification, monitoring and reaction on risks.

Risk management system is a two-level system: 1st level — Supervisory Board (approves Policy, levels of responsibility, risk register, rules and procedures on monitoring, risk reports and internal audit plans); 2nd level — General Director (responsible for organization of effective risk management system and development of risk control system). The Company is considering to establish a risk management unit in the future.

The Company defines seven type of risk groups:
- Operational risk
- Financial risk
- Market risk
- Risk of fraud
- Reputational and confidential information disclosure risk
- Concentration risk
- Sole decision making risks

It is important to note that the Company enters into insurance contracts on a regular basis against the following cases:
- Damage or loss of rolling stock
- Infliction of life harm, personal injury and/or damage to the property of third parties
- Environmental damage
Register of Key Risks

**Operational Risks**
- Rolling stock availability to meet contractual obligations
- Fail to deliver or late delivery of railcars to consumers
- Sending railcars to the wrong route
- Accidents, derailment
- Untimely repair
- Signing contracts with insolvent clients

**Financial Risks**
- Noncompliance with financial terms set by creditors
- Interest rates increase risk
- Devaluation and imbalanced credit portfolio risk
- Risk of financial and tax reports late delivery

**Market Risks**
- Falling market prices in oil & gas and mining sectors
- Decline of production volumes in oil & gas and mining sectors
- Export restrictions
- Increase in Kazakhstan Temir Zholy's (KTZh) tariffs
- Rental rates decline
- Oil pipelines capacity expansion

**Risks of Fraud**
- Signing contracts for the purchase of goods and services at higher than market prices
- Signing contracts for the delivery of services at lower than market prices
- Theft of goods and materials from the office or warehouses
- Raiding

**Reputational Risks**
- Negative information influence on reputation due to breach of contractual obligations (financial, operating)
- Unauthorized disclosure of rental rates and tariffs
- Disclosure of commercial secrets
- Law violation risks

**Concentration Risks**
- Dependence on a single financial institution
- Dependence on a single supplier in the delivery of spare parts and/or repair works
- Customer concentration risk

**Sole Decision Making Risks**
- Key person risk
- Sole decision making when signing contracts
- Sole decision making on strategy
6. Social responsibility
As of the end of 2019, the Company had 283 employees, including 29 employees at the Kulsary WRP and 54 employees at the Kostanay WRP.

The share of women in the Company was 37% or 104 employees, and the share of men was 63% or 179 employees.

There were 20 women at the leading and senior positions at the Company’s structural divisions including Deputy Directors and Department Heads.

The average age of employees in the Company is 36 years.

15% of employees work in the Company for more than 3 years and 23% of employees for more than 5 years.

The Company is dominated by employees with a total work experience of 6 to 15 years. About 10% of all employees have more than 20 years of work experience.

The share of employees with higher education is 98%, MBA holders – 2% (excl. WRPs).

The Company is interested in competent and professional employees; therefore, it is trying to constantly improve the level of staff training.

The Company supports a healthy lifestyle among employees as evidenced by participation in various sports events and marathons.

- **36 years old** average age of employees
- **10% of employees** have more than 20 years of work experience
- **98% employees*** are with higher education

*Excluding WRPs
Eastcomtrans is the General sponsor of the public foundation (PF) Zhakiya Charitable Foundation. The PF allocates educational grants and provides charitable and medical assistance to children and youth from poor families and orphanages in Kazakhstan.

- In 2019, the PF’s activities were carried out in the following areas:
  - 44 graduates received educational grants and scholarships under the Zhakiya Sarsenov Educational Scholarships Program. Since the 2018-2019 academic year, all students received a scholarship from the PF in the amount of KZT 20,000 during their studies. Five grantees from Almaty completed their internships at Eastcomtrans while working in the administrative and economic department. In total, more than KZT 12 mln were spent under the Zhakiya Sarsenov Educational Scholarships Program in 2019.
  - During the year, 63 children received treatment with a bracket system under the "Give a smile" dental care program. 34 people from the Zhastar Uyi youth home, SOS children's village Almaty and Ana Uyi PF received dental treatment at the medical center. A total of 264 people were provided a care.
  - Informational banners were reconstructed and near 500 young seedlings were planted along the stadium at the secondary school named after Zh. Sarsenov in Araltobe, Aktobe region. The library of the school was replenished with works of Kazakh literature.
  - Offices were fully equipped and fire extinguishers were purchased at the Bolashak preschool institution in Araltobe, Aktobe region. All necessary sports equipment and uniforms were purchased. The PF presents new year gifts to primary school students, pre-school children and pupils of the Bolashak preschool institution on an annual basis.
  - A new playground, tennis table and a dishwasher were purchased and installed for children in the lower grades of No. 10 boarding school in Almaty for children from low-income families.
  - Various sports simulators and gym sports equipment were purchased for pupils of No. 2 secondary boarding school in Kosshagyl, Atyrau region.
  - The ECT team takes part in the purchase of gifts for the New Year for children from orphanages in order to fulfill the wishes of the children, organizing trips with treats and presents to the cinema, to the rink, to the theater on an annual basis. In 2019, Zhakiya Charitable Foundation representatives visited the Kovcheg, Nur, No.1 Almaty regional orphanages and SOS children's village Almaty.
7. Corporate governance
The Company takes corporate governance issues seriously and responsibly, which implies not only adopting a formal approach but primarily implementing the fundamental principles of corporate governance.

The Company adheres to a simple and clear corporate governance structure shown below:

The Company has developed and approved the Corporate Governance Code, which is based on the following principles:

- **Accountability**: the Code states that the Company should report to all shareholders. The Code secures guiding principles in respect of the Supervisory Board’s competencies in regard to strategy development, ways of business development, top management team monitoring and control.

- **Fairness**: the Company ensures compliance of rights and equality of rights of all shareholders (including minority shareholders). All shareholders in case of their rights’ violation have equal access to rights protection procedures with the participation of the Supervisory Board.

- **Transparency**: the Company ensures timely, reliable and affordable disclosure of corporate information regarding all significant issues of the Company’s business including information about shareholders composition, management structure and financial results.

- **Responsibility**: the Company accepts rights of the shareholders and other interested parties, which is aimed at ensuring compliance with social and ecological standards. This in turn leads to continuous solid growth and financial stability of the Company.
Corporate structure

As at 31 December 2019

General Director (CEO)

First Deputy CEO

Deputy CEO

Deputy CEO for Business Development and Marketing

Deputy CEO for Commerce and Development

Deputy CEO for Commerce and Development

Commercial department

Technical department

Financial department

Legal department

IT department

Director of the branch in the Russian Federation

Strategic development department (Director)

Container freight shipping department

Marketing department

Director of the regional branch in Nur-Sultan

Regional structural units

Deputy Commercial Director

Deputy Technical Director

Treasury and Corporate Finance unit

Budgeting and Financial Analysis unit

Accounting department

Security Service

Human Resources department

Administrative department

Deputy Commercial Director

Branch Director of Kostanay WRP

Branch Director of Kulsary WRP

Head of the of track facilities unit

Head of the locomotive traction unit

ANNUAL REPORT 2019
The Supervisory Board ("SB") is the body that implements overall strategic management of the Company, controls its financial and business activities, including the control over the activities of the General Director. The number of SB members is determined by the General Meeting of Participants and shall consist of no more than five people.

In 2019, the Supervisory Board consisted of four members:

Mr. Marat Sarsenov
Chairman of Supervisory Board

Mr. Yuri Lavrinenko
Independent member of Supervisory Board

Ms. Ekaterina Benjamin
Independent member of Supervisory Board

Mr. Mikhail Kuznetsov
Independent member of Supervisory Board

Mr. Marat Sarsenov was again elected a Chairman of SB of the Company on 23.05.2016. Mr. Sarsenov, born on 06.06.1967, earlier, during the period from 01.01.2012 to 01.06.2015, already held the position of the Chairman of SB of the Company. He is a participant of the Company who owns a participatory interest in the ECT’s charter capital of 55,998%.

Mr. Yuri Lavrinenko was elected as an Independent Director of SB in 2013. Mr. Lavrinenko is a Candidate of Economic Sciences. Starting 2010, acted as an advisor to the President of NC Kazakhstan Temir Zholy JSC. In 2007–2008, Mr. Lavrinenko was a General Director of Kamkor Repair Corporation LLP; in 2006–2007: Managing Director, Director of NC KTZh JSC’s Branch – Direction of Magistral Routes; in 2002–2006: First Vice-Minister, Vice-Minister of Transport and Communications; in 1999–2002: Deputy of Mazhilis of the Parliament of RK.

Ms. Ekaterina Benjamin was elected as an Independent Director of SB in December 2014. Ms. Benjamin holds a solid experience in financial institutions, among them are Citibank Kazakhstan, Bank Petrocommerce, KazInvestBank, HSBC Bank Kazakhstan, Altyn Bank. In 2005–2011, Ms. Benjamin acted as Independent Director of Visor Capital, Kazakhmys Pension Fund and Altaipolymetall.

Mr. Mikhail Kuznetsov was elected as an Independent Director of SB in May 2015. Mr. Kuznetsov is a Candidate of Economic Sciences, he is a Chartered Director (UK Institute of Directors) and Executive MBA by the IE Business School (Madrid, Spain). Mr. Kuznetsov held managing positions in Aviacor, LUKOIL-Volga, Promsvyaz, and IFC. At present, Mr Kuznetsov acts as an Independent Director of the Board of Directors of Energosetproject OJSC, EHO JSC (Roscosmos), Credit Bank of Moscow OJSC. He is also a General Director and Managing Partner of the Center for Corporate Development and Acting Director of the Association of Corporate Directors.
Corporate governance

Executive body
The sole executive body of the Company is presented by the General Director. The position of the General Director of the Company is held by Mr. V. Malakhov since 23 May 2016, born on 28 August 1960, who is not a participant of the Company and/or its subsidiaries and affiliates.

Supervisory Board committees and their functions
- On 4 March 2016, the Audit Committee comprising independent members of the Supervisory Board of the Company – Mr. M. Kuznetsov and Ms. E. Benjamin – has been established by the resolution of SB.

Internal control and audit
- The Company is in the process of implementing selected internal control and risk management practices. In particular, internal control rules concerning the use and dissemination of insider information have been adopted. In 2019, the Company provided reports to the Kazakhstan Stock Exchange (KASE) and Central Securities Depository on persons having access to the Company's insider information.
- The Company is implementing IT related incidents management system in order to assess efficiency and formalize processing of requests in IT Department and measure efficiency of IT departments services.
- The Company adopted an internal Insurance policy in order to defend its property interests as it operates in a complicated and risky industry.
- The Company's risk management policy has been approved by the SB’s resolution dated 29 May 2015.

Dividends and remuneration
- Based on the results of financial and economic activities of 2018, dividends were announced to be distributed among the shareholders on a pro rata basis in the amount of 50% of net profit or KZT3,487 mln. In June 2019, dividends were paid in full.

Existing and potential investors policy, corporate governance principles
- The Company fully and timely discloses information affecting interests of current and potential investors. The Information Policy, defining the process of information disclosure about the Company and its financial and operational results, was approved by the Supervisory Board on 6 November 2015.
- The Corporate Governance Code was adopted on 25 August 2015 by the resolution of SB; it was developed in accordance with the recommendations from consultants and IFC as part of the activity plan on a modernization of the Company’s corporate governance.
8. Financial statements
Independent Auditor’s Report

To the Shareholders and Management of Eastcomtrans LLP:

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Eastcomtrans LLP (the “Company”) as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company’s financial statements comprise:
- the statement of financial position as at 31 December 2019;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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 financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Overview

Materiality
- Overall Company materiality: 815 million Tenge, which represents 5% of profit before tax, adjusted for loss on revaluation of property, plant and equipment.

Key audit matters
- Valuation of property, plant and equipment.
- Assessment of going concern performed by the management.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality
The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall Company materiality 815 million Tenge.

How we determined it 5% of profit before tax

Rationale for the materiality benchmark applied
We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by users, and is a generally accepted benchmark. We adjusted profit before tax to deduct loss on revaluation of property, plant and equipment as this item is non-recurring. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.
Key audit matters

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

<table>
<thead>
<tr>
<th>Key audit matter</th>
<th>How our audit addressed the key audit matter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation of property, plant and equipment</td>
<td>See Note 4 and 8 to the financial statements.</td>
</tr>
</tbody>
</table>

In accordance with the Company’s accounting policy its wagon fleet and locomotives (further “fleet”), are accounted for using revaluation model. In addition, management decided to change accounting policy with respect to the measurement of buildings and constructions and apply revaluation model as management believes that the financial statements would provide reliable and more relevant information.

Therefore, the Company should perform valuation of these assets with sufficient regularity to ensure the carrying amount does not differ materially from the fair value at the end of the reporting period.

Previous valuation of the wagons was performed as of 31 December 2017. During the year of 2019, management noted increase in market price of the fleet due to positive changes in the industry it operates and concluded, that the carrying value of the fleet should be re-assessed to reflect its fair value.

Therefore, the Company engaged an independent expert to perform valuation of its fleet and buildings and constructions as of 31 December 2019.

We considered this matter to be a key audit matter due to significance of the carrying value of property, plant and equipment and significance of the effect of the judgement involved in the assessment and therefore a material impact of this matter on the financial statements.

As part of our assessment of continuity of the Company’s operations in the preparation of the financial statements, we focused our attention on the Company’s ability to generate sufficient cash to be able to settle its obligations in accordance with the contractual terms and on the Company’s compliance with the debt covenants. Additionally, we considered effect of Coronavirus and Kazakhstan Tenge devaluation on the Company’s ability to continue its operations on a going concern basis.

Our procedures included the following:

- checking compliance with financial and non-financial covenants in accordance with the borrowing contracts and bonds terms;
- analysis of future cash flows expected by the Company during next 12 months from the date of this audit report;
- liquidity analysis of the existing assets in the statement of financial position;
- review of the borrowing and bonds terms and amounts that are available for withdrawal and shall be repaid;
- analysis of sensitivity of cashflows to further weakening of Kazakhstan Tenge and decrease in turnover;
- analysis of the Company’s operations during 2020;
- discussion with management of the potential impact and actions taken by the management with respect to the Coronavirus to ensure business continuity.

The situation is still evolving at the time of issuing these financial statements. While to date there has been no discernible impact on the Company’s sales or supply chain, however the future effects cannot be predicted and the negative impact on global trade and on the Company may be more severe than currently expected.
Key audit matter
Considering the above and based upon the analysis of the Company’s current financial position, management concluded there was no material uncertainty that could cast significant doubt upon the Company’s ability to continue as a going concern. In arriving its conclusion, management considered the Company’s current liquidity position, expected cashflow forecasts and their sensitivity to potential negative outcomes, existence of long-term contracts with major customers, results of operations during 2020, the Company’s assets base and dependence on suppliers.
We considered this matter to be a key audit matter due to its high importance to the Company ability to continue as a going concern and to the financial statements.

How our audit addressed the key audit matter

Other information
Management is responsible for the other information. The other information comprises the Annual report (but does not include the financial statements and our auditor’s report thereon), which is expected to be made available to us after the date of this auditor’s report.

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

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

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

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

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

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

Auditor’s responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the 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 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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
Independent Auditor`s Report (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers LLP

17 April 2020
Almaty, Kazakhstan

Approved by:

[Signature]

Dana Iskaribekova
Managing Director
PricewaterhouseCoopers LLP
(General State License of the RK Ministry of Finance No.00000005 dated 21 October 1999)

Signed by:

[Signature]

Baurzhan Burkhanbekov
The engagement partner on the audit resulting in this independent auditor's report and Auditor in charge (Auditor’s Qualification Certificate No.0000580 dated 30 October 2006)
Statement of Financial Position
As at 31 December 2019

<table>
<thead>
<tr>
<th></th>
<th>Note</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>8</td>
<td>136,011,109</td>
<td>96,883,355</td>
</tr>
<tr>
<td>Right-of-use of assets</td>
<td>9</td>
<td>1,701,046</td>
<td>-</td>
</tr>
<tr>
<td>Non-current receivables</td>
<td>7</td>
<td>4,855,713</td>
<td>2,838,871</td>
</tr>
<tr>
<td>Intangible assets</td>
<td></td>
<td>27,465</td>
<td>32,337</td>
</tr>
<tr>
<td>Loans due from employees</td>
<td>-</td>
<td>-</td>
<td>196</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td></td>
<td><strong>142,595,333</strong></td>
<td><strong>99,754,759</strong></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>10</td>
<td>332,476</td>
<td>194,518</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>10</td>
<td>5,460,214</td>
<td>3,852,000</td>
</tr>
<tr>
<td>Contract assets</td>
<td>11</td>
<td>403,458</td>
<td>300,074</td>
</tr>
<tr>
<td>Advances paid and other current assets</td>
<td>12</td>
<td>7,480,127</td>
<td>7,577,272</td>
</tr>
<tr>
<td>Current income tax prepayment</td>
<td>432,273</td>
<td>302,478</td>
<td></td>
</tr>
<tr>
<td>Short-term bank deposits</td>
<td>13</td>
<td>5,691,095</td>
<td>5,400</td>
</tr>
<tr>
<td>Cash on special accounts</td>
<td>14</td>
<td>33,166</td>
<td>148,335</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>15</td>
<td>3,549,717</td>
<td>2,277,036</td>
</tr>
<tr>
<td>Non-current assets held for sale (or disposal groups)</td>
<td>8</td>
<td>-</td>
<td>1,632,000</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td></td>
<td><strong>23,382,526</strong></td>
<td><strong>16,289,113</strong></td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td></td>
<td><strong>165,977,859</strong></td>
<td><strong>116,043,872</strong></td>
</tr>
</tbody>
</table>

**EQUITY AND LIABILITIES**

| Equity               |      |                  |                  |
| Charter capital      | 16   | 3,845,400        | 3,845,400        |
| Revaluation reserve  | 17   | 45,624,892       | 19,069,415       |
| Retained earnings    |      | 36,467,665       | 26,414,247       |
| **TOTAL EQUITY**     |      | **85,937,957**   | **49,329,062**   |

| Non-current liabilities |      |                  |                  |
| Loans and borrowings  | 18   | 34,662,510       | 33,576,387       |
| Bonds                | 19   | 11,600,716       | 12,180,833       |
| Lease obligations     | 9    | 985,521          |                  |
| Deferred tax liability| 29   | 21,284,072       | 11,786,366       |
| **Total non-current liabilities** |      | **68,532,819**  | **57,543,586**   |

| Current liabilities  |      |                  |                  |
| Loans and borrowings | 18   | 7,785,696        | 7,553,185        |
| Bonds                | 19   | 176,488          | 185,939          |
| Lease liabilities    | 9    | 588,105          |                  |
| Trade payables       | 21   | 903,931          | 572,821          |
| Contract liabilities |      | 317,155          | 344,351          |
| Other current liabilities | 22   | 1,735,708        | 514,928          |
| **Total current liabilities** |      | **11,507,083**  | **9,171,224**    |
| **TOTAL LIABILITIES** |      | **80,039,902**   | **66,714,810**   |
| **TOTAL EQUITY AND LIABILITIES** |      | **165,977,859** | **116,043,872** |
# Statement of Profit or Loss and Other Comprehensive Income

As at 31 December 2019

## In thousands of Kazakhstani Tenge

<table>
<thead>
<tr>
<th>Note</th>
<th>2019</th>
<th>2018 (restated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>41,302,673</td>
<td>32,304,387</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(15,519,698)</td>
<td>(12,419,972)</td>
</tr>
<tr>
<td>Gross profit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>25,782,975</td>
<td>19,884,415</td>
</tr>
<tr>
<td>Other operating income</td>
<td>460,583</td>
<td>174,064</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>(220,430)</td>
<td>(64,101)</td>
</tr>
<tr>
<td>Net impairment losses on financial assets and on contract assets</td>
<td>(190,232)</td>
<td>(139,846)</td>
</tr>
<tr>
<td>Loss on disposal of property, plant and equipment</td>
<td>(364,967)</td>
<td>(73,359)</td>
</tr>
<tr>
<td>Loss on revaluation of property, plant and equipment</td>
<td>(476,886)</td>
<td>-</td>
</tr>
<tr>
<td>Operating profit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance income</td>
<td>21,240,690</td>
<td>17,547,409</td>
</tr>
<tr>
<td>Finance costs</td>
<td>487,251</td>
<td>801,829</td>
</tr>
<tr>
<td>Foreign exchange profit / (loss), net</td>
<td>(6,282,910)</td>
<td>(6,069,977)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>375,446</td>
<td>(3,482,039)</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>15,820,477</td>
<td>8,797,222</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>29</td>
<td>(3,184,224)</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>12,636,253</td>
<td>6,993,553</td>
</tr>
</tbody>
</table>

## Other comprehensive income:

*Items that will not be reclassified to profit or loss*

<table>
<thead>
<tr>
<th>Note</th>
<th>2019</th>
<th>2018 (restated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revaluation of property, plant and equipment</td>
<td>34,360,770</td>
<td>-</td>
</tr>
<tr>
<td>Income tax recorded in other comprehensive income</td>
<td>(6,872,154)</td>
<td>-</td>
</tr>
</tbody>
</table>

## Total comprehensive income for the year

<table>
<thead>
<tr>
<th>Note</th>
<th>2019</th>
<th>2018 (restated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total comprehensive income for the year</td>
<td>40,124,869</td>
<td>6,993,553</td>
</tr>
</tbody>
</table>
Statement of Changes in Equity
As at 31 December 2019

<table>
<thead>
<tr>
<th>In thousands of Kazakhstani Tenge</th>
<th>Charter capital</th>
<th>Revaluation reserve</th>
<th>Retained earnings</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 1 January 2018</td>
<td>3,845,400</td>
<td>20,181,027</td>
<td>18,309,082</td>
<td>42,335,509</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>-</td>
<td>-</td>
<td>6,993,553</td>
<td>6,993,553</td>
</tr>
<tr>
<td>Other comprehensive income for the year</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total comprehensive income for the year</strong></td>
<td>-</td>
<td>-</td>
<td>6,993,553</td>
<td>6,993,553</td>
</tr>
<tr>
<td>Transfer of revaluation surplus of property, plant and equipment to retained earnings</td>
<td>-</td>
<td>(1,111,612)</td>
<td>1,111,612</td>
<td>-</td>
</tr>
<tr>
<td><strong>Balance at 31 December 2018</strong></td>
<td>3,845,400</td>
<td>19,069,415</td>
<td>26,414,247</td>
<td>49,329,062</td>
</tr>
</tbody>
</table>

Adoption of new or revised standards (adjustment as of the adoption date of IFRS 16)

| Adjusted balance at 01 January 2019 | 3,845,400 | 19,069,415 | 26,395,051 | 49,309,866 |
| Profit for the year                 | -         | -         | 12,636,253 | 12,636,253 |
| Other comprehensive income for the year | -         | 27,488,616 | -         | 27,488,616 |
| **Total comprehensive income for the year** | -         | 27,488,616 | 12,636,253 | 40,124,869 |
| Transfer of revaluation surplus of property, plant and equipment to retained earnings | -         | (933,139) | 933,139 | - |
| Dividends declared (Note 16)        | -         | -         | (3,496,778) | (3,496,778) |
| **Balance at 31 December 2019**     | 3,845,400 | 45,624,892 | 36,467,665 | 85,937,957 |
### Statement of Cash Flows
As at 31 December 2019

#### In thousands of Kazakhstani Tenge

<table>
<thead>
<tr>
<th>Description</th>
<th>Note</th>
<th>2019</th>
<th>2018 (restated)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit before income tax</td>
<td></td>
<td>15,820,477</td>
<td>8,797,222</td>
</tr>
<tr>
<td><strong>Adjustments:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortisation</td>
<td>27</td>
<td>6,146,773</td>
<td>4,799,683</td>
</tr>
<tr>
<td>Finance income</td>
<td>27</td>
<td>(487,251)</td>
<td>(801,829)</td>
</tr>
<tr>
<td>Finance costs</td>
<td>27</td>
<td>6,282,910</td>
<td>6,069,977</td>
</tr>
<tr>
<td>Loss on disposal of fixed and intangible assets</td>
<td>8</td>
<td>364,967</td>
<td>73,359</td>
</tr>
<tr>
<td>Loss on revaluation of property, plant and equipment</td>
<td></td>
<td>476,886</td>
<td>-</td>
</tr>
<tr>
<td>Loss from impairment of receivables</td>
<td></td>
<td>190,232</td>
<td>139,846</td>
</tr>
<tr>
<td>Foreign exchange (gains) / losses on financial instruments, net</td>
<td></td>
<td>(402,390)</td>
<td>3,566,957</td>
</tr>
<tr>
<td><strong>Working capital adjustments</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease/(increase) in operating assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td></td>
<td>(137,958)</td>
<td>21,398</td>
</tr>
<tr>
<td>Trade receivables</td>
<td></td>
<td>(1,964,298)</td>
<td>151,429</td>
</tr>
<tr>
<td>Other current assets</td>
<td></td>
<td>(944,303)</td>
<td>(744,107)</td>
</tr>
<tr>
<td>Increase/(decrease) in operating liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td></td>
<td>331,110</td>
<td>(216,631)</td>
</tr>
<tr>
<td>Advances received</td>
<td></td>
<td>(27,196)</td>
<td>89,759</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td></td>
<td>1,209,842</td>
<td>(299,823)</td>
</tr>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td>26,859,801</td>
<td>21,647,220</td>
</tr>
</tbody>
</table>
Statement of Cash Flows (continued)
As at 31 December 2019

Cash flows from investing activities
- Purchase of property, plant and equipment
  - (10,166,702)  (7,364,936)
- Purchase of intangible assets
  - (1,455)  (4,313)
- Advance payments for right-of-use of assets
  20  (347,671)  -
- Proceeds from sale of property, plant and equipment
  - 79,248  1,980,273
- Proceeds from sale of assets held for sale
  - 1,008,713  -
- Purchase of assets held for sale
  8  -  (1,632,000)
- Interest received from deposits
  - 126,599  116,226
- Deposits placed
  - (158,544,173)  (177,141,269)
- Proceeds from repayment of deposits
  - 152,881,169  179,336,622
- Return of loans due from third parties
  - 8,696  22,776
- Loans provided to third parties
  - (4,000)  (2,000)
Net cash flows used in investing activities
  - (15,966,350)  (3,680,909)

Cash flows from financing activities
- Proceeds from borrowings
  20  15,780,413  24,539,655
- Purchase of own bonds*
  20  (191,634)  (1,939,051)
- Repayment of borrowings
  20  (14,525,178)  (25,146,873)
- Repayment of lease liabilities
  20  (206,954)  (552,226)
- Dividends paid
  32  (3,496,778)  -
- Advances paid for bonds purchase
  32  (1,129,200)  (7,440,571)
- Return of advances paid for bonds purchase
  - 1,308,583  -
Net cash flows used in financing activity
  - (2,460,748)  (10,539,066)

Net increase in cash and cash equivalents
- Cash and cash equivalents as at 1 January
  15  1,272,681  1,315,478
- Cash and cash equivalents as at 31 December
  15  2,277,036  961,558

* During 2018 and 2019 the Company purchased own bonds in amount of Tenge 364,482 thousand and Tenge 3,669,071 thousand, respectively, using advances paid to a related party. Repayment of bonds using advances paid to a related party wasn’t included into cash flow.

Approved by the Company’s management on 17 April 2020 and signed on its behalf by:

General Director

CFO

Chief Accountant

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1. REPORTING ENTITY

(a) Organization and operations

Eastcomtrans LLP (the “Company”) is a limited liability partnership established under the laws of the Republic of Kazakhstan on 4 October 2002.

The principal activity of the Company is rendering of services in the field of freight transportation of oil and gas, as well as mining and metallurgical products by railway transport within the Republic of Kazakhstan and the Russian Federation.

The Company’s registered address is: office 11a, 77/7 Al-Farabi Avenue, Almaty, 050040, Republic of Kazakhstan.

The Company is owned by Mr. M.Zh. Sarsenov (55.998%), a citizen of the Republic of Kazakhstan, and Steinhardt Holding N.V. (37.332%), a company established under the laws of the Kingdom of the Netherlands, and the International Finance Corporation (6.67%). Steinhardt Holding N.V. is ultimately controlled by Mr. M.Zh. Sarsenov. The ultimate controlling party of the Company is Mr. M.Zh. Sarsenov.

On 7 November 2017, the Company obtained a perpetual State License for cargo transportation by railway transport issued by Almaty Transport Control Inspection of Transport Committee of the Ministry for Investments and Development of RK.

On 26 June 2018, the Company’s branch “Car-Repair Enterprise-Kostanay” was registered in Kostanay city.

On 29 June 2018, the Company’s branch “Car-Repair Enterprise Kulsary” was registered in Kulsary city, Atyrau oblast.

The area of the activities of two branches is repair of railway rolling stock.

On 2 October 2019 the Company registered the branch in Russian Federation.

On 16 October 2019, the international rating agency Moody’s confirmed the Company’s corporate credit rating at “B3” level with “Stable” outlook.

(b) Kazakhstan business environment

In general, the economy of the Republic of Kazakhstan continues to display characteristics of an emerging market. Its economy is particularly sensitive to prices on oil and gas prices and other commodities, which constitute major part of the country’s export. These characteristics include, but are not limited to, the existence of national currency that is not freely convertible outside of the country and a low level of liquidity of debt and equity securities in the markets. Ongoing political tension in the region, volatility of exchange rate have caused and may continue to cause negative impact on the economy of the Republic of Kazakhstan, including decrease in liquidity and creation of difficulties in attracting of international financing.

As at the date of this report the official exchange rate of the National Bank of the Republic Kazakhstan was Tenge 427.57 per USD 1, compared to Tenge 382.59 per USD 1 as at 31 December 2019 (31 December 2018: Tenge 384.20 per USD 1). Therefore, uncertainty remains in relation to exchange rate of Tenge and future action of National Bank and the Government of the Republic of Kazakhstan and the impact of these factors on the economy of the Republic of Kazakhstan.

In March 2019 Standard & Poor’s, international rating agency affirmed the long-term foreign and local currency sovereign credit ratings of Kazakhstan - "BBB-" and short-term foreign and local currency sovereign credit ratings - "A-3", and the Kazakhstan national scale - "kzAAA". The outlook is stable. The stable outlook is supported by positive balance sheet figures, built on additional inflows to the National Fund of the Republic of Kazakhstan and also by liquid external assets exceeding relatively low government debt over the next two years.

Increase in oil production and firm oil prices during 2019, low unemployment and rising wages supported a modest growth of the economy in 2019. This operating environment has a significant impact on the Company’s operations and financial position. Management is taking necessary measures to ensure sustainability of the Company’s operations. However, the future effects of the current economic situation are difficult to predict and management’s current expectations and estimates could differ from actual results.

Additionally, railway sector in the Republic of Kazakhstan is still impacted by political, legislative, fiscal and regulatory developments. The prospects for future economic stability in the Republic of Kazakhstan are largely dependent upon the effectiveness of economic measures undertaken by the Government, together with legal, controlling and political developments,
1. REPORTING ENTITY, CONTINUED

which are beyond the Company’s control.

In December 2019 the news from China on a new virus eruption appeared. On 11 March 2020 the World Health Organization called the new virus COVID-19 eruption as a pandemia (Note 33).

Management is unable to predict the extent and duration of changes in the Kazakhstani economy, nor quantify their impact, if any, on the Company’s financial position in future. Management believes it is taking all the necessary measures to support the sustainability and growth of the Company’s business in the current circumstances.

2. BASIS OF PREPARATION

(a) Statement of compliance with IFRS

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) for the year ended 31 December 2019 for Eastcomtrans LLP.

(b) Basis of measurement

These financial statements have been prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, rolling stock and buildings and constructions recorded at fair value, and financial instruments categorized at fair value through profit or loss.

3. FUNCTIONAL AND PRESENTATION CURRENCY

The national currency of the Republic of Kazakhstan is the Kazakhstani Tenge (“Tenge”), which is the Company’s functional currency and the currency in which these financial statements are presented. All financial information presented in Tenge, unless otherwise specified, has been rounded to the nearest thousand.

4. USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgments, assumptions and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis as to the need to revise them.

Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

(a) DBK Leasing

As stated in Note 18, in December 2015, the Company signed an agreement to sell railway cars (rolling stock) to DBK-Leasing JSC (“DBK-Leasing”) and further receive back these assets under the finance lease agreement between the Company and DBK-Leasing. These railway cars were placed as a collateral for the initial financing received from other banks and these railcars effectively were used by the Company before and after the transaction with DBK-Leasing.

The Company regarded this transaction not as a sale and lease-back transaction, but as refinancing of its initial borrowings, since the transaction was conducted to refinance initial borrowings of the Company. Accordingly, as a result of this transaction, the Company did not derecognise the assets from property, plant and equipment, since the Company believed that it never lost control over these assets and retained risks and rewards related to these assets. The cash received as a result of this transaction was used for the repurchase of own Eurobonds on market terms in accordance with prospectus of Eurobonds.

Received cash was placed on special accounts (Note 14) for the purpose of payment for the Eurobonds purchase. Despite the fact that legally this transaction was arranged as finance lease, the Company regarded this transaction as refinancing of the initial borrowings with collateral in the form of railcars.

The finance lease contract with DBK-Leasing contains a condition of indexation of Tenge lease payments in case US Dollar exchange rate strengthens against Tenge. If the US Dollar weakens against Tenge the amount of lease payments will be equal to the initial amounts set in the contract. This condition indicated the existence of an embedded derivative which require separate accounting as of 31 December 2015. As at the date of initial recognition, the Company recorded the financial lease liability at the fair
4. USE OF ESTIMATES AND JUDGEMENTS, CONTINUED

value of lease payments and subsequently at the amortised value, and its derivative financial instrument at its fair value.

As disclosed in Note 18, on 20 December 2016 the Company signed an additional agreement, where the interest rate under the finance lease agreement was changed from fixed to floating and calculated based on 6-month LIBOR + 6.15%. In addition, the terms to maturity were prolonged for 2 years. The Company considered this change as a significant modification of contract terms and as a result the Company discontinued recognition of the financial instrument at that date. The LIBOR element of interest rate was considered by the Company an embedded derivative which require separate accounting as lease payments were indexed to a variable interest rate of an economic environment that is different from the economic environment in which the Company operates. Therefore, the related embedded derivative was regarded as not closely related.

Due to the fact that this loan contains two not closely related embedded derivatives, the Company made a decision to designate the entire newly recognised hybrid financial instrument (loan and embedded derivatives) at fair value through profit or loss, as single financial instrument.

As at 31 December 2019 and 2018, the Company performed an assessment of the fair value of the hybrid financial instrument and it was valued at Tenge 7,839,227 thousand and Tenge 9,089,572 thousand, respectively (Note 18).

The fair value was calculated on the basis of the Black-Scholes option pricing model. In the calculations, the exchange rate of US dollar to Tenge, provided for by the financial lease agreement, and the 6-month LIBOR level, effective as of the reporting date, were applied.

(b) Bonds

On 22 April 2013, the Company placed bonds at the London Stock Exchange with nominal value of US Dollar 100,000 thousand, with 7.75% coupon per year paid each half year, with the circulation period of 5 years and maturity in April 2018 (Note 19). The Company offered new terms to the holders in 2017, and as a result of the meeting held on 20 April 2017, the holders accepted the following changes proposed by the Company to the terms of Eurobonds:

1. Extension of the maturity of Eurobonds until 22 April 2022, with an equal repayment of principal during the last 2 (two) years of the Eurobonds’ maturity period;

2. Suspension of the application of Clause 4.1 of Eurobonds, including the financial terms of compliance with the Consolidated share of borrowed funds, the Consolidated share of the coverage contained therein up to and including the end of 2017;

3. Increase of the current coupon rate on Eurobonds from 7.75% per annum to 8.00% per annum.

The Company paid the Eurobond holders a fee with respect to the consent of the holders in the amount of up to 1.75%. This payment was considered by the Company as transaction cost, and, accordingly, it was taken into account as part of the bonds.

According to the bond issue prospectus, the Company can repurchase bonds in full, at its discretion, at any time, having notified the bond holders, at the price which represents their principal and compensation for lost profits due to calling of the bonds. The compensation for lost profits is calculated as the greater of: a) 1% of the par value of all bonds outstanding or b) future coupon payments until maturity from the date of calling, discounted at the rate stipulated in the bond prospectus.

The Company believes that this condition indicates the presence of a separate financial instrument, which should be accounted for at the fair value. Taking into account the terms of the bond issue prospectus, and the current market situation, the Company’s management believes that the fair value of the embedded financial instrument was close to zero at the time of recognition as this instrument was considered as out-of-the-money. As at 31 December 2019, the fair value of this embedded financial instrument was estimated by the Company at nil Tenge (31 December 2018: nil).

(c) Financial guarantees received

Al Hilal

On 9 April 2018, the Company and Al Hilal Islamic Bank JSC entered into a new Murabaha Master Agreement for the acquisition and sale of commodities No.4/2018-CMM, under which the Bank demanded additional collateral for Company’s liabilities in the form of shareholder’s guarantee.

On 1 June 2018, the Company entered into respective guarantee agreement with its shareholder. Under this agreement, the Company pays 4% of the amount owed by the Company to Islamic Bank Al Hilal.

Due to significant change in the exchange rate of USD to Tenge since the signing of the guarantee and increasing currency risks, on 27 June 2019 an
addendum #1 to the guarantee agreement was signed resetting the exchange rate of USD to Tenge for the calculation of interest and the interest rate is set at 5% p.a. in accordance with existing market rates.

Sberbank

Since the Company and Sberbank of Russia JSC SB signed loan agreement in November 2017, under which the shareholder provided performance guarantee to the bank for the Company, in the beginning of 2018 the Company entered into an agreement with its shareholder and for the provision of such guarantee the Company agreed to pay to the shareholder guarantee payments in the amount of 3% per annum of outstanding loan. After a new loan agreement was signed between the Company and Sberbank dated 19 June 2018, under which shareholder’s guarantee was increased accordingly, the Company and its shareholder signed additional guarantee agreement with the increase of amount, and interest rate on such guarantee was changed to 4% per annum due to increased foreign currency risks.

Due to significant change in the exchange rate of USD to Tenge since the signing of the guarantee and increasing currency risks, on 27 June 2019 an addendum #1 to the guarantee agreement was signed resetting the exchange rate of USD to Tenge for the calculation of interest and the interest rate is set at 5% p.a. in accordance with existing market rates.

Accounting for guarantees to Sberbank and Al Hilal

The management also considered whether the guarantee payments of 5% under the new terms are still at the market level and concluded that in view of the current currency risks and market guarantees’ rates, annual payments of 5% do not exceed market rates for such guarantees. Accordingly, the management concluded that it is acceptable to recognise the costs of this guarantee in profit and loss, rather than in equity, despite the fact that it was a transaction with the shareholder. The management also believes that such a judgment is also supported by the fact that this will ensure a more suitable representation of the cost of the Company’s borrowed funds.

The guarantee expenses are recognised on an accrual basis for the respective reporting periods within the finance expenses as interest expense on guarantee agreements. Refer to Note 27. The table below presents the reconciliation of the respective balances and charges:

During 2019 the Company planned to sign an additional loan agreement and, therefore, paid advance fees for the additional guarantee. The loan was not realised and the shareholder returned the payment under this guarantee.

(e) Fair value measurement model

In accordance with the Company’s policy choice on measurement, the Company performed revaluation of rolling stock and buildings and constructions as of 31 December 2019 based on the report of independent appraiser - American Appraisal LLP (previous revaluation was conducted as of 31 December 2017). Rolling stock have active secondary market, therefore to obtain market (fair) value market approach was used. For the valuation of buildings and structures represented by specialized real property of rail cars repair workshops, a depreciated replacement cost approach was used due to the absence of an active market and limited market data. Net book value of property, plant and equipment has increased by Tenge 33,924,627 thousand as of 31 December 2019 (Note 8). Accumulated depreciation as of the date of revaluation was recalculated proportionally to the change of the net book value of the asset.

The Company conducted a sensitivity analysis of revaluated assets (rolling stock) fair value. If the fair value of each assets was higher/lower than the estimated value for 10%, then the profit before tax would increase/decrease for 161,778 thousand Tenge and 234,693 thousand Tenge, respectively and equity would increase/decrease for 12,540,662 thousand Tenge and 12,468,062 thousand Tenge, respectively.

Increase in net book value was recognised in profit or loss in the reporting period up to the impairment loss reversed on a certain asset, recorded as of 31 December 2018, and in the equity within the “Revaluation reserve”. Decrease in net book value of the wagons was deducted from the revaluation
4. USE OF ESTIMATES AND JUDGEMENTS, CONTINUED

reserve on a particular asset and recorded in profit or loss in excess of the revaluation reserve.

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

IFRS 16 Leases was issued in January 2016 and is effective for annual periods beginning on or after 1 January 2019. The Company decided to apply the standard from the date of its mandatory adoption date of 1 January 2019, using a modified retrospective method without restating of comparative information and using certain simplifications allowed by the standard. All other right-of-use assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued expenses).

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

• applying a single discount rate to a portfolio of leases with reasonably similar characteristics,
• relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review - there were no onerous contracts as at 1 January 2019,
• accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases,
• excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
• using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17, Leases, and IFRIC 4, Determining whether an Arrangement contains a Lease.

The weighted average incremental borrowing rate applied be the Company to lease liabilities on 1 January 2019 amounted to 6% per annum for contracts in US dollars and 12.7% per annum for contracts in Tenge.

The management of the Company recognised a right-of-use assets in the amount of 1,166,096 thousand tenge and a corresponding lease liability in the amount of 1,185,292 thousand tenge with a decrease in prepayment by 16,418 thousand tenge. Impact on retained earnings as of 1 January 2019 is 19,196 thousand tenge.

A reconciliation of the operating lease commitments disclosed in Note 31 to the recognised liability is as follows:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2018 / 1 January 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total future minimum lease payments under operating leases without early termination* as at 31 December 2018. (Note 31)</td>
<td>794,659</td>
</tr>
<tr>
<td>Discounting impact</td>
<td>(9,430)</td>
</tr>
<tr>
<td>Other</td>
<td>100,917</td>
</tr>
<tr>
<td>Total lease liabilities recognised as at 1 January 2019</td>
<td>886,146</td>
</tr>
</tbody>
</table>

* Non-cancellable leases include those cancellable only:
(a) upon the occurrence of some remote contingency;
(b) with the permission of the lessor;
(c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or
(d) upon payment by the lessee of such an additional amount that, at inception of the lease, continuation of the lease is reasonably certain.

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

<table>
<thead>
<tr>
<th>In thousands of Kazakhstani Tenge</th>
<th>IFRS 16 adoption effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Right-of-use assets increase</td>
<td>883,368</td>
</tr>
<tr>
<td>Decrease in trade and other receivables</td>
<td>16,418</td>
</tr>
<tr>
<td>Increase in lease obligations</td>
<td>806,146</td>
</tr>
<tr>
<td>Decrease in equity – retained earnings net of deferred tax</td>
<td>(19,196)</td>
</tr>
</tbody>
</table>

The Company also has wagons lease contracts which are considered by the Company as short-term lease. This decision was made by the Company based on the following terms of these agreements:
5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS, CONTINUED

- Period of the wagons use is less than one year;
- The right of the lessee and the Company to decrease any quantity of leased wagons at any time during the lease period on a unilateral basis without penalties;
- The right of the parties to terminate the contract at any time during the lease period on a unilateral basis without penalties;
- Even though the contracts contain the right to substitute wagons, the Company believes that this right is not substantive;
- The Company has short-term lease agreements where the Company acts as a lessee. Lease agreements where the Company acts as a lessor have the similar terms, therefore the Company concluded that the wagons lease agreements are short-term lease;
- Leased wagons were partially substituted and partially returned in the beginning of 2020 as per request of the lessor, the wagons lost in 2019 were not substituted by the lessor.

The lease agreements assume fixed payment per day for use of wagons. These agreements were concluded for the period of less than 12 months with the right to early terminate the agreement on a unilateral basis. Based on the above, the Company concluded that these agreements are short-term leases and did not recognise assets in the form of right of use. The costs incurred are recorded as cost of sales.

As IFRS 16 includes principally the same requirement to the lessor accounting as IFRS 17 does, the Company didn’t recognise any significant affect to its financial statements in relation to the operations of the Company as a lessor. However, an additional note on operational wagons lease was included (Note 34).

The following amended standards became effective from 1 January 2019, but did not have any material impact on the Company:
- IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

6. OPERATING SEGMENTS

Operating segments are components involved in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker ("CODM") and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The CODM has been identified as the General Director of the Company.

The CODM considers the Company as one segment, which includes rent of railcars and provision of services of operating maintenance and freight forwarding. CODM uses operating income as a measure of profit for its decision-making process.

(a) Measurement of operating segment profit or loss, assets and liabilities

The CODM reviews financial information prepared based on IFRS adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from IFRS in terms of a difference in the time of revenue recognition.

(b) Information on the reporting segments of profit or loss, assets and liabilities

Information in the reporting segments for the year ended 31 December 2019 measured by the Company’s management as part of the review of the operating reporting is set out below:
Adjustment

Revenue from principal activity

There is a time difference between revenue indicated in management reporting and revenue indicated in the IFRS financial statement.

(c) Geographic information

Revenue on each specific country which is the residence country for a client is as follows:

In 2019, approximately 29% and 5% of the total revenue were derived from the services rendered to Tengizchevroil LLP and Zhaikmunai LLP, respectively (2018: 32% and 6% respectively).
Depreciation expense of Tenge 5,655,039 thousand (2018: Tenge 4,747,273 thousand) has been charged to cost of sales and Tenge 55,505 thousand to administrative expenses (2018: Tenge 45,445 thousand).

Equipment and construction in progress acquired in 2019 generally consist of the equipment required for repair sites.

On 7 June 2018, the Company acquired locomotives (traction and motor-car rolling stock) for a total amount of Tenge 1,827,840 thousand, reflected as assets held for sale, taking into account the planned reimbursement of the value of assets from the sale, and not through continued use. On 1 May 2019, after revising the sales plan, the Company transferred these assets to fixed assets – rolling stock group, at the lower of the following 2 values:

1) its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset not been classified as held for sale, and
2) its recoverable amount at the date of the subsequent decision not to sell.

Reclassification to property, plant and equipment was made at the carrying amount Tenge 1,632,000 recognising the depreciation expense in the amount of Tenge 243,817 thousand which would have been recognised if the assets were recognised as property, plant and equipment since acquisition. The Company made this decision due to the more attractive offer to use these locomotives and received revenue since May 2019 from lease services in the amount of Tenge 322,751 thousand. This lease was assessed as short-term lease and did not assume transfer of risks and rewards of these assets under this contract agreement.

Lease contracts do not contain any covenants other than ensuring compliance with obligations on use of leased assets owned by the Company. Leased assets cannot be pledged by lessees under loans and borrowings.

Total value of future lease receipts under the operational lease agreements expected to be recognised by the Company within its revenue in 2020 is Tenge 26,841,616 thousand.

The Company received compensation from Russian Railways JSC in May 2019 in the amount of Tenge 133,829 thousand for the damage resulting from the derailment of 11 railcars on 1 January 2019.

(a) Revaluation of machinery and equipment

The Company decided to make a revaluation as at 31 December 2019 based on the analysis of significant changes in current prices for railcars on the secondary market.

The revaluation was performed as at 31 December 2019 based on the report of an independent appraiser American Appraisal LLP, which has the necessary qualifications and sufficient expertise in the valuation of assets of this class. The fair value of the Company’s rolling stock was determined based on the analysis of the CIS secondary market, which was classified by appraisers as an active secondary market (Level 2 of the fair value hierarchy).

Independent appraisers used a relative value approach to analyse the cost of railcars and electric locomotives, and a cost approach to analyse the value of buildings and constructions with profitability analysis of revenue generating units - two railcar repair workshops with all operational fixed assets. As at 31 December 2019, the net effect of revaluation resulted in an increase in the net book value of property, plant and equipment by Tenge 33,924,627 thousand whereby a increase of Tenge 430,625 thousand recognised in profit.
8. PROPERTY, PLANT AND EQUIPMENT, CONTINUED

or loss as a reversal of an impairment loss, and a difference in the amount of Tenge 34,355,252 thousand recorded in other comprehensive income, which also increased the revaluation reserve in equity.

(b) Pledged assets

As at 31 December 2019, rolling stock with a book value of Tenge 93,134,338 thousand (2018: Tenge 71,904,775 thousand) were pledged to secure loans and borrowings (Note 18); rolling stock with a book value of Tenge 16,416,096 thousand (2018: Tenge 11,727,326 thousand) were pledged to secure the Company’s bonds (Note 19). Moreover, as at 31 December 2019, rolling stock with a book value of Tenge 6,928,298 thousand (2018: Tenge 4,593,059 thousand) were pledged to secure the loans and borrowings received by Railcar Service Center – Eskene LLP, an enterprise under control of the ultimate controlling party of the Company (Note 32).

Increase of fair value of property, plant and equipment was mostly caused by the market prices analysis for different types of railroad rolling stock at a secondary market, as well as the result of the observable increased demand for gondola cars, closed rolling stock, cement wagons and platforms, which in turn was caused by the increased railroad transfer of coal, industrial raw materials, timber and other freights.

9. RIGHT-OF-USE OF ASSETS AND LEASE LIABILITIES

The Company rents various office premises and vehicles. Lease contracts are usually concluded for fixed periods ranging from 1 to 5 years, but may include options for extending the lease, as described below.

Prior to 31 December 2018, property, plant and equipment leases were classified as either finance leases or operating leases (Note 31). Starting 1 January 2019, a lease is recognised as a right-of-use assets, with the corresponding liability reflected, starting from the date on which the leased asset is available for use to the Company.

Financial leasing agreement No. 122

On 19 July 2019, the Company and DBK-Leasing JSC signed a Financial Leasing Agreement No. 122/FL to acquire equipment for rail cars repair workshops. The period of lease is 7 years. The interest rate per agreement is set at 5% per annum. The leasing transaction was implemented under the State Business Support and Development Program "Business Roadmap 2020", approved by the Decree of the Government of the Republic of Kazakhstan No. 168 dated 31 March 2015. As of 31 December 2019, the equipment worth of Tenge 502,247 thousand was received.

The Company recognised the following lease liabilities:

<table>
<thead>
<tr>
<th>In thousands of Kazakhstani Tenge</th>
<th>31 December 2019</th>
<th>1 January 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term lease liabilities</td>
<td>588,105</td>
<td>227,983</td>
</tr>
<tr>
<td>Long-term lease liabilities</td>
<td>955,521</td>
<td>658,163</td>
</tr>
<tr>
<td>Total lease liabilities</td>
<td>1,543,626</td>
<td>886,146</td>
</tr>
</tbody>
</table>

Interest expenses included in finance costs in 2019 amounted to Tenge 93,772 thousand.

Expenses related to short-term leases included in cost of sales and General and administrative expenses and lease of low-value assets that are not included in short-term lease expenses included in General and administrative expenses:
9. RIGHT-OF-USE OF ASSETS AND LEASE LIABILITIES, CONTINUED

Interest expenses included in finance costs in 2019 amounted to Tenge 93,772 thousand.

Expenses related to short-term leases included in cost of sales and General and administrative expenses and lease of low-value assets that are not included in short-term lease expenses included in General and administrative expenses:

<table>
<thead>
<tr>
<th>In thousands of Kazakhstani Tenge</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term lease expenses</td>
<td>2,591,333</td>
</tr>
<tr>
<td>Expenses related to leases of low-value assets that are not reflected in the category of short-term leases above</td>
<td>51,467</td>
</tr>
</tbody>
</table>

The short-term lease represents lease agreements for a period of not more than 12 months. Low-value assets include rental of small premises with total value of not higher than Tenge 2,250 thousand.

Total cash outflow for leases in 2019 was Tenge 3,572,724 thousand.

Lease agreements do not contain any covenants other than to ensure the performance of obligations on leased assets owned by the lessor. Leased assets cannot be used as collateral for loans and borrowings.

10. TRADE AND OTHER RECEIVABLES

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Company has concluded that the expected loss rates for trade receivables are a reasonable levels of the loss rates for trade receivables. At 31 December 2019, the trade receivables of the Company’s major customer – Tengizchevroil LLP (S&P Global Ratings approved corporate rating - "BBB"), accounted for 47% of the total amount of trade receivables (2018: 48%).

The book value of the trade and other receivables approximates its fair value due to the short-term maturity.

At 31 December 2019, the credit loss allowance for trade and other receivables is determined according to provision matrix presented in the table below. The provision matrix is based on the number of days that an asset is past due.

<table>
<thead>
<tr>
<th>In % of gross value</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than 2 months overdue</td>
<td>0.2%</td>
<td>5,462,712 (10,928)</td>
</tr>
<tr>
<td>2 to 3 months overdue</td>
<td>3%</td>
<td>- -</td>
</tr>
<tr>
<td>3 to 6 month overdue</td>
<td>10%</td>
<td>- -</td>
</tr>
<tr>
<td>6 to 9 month overdue</td>
<td>25%</td>
<td>850 (212)</td>
</tr>
<tr>
<td>9 to 12 months overdue</td>
<td>50%</td>
<td>15,584 (7,792)</td>
</tr>
<tr>
<td>over 12 months overdue</td>
<td>100%</td>
<td>412,819 (412,819)</td>
</tr>
<tr>
<td>Total</td>
<td>5,891,965 (431,751)</td>
<td>5,460,214</td>
</tr>
</tbody>
</table>

The total amount of undiscounted expected credit losses at initial recognition for acquired or created impaired financial assets as of 31 December 2019 amounted to Tenge 431,751 thousand (2018: Tenge 183,667 thousand).

The table below explains the changes in the estimated credit loss allowance for trade receivables under the simplified expected credit loss model that occurred between the beginning and end of the annual period.
10. TRADE AND OTHER RECEIVABLES, CONTINUED

The Company enters into transactions only with companies with a positive credit history and high credit rating, if available. The Company’s policy is that all customers willing to make purchases on credit terms must undergo a credit quality check procedure.

Below is the table of credit quality of trade receivables based on Standard and Poor’s and Moody’s ratings (where available) as at 31 December:

<table>
<thead>
<tr>
<th>Credit Rating</th>
<th>31 December 2019 (Gross amount)</th>
<th>Estimated reserve for credit loss</th>
<th>31 December 2018 (Gross amount)</th>
<th>Estimated reserve for credit loss</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBB</td>
<td>3,018,315</td>
<td>3,018,315</td>
<td>2,123,473</td>
<td>2,123,473</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BBB-</td>
<td>-</td>
<td>-</td>
<td>313,289</td>
<td>313,289</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>-</td>
<td>-</td>
<td>193,600</td>
<td>193,600</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BB</td>
<td>-</td>
<td>-</td>
<td>197,196</td>
<td>197,196</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BB-</td>
<td>393,759</td>
<td>393,759</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A+</td>
<td>466,044</td>
<td>466,044</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CCC+</td>
<td>176,770</td>
<td>176,770</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Without credit rating</td>
<td>1,688,956 (431,751)</td>
<td>1,127,205 (393,759)</td>
<td>7,108,039 (183,607)</td>
<td>1,024,362 (183,607)</td>
<td>5,893,969</td>
<td>5,480,214</td>
</tr>
<tr>
<td>Total</td>
<td>5,893,969 (431,751)</td>
<td>5,480,214</td>
<td>8,108,039 (183,607)</td>
<td>1,024,362 (183,607)</td>
<td>3,852,009</td>
<td>3,852,009</td>
</tr>
</tbody>
</table>

For the debtors without rating the Company fulfills additional check based on an internal estimation of sustainability and evaluates expected credit losses on basis of work experience with this type of debtors and their payments schedule. The Company considers the following factors: events of default in the past, sustainability of these debtors and history of payments delays. As of 31 December 2019 and 2018 the Company does not have significant amount of trade receivables which are substantially past due. The trade receivable balance is assessed as reliable as it consists of debtors without default history or substantial delays in payments.

At 31 December, the Company’s trade receivables were denominated in the following currencies:

<table>
<thead>
<tr>
<th>Currency</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>KZT</td>
<td>4,239,248</td>
<td>3,171,260</td>
</tr>
<tr>
<td>USD</td>
<td>706,748</td>
<td>333,530</td>
</tr>
<tr>
<td>EUR</td>
<td>514,185</td>
<td>263,216</td>
</tr>
<tr>
<td>EUR</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>5,460,214</td>
<td>5,852,000</td>
</tr>
</tbody>
</table>

The Company’s exposure to credit risk related to trade receivables is disclosed in Note 30.

11. CONTRACT ASSETS AND CONTRACT LIABILITIES, CONTINUED

As at 31 December 2019, the Company recognised contract asset with customers less provision for expected credit losses in the amount of Tenge 403,458 thousand (2018: Tenge 300,074 thousand). Contract assets with customers are denominated in Tenge. To measure the expected credit losses, contracts assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Company therefore has concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

As at 31 December 2019, the expected credit loss for contract assets with customers is determined in accordance with the matrix of provisions. The amount of expected credit loss was Tenge 809 thousand as at 31 December 2019 (31 December 2018: Tenge 601 thousand).

12. ADVANCES PAID AND OTHER CURRENT ASSETS
12. ADVANCES PAID AND OTHER CURRENT ASSETS, CONTINUED

Advances paid to third parties represent advances to KTZh JSC for services of the technological center for processing of shipping documents in the amount of Tenge 338,948 thousand (2018: Tenge 285,249 thousand), advances to RTA-Trans LLP for wagons lease in the amount of Tenge 486,470 thousand (31 December 2018: nil) and to other third parties for goods and services in the amount of Tenge 1,967,266 thousand (2018: Tenge 581,148 thousand).

Advances to related parties represent mainly advances to Steinhardt Holding N.V. for Company’s equity instruments purchase in the amount of Tenge 3,261,168 thousand (2018: Tenge 3,761,398 thousand).

13. SHORT-TERM BANK DEPOSITS

On 19 March 2019, the Company placed a deposit in US Dollars with Altyn Bank JSC China Citic Bank Corporation Ltd SB (Fitch’s long-term IDR in foreign and national currency – “BBB-”, outlook – “Stable”, Moody’s rating for foreign currency deposits “Ba1”, outlook – “Stable”) for 18 months with the interest rate of 1% per annum. As at 31 December 2019, this short-term bank deposit amounted to Tenge 5,389,457 thousand.

On 24 July 2019, the Company placed a deposit in Tenge with Altyn Bank JSC China Citic Bank Corporation Ltd SB (Fitch’s long-term IDR in foreign and national currency – “BBB-”, outlook – “Stable”, Moody’s rating for foreign currency deposits “Ba1”, outlook – “Stable”) for 12 months with the interest rate of 8% per annum. As at 31 December 2019, this short-term bank deposit amounted to Tenge 217,806 thousand.

On 30 October 2019, the Company placed a deposit in Tenge with SB Sberbank JSC (Fitch’s long-term IDR in foreign and national currency – “BBB-”, outlook - ”Stable”) for 12 months with the interest rate of 8.2% per annum. At 31 December 2019, this short-term bank deposit amounted to Tenge 83,832 thousand.

As at 31 December 2019 the Company created provision for expected credit losses for 12 months for amount of Tenge 11,405 thousand (2018: 0 thousand Tenge).

14. CASH ON SPECIAL ACCOUNTS

As at 31 December 2019 the total cash in US dollars placed on special accounts with Altyn Bank JSC China Citic Bank Corporation Ltd SB amounted to Tenge 33,166 thousand (in 2018 on special accounts with Altyn Bank JSC: Tenge 148,335 thousand). Altyn Bank JSC has a right to impose restrictions on these funds, in case of the Company’s failure to comply with the schedule of repayment of the principal or interest on loans of DBK-Leasing.

The Company’s exposure to credit risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 30.

The fair value of the short-term deposits is approximately their carrying value due to the short-term maturity.

<table>
<thead>
<tr>
<th></th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on special accounts</td>
<td>5,702,500</td>
<td>5,400</td>
</tr>
<tr>
<td>Estimated reserve for non-financial assets impairment</td>
<td>(11,405)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5,691,095</td>
<td>5,400</td>
</tr>
</tbody>
</table>

The Company’s exposure to credit risks, interest rate risks, as well as a sensitivity analysis of financial assets and liabilities are disclosed in Note 30.

The fair value of the short-term deposits is approximately their carrying value due to the short-term maturity.
15. CASH AND CASH EQUIVALENTS

As at 31 December 2019 the Company created reserve for expected credit losses for 12 months for amount of Tenge 7,110 thousand (2018: Tenge 4,572 thousand).

The credit quality analysis of cash and cash equivalents based on the rating of Standard and Poor’s and Moody’s as at 31 December is as follows:

As at 31 December, cash and cash equivalents were denominated in the following currencies:

<table>
<thead>
<tr>
<th>Currency</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>US dollar</td>
<td>2,159,090</td>
<td>2,029,416</td>
</tr>
<tr>
<td>Tenge</td>
<td>1,293,074</td>
<td>176,954</td>
</tr>
<tr>
<td>RUB</td>
<td>169,992</td>
<td>53,387</td>
</tr>
<tr>
<td>EUR</td>
<td>16,721</td>
<td>17,279</td>
</tr>
<tr>
<td>Total</td>
<td>3,549,717</td>
<td>2,277,036</td>
</tr>
</tbody>
</table>

As at 31 December 2019 the Company created reserve for expected credit losses for 12 months for amount of Tenge 7,110 thousand (2018: Tenge 4,572 thousand).

The credit quality analysis of cash and cash equivalents based on the rating of Standard and Poor’s and Moody’s as at 31 December is as follows:

16. CHARTER CAPITAL AND RESERVES

(a) Charter capital

On 28 December 2012, the Company entered into an agreement with the International Finance Corporation (“IFC”), whereby the IFC contributes Tenge 3,005,400 thousand to the charter capital and receives 6.67% of interest in the charter capital of the Company. On 11 July 2013, the IFC made a contribution to the charter capital in full.

(b) Dividends

The owners are entitled to receive dividends as declared from time to time and are entitled to vote at meetings of the Company prorated to their ownership interests in the charter capital.

According to the legislation of the Republic of Kazakhstan, reserves accessible to distributions are limited by retained earnings reported in the financial statements of the Company, prepared in accordance with IFRS. As at 31 December 2019, the Company had retained earnings, including income for the current year, in the amount of Tenge 36,467,665 thousand (2018: Tenge 26,414,247 thousand).

In 2019 based on the Company’s performance for the FY 2018 dividends amounting 50% of the net income - Tenge 3,496,778 thousand were declared for distribution proportionally to the participation interest in the Company’s charter capital (in 2018: 0 Tenge).

In June 2019 the Company paid dividends to its participants in the amount of Tenge 3,496,778 thousand.

(c) Surplus from revaluation of property, plant and equipment

The revaluation reserve represents the results of property, plant and equipment revaluation, net of deferred taxes. As at 31 December 2019, the revaluation reserve amounted to Tenge 45,624,892 thousand (31 December 2018: Tenge 19,069,415 thousand). The increase was due to revaluation performed in 2019 for the amount Tenge of 27,488,615 thousand, net of deferred income tax effect in the amount of Tenge 6,872,154 thousand, and the decrease in the amount of Tenge 933,139 thousand due to depreciation of the revaluation reserve.
17. CAPITAL MANAGEMENT

The Company has no formal policy for capital management, but the management aims to maintain a sufficient capital base for meeting the Company’s operational needs, and to maintain confidence of market participants, investors and creditors and to ensure future business development. This is achieved through efficient cash management, constant monitoring of Company’s revenues and profits, and long-term investment plans. With these measures the Company aims to ensure steady growth of profits.

The management of the Company monitors the return on (invested) capital, which the Company defines as net operating income divided by total shareholders’ equity.

The management seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the business security provided by a stable capital position. During the reporting year, there were no changes in the Company’s approach to capital management.

The Company is not subject to external regulatory capital requirements, except for requirements from the loans agreements described below.

The Company has a number of capital requirements under loan agreements, such as to maintain a certain ratio of net debt to earnings before interest, taxes, depreciation and amortisation (EBITDA), and to maintain a certain ratio of liabilities to capital. The amount of capital managed by the Company as at 31 December 2019 amounted to Tenge 85,937,957 thousand (2018: Tenge 49,329,062 thousand), which represented the total equity as shown in the statement of financial position.

18. LOANS AND BORROWINGS

This note provides information on the terms of the Company’s loan agreements. For more information on the Company’s exposure to interest rate risk and foreign currency risk see Note 30.

### In thousands of Tengehans

<table>
<thead>
<tr>
<th>Creditor</th>
<th>Currency</th>
<th>Interest rate</th>
<th>Repayment period per initial terms of loan agreement</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Bank for Reconstruction and Development Tranche D</td>
<td>Tenge</td>
<td>All-in-cost* + 3.0%</td>
<td>2024</td>
<td>6,971,191</td>
<td>6,216,688</td>
</tr>
<tr>
<td>European Bank for Reconstruction and Development Tranche C</td>
<td>Tenge</td>
<td>All-in-cost* + 3.0%</td>
<td>2025</td>
<td>2,222,708</td>
<td>2,660,114</td>
</tr>
<tr>
<td>European Bank for Reconstruction and Development Tranche E</td>
<td>Tenge</td>
<td>All-in-cost* + 3.0%</td>
<td>2025</td>
<td>1,775,520</td>
<td>-</td>
</tr>
<tr>
<td>Eurasian Development Bank</td>
<td>Tenge</td>
<td>12.0%</td>
<td>6-month LIBOR + 6.15%</td>
<td>2024</td>
<td>1,703,522</td>
</tr>
<tr>
<td>DBK-Leasing</td>
<td>Tenge</td>
<td>11.34%</td>
<td>6-month LIBOR + min.5.35%</td>
<td>2026</td>
<td>7,819,227</td>
</tr>
<tr>
<td>DBK-Leasing</td>
<td>Tenge</td>
<td>11.34%</td>
<td>6-month LIBOR + 2.75%</td>
<td>2026</td>
<td>708,683</td>
</tr>
<tr>
<td>Islamic Bank: Al Hilal JSC</td>
<td>US Dollar</td>
<td>2.75%</td>
<td>6-month LIBOR</td>
<td>2023</td>
<td>2,888,065</td>
</tr>
<tr>
<td>Islamic Bank: Al Hilal JSC</td>
<td>US Dollar</td>
<td>5.25%</td>
<td>1-sec. LIBOR</td>
<td>2023</td>
<td>184,759</td>
</tr>
<tr>
<td>International Finance Corporation</td>
<td>US Dollar</td>
<td>6.3%</td>
<td>-</td>
<td>2019</td>
<td>336,964</td>
</tr>
<tr>
<td>SB ShermBank JSC</td>
<td>US Dollar</td>
<td>4.5%</td>
<td>-</td>
<td>2025</td>
<td>6,443,272</td>
</tr>
<tr>
<td>SB ShermBank JSC</td>
<td>Tenge</td>
<td>12.3%</td>
<td>-</td>
<td>2025</td>
<td>8,704,641</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>42,488,286</td>
</tr>
</tbody>
</table>

* All-in-cost, under the loan agreement with the EBRD, means the cost of borrowings (expressed as the rate of annual interest) in favor of the EBRD on funding or servicing of the loan from any sources, which the EBRD can reasonably choose.
** The contract contains an indexation clause in relation to the change in the tenge exchange rate against the US dollar (Note 4).
*** The loan is drawn up by Murabaha’s 6-month contracts in accordance with the requirements of Islamic finance and is prolonged every 6 months until maturity. The contractual maturity date for these loans is 2018. The Company and the bank signed the document proving the maturity of the financing for 5 years from the date of the general agreement of Murabaha for the purchase and sale of commodities №4/2018-CMM dated 09.04.2018.

(a) Brief overview of loans

**Al-Hilal**

On 9 April 2018, the Company signed Murabaha Master Agreement for the loan with Al Hilal Islamic Bank JSC. This agreement has been signed for the total amount of USD 12,000 thousand maturing in April 2023 for purposes of financing the Company’s Eurobond indebtedness. The interest rate of this loan is 6-month Libor+2.75%, at least 5.25% per annum. Collateral for the Master Agreement represents railcars and guarantee of Mr. Sarsenov M.Zh.
18. LOANS AND BORROWINGS, CONTINUED

European Bank for Reconstruction and Development

On 16 January 2018, the Company made partial pre-term settlement of liabilities under EBRD loan on Tranches А and В dated 30 December 2014 in the amount of USD 3,750 thousand (Tenge 1,235,287 thousand) using funds received from sales of railcars forming a part of collateral under this loan.

On 26 January 2018, outstanding debt on Tranche В of EBRD loan in the amount of USD 2,361 thousand (Tenge 755,203 thousand) was repaid in full by the Company using funds received from sales of 133 railcars forming a part of collateral under this loan (Note 8).

On 14 September 2018, the Company signed Amendment and Consolidation Contract with respect to Tranche С and Tranche D. In accordance with this Amendment, the term of Tranche С was extended until 23 August 2024, and a possibility of conversion and further drawdown of Tranche D in Tenge equivalent as at the date of the drawdown was added. Besides, Tranche Е was added in the amount of USD 5,000 thousand (with a possibility of drawdown in Tenge equivalent) maturing on 23 August 2025 and with the rate of All-in-cost + bank margin for investment purposes. Floating part of interest rate on Tranche С, D and Е was linked to the level of performance by the Company of financial covenants.

During the 2nd half of 2018, outstanding debt on EBRD loan was converted in full from USD into Tenge at market rate pursuant to the terms of Loan Agreement.

On 8 February 2019, the Company disbursed Tenge 2,051,826 thousand of Tranche D of EBRD's Loan Agreement in accordance with the purpose of the agreement.

On 31 December 2019, outstanding debt to EBRD under the Loan Agreement was Tenge 6,971,191 thousand (2018: Tenge 6,216,688 thousand) and Tenge 2,222,708 thousand (2018: Tenge 2,660,114 thousand) for Tranches D and C respectively.

Eurasian Development Bank

On 15 July 2019 the Company signed the loan agreement in Tenge with the Eurasian Development Bank maturing on 15.09.2024 with fixed interest rate of 12% p.a. for the purpose of the equipment purchase for its wagon repair workshops. On 25 July 2019 the Company disbursed Tenge 1,875,857 thousand under this loan agreement.

As at 31 December 2019 the outstanding amount under the loan agreement was Tenge 1,703,522 thousand.

SB Sberbank JSC

On 3 November 2017, the Company signed a credit line agreement with SB Sberbank JSC to provide the Company with a loan of Tenge 10,200,000 thousand (with the option of disbursement in US dollars of up to US dollar 10,000 thousand) to refinance the Company's medium-term debt. As at 31 December 2017, the Company used Tenge 6,970,000 thousand, which were used for the partial prepayment of the Company's debt under the EBRD loan in the amount of US Dollar 21,000 thousand (Tenge 6,987,120 thousand). On 2 March 2018, under this agreement the Company disbursed Tenge 460,189 thousand for the full pre-term repayment of debts towards DBK-Leasing JSC under financial leasing contract No.52/ФЛ dated 22 December 2010.

On 28 June 2018, the Company disbursed USD 14,000 thousand and Tenge 4,745,840 thousand for the purposes of refinancing Gazprombank’s loan.

In February 2019 the Company and SB Sberbank JSC signed additional agreements to the loan agreements dated 03.11.2017 and 19.06.2018 based on which the maturity was extended until December 2025 and the interest rate decreased to 12.5% p.a. for Tenge loans and to 4.5% p.a. for US dollar loans.

The International Finance Corporation

On 15 October 2019, the Company repaid in full the loan to International Financial Corporation in accordance with the repayment schedule.
18. LOANS AND BORROWINGS, CONTINUED

Financial guarantees of the shareholder

Financial liabilities of the Company with respect to loans and borrowings from Al Hilal JSC in the amount of Tenge 3,072,824 thousand (2018: Tenge 4,011,137 thousand), Sberbank of Russia JSC SB in the amount of Tenge 15,147,913 thousand (2018: Tenge17,991,493 thousand) (Notes 4 and 32) are guaranteed by the guarantees of Mr. Sarsenov M.Zh. provided in 2018. The provision by the shareholder of performance guarantee in favour of Al Hilal for the Company’s loan obligations was terminated ahead of schedule due to full pre-term settlement by the Company of its liabilities towards Al Hilal through refinancing using funds received within loan agreement with Sberbank of Russia JSC SB.

On 24 January 2018, the Company entered into guarantee provision contract with the Company’s shareholder, Mr. Sarsenov M.Zh., for the provision by him of performance guarantee in favour of Sberbank of Russia JSC SB for the Company’s loan obligations under agreement dated 3 November 2017.

On 1 July 2018, after execution of a new loan agreement between the Company and Sberbank dated 19 June 2018, under which shareholder’s guarantee was increased accordingly, the Company and its shareholder signed the additional guarantee agreement with the increase of amount, and interest rate on such guarantee was changed to 4% per annum due to increased foreign currency risks.

On 1 June 2018, the Company signed a new agreement with its shareholder, under which he will provide guarantee to Al Hilal Islamic Bank JSC for Company’s liabilities under Murabaha Master Agreement for the purchase and sale of commodities No.4/2018-CMM dated 9 April 2018.

Due to the significant changes of the exchange rate of US dollar to Tenge from the date of the guarantee provision date and increasing currency risks related to the exchange rate of US dollar to Tenge, on 27 June 2019 the Company and its shareholder signed additional agreements to the guarantee provision contracts for the Company’s liabilities to Sberbank and Al-Hilal. In accordance to these additional agreements the exchange rate of US dollar to Tenge applicable for the interest calculation was re-set and the interest rate (5%p.a.) was adjusted to current market rates.

DBK-Leasing

Finance lease agreement No. 77

On 30 December 2015, the Company signed an agreement with DBK-Leasing (Note 4) for the purpose of a sale and leaseback of railcars. The fair value of these assets at the date of sale was Tenge 12,278,588 thousand. This operation was reflected by the Company as refinancing of existing loans with the provision of collateral. The Company included this financial instrument to loans and borrowings.

On 20 December 2016, the parties signed an additional agreement to the finance lease agreement. In accordance with the terms of the additional agreement, the term of the finance lease was extended to 11 years, and the interest rate was changed from 9.7% per annum to 6-month LIBOR + 6.15% per annum. The Company considered this as a significant change, and as a result derecognised initial loan from DBKLeasing and recognised a new instrument at fair value.

As it is described in the Note 4 the Company considered this instrument as “accounted at fair value in profit or loss”. As at 31 December 2019, the Company estimated the fair value of the loan in the amount of Tenge 7,839,227 thousand (in 2018: Tenge 9,089,572 thousand).

The liquidity table of undiscounted cash flows, including this lease, is shown in Note 30.

Finance lease agreement No. 1

On 16 February 2016, the Company signed a finance lease agreement (Ijara Muntahiya Bittamilik) with DBK-Leasing in the amount of Tenge 1,143,811 thousand with an annual interest rate of 11.34%. The fair value of the assets under this lease agreement amounted to Tenge 1,143,811 thousand. This transaction was recognised by the Company as refinancing of existing loans with collateral. Accordingly, the Company did not consider this transaction under IAS 17. Therefore, the Company included this liability in loans and borrowings and did not provide a disclosure on minimum lease payments. This financial liability was initially recognised at fair value and subsequently recorded at amortised cost. Liquidity table of undiscounted payments, including this lease, is presented in Note 30.

(b) Covenants

During 2018 the Company received waivers from banks and other creditors for the covenants with unsatisfactory levels as at 31 December 2018. As at
18. LOANS AND BORROWINGS, CONTINUED

31 December 2019, the Company was in compliance with the required level of all financial covenants.

(c) Fair value of loans and borrowings

Fair values analysed by level 2 and 3 in the fair value hierarchy and the book value of assets and liabilities not measured at fair value are as follows:

<table>
<thead>
<tr>
<th>In thousands of Tenge</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrying amount</td>
<td>Fair value</td>
<td>Carrying amount</td>
</tr>
<tr>
<td>European Bank for Reconstruction and Development</td>
<td>13,976,037</td>
<td>14,037,262</td>
</tr>
<tr>
<td>Eurasian Development Bank</td>
<td>1,763,522</td>
<td>1,658,894</td>
</tr>
<tr>
<td>Islamic Bank Al Hilal JSC</td>
<td>3,072,824</td>
<td>3,066,065</td>
</tr>
<tr>
<td>DBK Leasing</td>
<td>7,839,227</td>
<td>7,839,227</td>
</tr>
<tr>
<td>DBK Leasing</td>
<td>708,653</td>
<td>710,030</td>
</tr>
<tr>
<td>International Finance Corporation (Note 32)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Sberbank of Russia JSC SB</td>
<td>8,794,641</td>
<td>8,854,477</td>
</tr>
<tr>
<td>Sberbank of Russia JSC SB</td>
<td>6,443,372</td>
<td>6,240,048</td>
</tr>
<tr>
<td>Total</td>
<td>42,448,256</td>
<td>42,449,993</td>
</tr>
</tbody>
</table>

19. BONDS

Eurobonds

On 22 April 2013, the Company placed bonds at the London Stock Exchange for the total amount of Tenge 14,782,727 thousand with par value of US Dollar 100,000 thousand, with the coupon of 7.75% per annum payable once every six months and maturity of 5 years, expiring in April 2018.

As at reporting date, the Company repurchased Eurobonds, under the terms of the prospectus, in the total amount of US Dollar 69,473 thousand (in nominal terms).

During 2019, the Company made a repurchase in the amount of Tenge 572,896 thousand (US dollars 1,500 thousand) of Eurobonds.

The repurchase was made at market prices, with a discount and a recognition of income in the amount of Tenge 16,780 thousand in 2019 (Note 257). Under the terms of the prospectus, Eurobonds repurchased by the Company must be cancelled. Thus, as at 31 December 2019, the amount of Eurobonds outstanding was Tenge 11,777,204 thousand (in 2018: Tenge 12,366,772 thousand).

The bond liabilities are secured by the pledge of rolling stock with the net book value at 31 December 2019 of Tenge 16,416,096 thousand and of cash on the account at Altyn Bank JSC, in the event of a lack of collateral in the form of the rolling stock (Note 8).

On 20 April 2017, the Company received from the Eurobond holders the irrevocable consent to prolong the maturity of Eurobonds until 2022, with the increase of the interest rate to 8% per annum.

Fair value of these bonds as at 31 December 2019 is Tenge 12,324,966 thousand, which was estimated using level 2 of the fair value hierarchy.

As at 31 December 2018 and 2019 the Company was in compliance with required levels of financial covenants.

(a) Embedded financial instrument - option of early repayment of the remaining debt

In accordance with terms of the prospectus of the bond issue the Company may at any time, at its own discretion, having sent the notification to the bondholders, redeem the bonds in full amount at the price, which represents the principal amount and compensation of loss of profit due to bond calling. Compensation for the loss of profit is estimated as the greater of (a) 1% of the nominal value of all outstanding bonds, or (b) future coupon payments till maturity from the calling date discounted at the rate stipulated in the prospectus for bond issue. Given the terms and conditions of the prospectus of the bond issue and the current market situation, the Company’s management believes that the fair value of the embedded financial instrument is close to zero as at 31 December 2019 (as at 31 December 2018: nil) (Note 4). The Company’s exposure to liquidity risk related to the bonds is disclosed in Note 30.

20. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below sets out an analysis of liabilities from financing activities and the movements in the Company’s liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing in the statement of cash flows:
The Company’s exposure to liquidity risk related to trade payables is disclosed in Note 30. The fair value of trade payables approximates its carrying amount due to short-term maturity.

**22. OTHER CURRENT LIABILITIES**

<table>
<thead>
<tr>
<th>Liabilities from financing activities at 31 December 2018</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans and borrowings</td>
<td>41,129,572</td>
<td>41,129,572</td>
</tr>
<tr>
<td>Bonds</td>
<td>13,366,772</td>
<td>13,366,772</td>
</tr>
<tr>
<td>Dividend payable</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Lease liabilities</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>54,496,344</td>
<td>54,496,344</td>
</tr>
</tbody>
</table>

**23. REVENUE**

| Revenue from contracts with customers                    | 41,302,673      | 32,364,387      |

**24. COST OF SALES**

<table>
<thead>
<tr>
<th>Other costs</th>
<th>5,701,208</th>
<th>4,747,928</th>
</tr>
</thead>
</table>
25. ADMINISTRATIVE EXPENSES

Personnel costs for the year are recorded in cost of sales in the amount of Tenge 1,069,695 thousand (in 2018: Tenge 779,863 thousand), in administrative expenses in the amount of Tenge 2,180,229 thousand (in 2018: Tenge 1,153,183 thousand).

26. PERSONNEL COSTS

27. FINANCE INCOME/(EXPENSE)

For the years ended 31 December the reconciliation of income tax expense related to profit before income tax estimated using the official tax rate of 20% (in 2018: 20%) with the current income tax expense was as follows:

Differences between IFRS and statutory taxation regulations in the Republic of Kazakhstan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences, which is calculated at tax rates applicable to the period of realization of an asset or repayment of a liability, is detailed below. According to the current tax legislation of the Republic of Kazakhstan, the income tax rate is 20%.
29. INCOME TAX EXPENSE, CONTINUED

At 31 December, the components of the deferred tax assets and liabilities include the following:

<table>
<thead>
<tr>
<th>In thousands of Kazakhstani Tenge</th>
<th>1 January 2018</th>
<th>Charged to profit or loss</th>
<th>31 December 2018</th>
<th>Revision of tax amortisation</th>
<th>Charged to profit or loss</th>
<th>Charged to other Comprehensive income</th>
<th>31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>33,684</td>
<td>10,563</td>
<td>44,247</td>
<td>-</td>
<td>42,363</td>
<td></td>
<td>86,510</td>
</tr>
<tr>
<td>Tax losses carried forward</td>
<td>2,278,204</td>
<td>(1,742,538)</td>
<td>556,767</td>
<td>1,697,479</td>
<td>(2,233,227)</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Loans and borrowings</td>
<td>4,623</td>
<td>9,758</td>
<td>14,161</td>
<td>-</td>
<td>(7,705)</td>
<td></td>
<td>6,711</td>
</tr>
<tr>
<td>Other taxes and charges</td>
<td>33,644</td>
<td>(33,503)</td>
<td>141</td>
<td>15,011</td>
<td>13,152</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>10,687</td>
<td>4,839</td>
<td>15,526</td>
<td>-</td>
<td>28,611</td>
<td></td>
<td>44,137</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,506,859</td>
<td>(1,750,817)</td>
<td>610,767</td>
<td>1,697,479</td>
<td>(2,155,045)</td>
<td></td>
<td>155,510</td>
</tr>
</tbody>
</table>

Recognised of a deferred tax asset Recognised deferred tax assets represent the income tax which can be offset against future income taxes and are recorded in the statement of financial position. The deferred tax assets are recognised only if the use of a respective tax deduction is highly probable. It assumes presence of taxable differences whose recovery is expected in the future, and the presence of sufficient future taxable profit to make deductions.

The Company amended its corporate income tax returns for 2017 and 2018 by increase of fixed assets amortisation rate up to the levels limited by the Tax Code of the Republic of Kazakhstan. As a result the amounts of tax loss carried forward for years 2017 and 2018 was increased by Tenge 8,487 million. As a result, the tax loss carried forward from previous tax periods as at 1 January 2019 amounted to Tenge 11,303 million and was fully utilised in the current period. Total taxable income of the Company for 2019 after deduction of tax loss carried forward amounted to Tenge 2,793 million.

30. FAIR VALUE AND FINANCIAL RISK MANAGEMENT

(a) Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

(i) Risk management framework

Management of the Company has overall responsibility for the establishment and oversight of the Company’s risk management framework. Management is responsible for developing and monitoring the Company’s risk management policies.

The Company’s risk management policy has been designed, based on the specifics of its operations. The Company is building a risk management system by integrating the principles of risk management with the business processes of its structural units, thus creating a risk management culture, in which the Company’s structural units and personnel are involved at the Company’s level.

(ii) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company deals only with companies with positive credit history and high credit rating, if available. It is the Company’s policy that all customers who wish to trade on credit terms are subject to the credit verification procedure, as disclosed in Note 10.

The carrying amount of financial assets represents the maximum amount exposed to credit risk of the Company. The maximum exposure to credit risk at the reporting date was as follows:
30. FAIR VALUE AND FINANCIAL RISK MANAGEMENT, CONTINUED

Assessment of expected credit losses (ECL)

ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Company: Probability of Default (“PD”), Exposure at Default (“EAD”), Loss Given Default (“LGD”) and Discount Rate.

EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities. The EAD on credit related commitments is estimated using Credit Conversion Factor (“CCF”). CCF is a coefficient that shows the probability of conversion of the commitment amounts to an on-balance sheet exposure within a defined period. PD an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate (“EIR”) for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument’s lifetime period. The lifetime period is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any.

For loan commitments and financial guarantee contracts, it is the contractual period over which the Company has a present contractual obligation to extend credit.

Management models Lifetime ECL, that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The 12-month ECL, represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining lifetime period of the financial instrument if it is less than a year.

For purposes of measuring PD, the Company defines default as a situation when the exposure meets one or more of the following criteria:

- the borrower is more than 90 days past due on its contractual payments;
- international rating agencies have classified the borrower in the default rating class;
- the borrower meets the unlikelihood-to-pay criteria listed below:
  - the borrower is deceased;
  - the borrower is insolvent;
  - the borrower is in breach of financial covenant(s);
  - it is becoming likely that the borrower will enter bankruptcy; and
  - the loans were purchased or originated at a deep discount that reflects the incurred credit losses.

For purposes of disclosure, the Company fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to all types of financial assets of the Company.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis that considers the likelihood of a financial instrument returning to default status after curing by using different possible definitions of cures. The assessment whether or not there has been a significant increase in credit risk (“SICR”) since initial recognition is performed on an individual basis and on a portfolio basis. The criteria used to identify an SICR are monitored and reviewed periodically for appropriateness by the Company’s Financial Department. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted. The Company considers a financial instrument to have experienced an SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

For trade and other receivable and contract assets:
- 30 days past due;
  - Relative threshold defined on the basis of a portfolio for products without existing scoring models: the Company regularly monitors debtors with increased credit risk and considers such portfolios to have a SICR. Relative threshold defined on individual basis for debtors with existing scoring models: increase of the remaining lifetime PD compared to remaining lifetime PD estimated as of the date of initial recognition by 2.5 times. In some circumstances, the Company uses a 12-month PD instead of a lifetime PD for calculating this ratio, if the effect of using 12-month PD is not materially different.
30. FAIR VALUE AND FINANCIAL RISK MANAGEMENT, CONTINUED

The level of ECL that is recognised in these financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset’s effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Company monitors whether that indicator continues to exist or has changed.

ECL for POCI financial assets is always measured on a lifetime basis. The Company therefore only recognises the cumulative changes in lifetime expected credit losses.

The Company has three approaches for ECL measurement: (i) assessment on an individual basis; (ii) assessment on a portfolio basis: internal ratings are estimated on an individual basis but the same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio; and (iii) assessment based on external ratings. The Company performs an assessment on an individual basis for the large corporate customers, that have rating. The Company performs an assessment on a portfolio based on the combining portfolio into homogeneous segments based on borrower-specific information, such as not timely repayment of the debts, the historical data on losses. The Company does not use macroeconomic factors for assessment, as major part of the portfolio is short term.

ECL assessment on an individual basis is performed by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Company defines at least two possible outcomes for each assessed loan, one of which leads to a credit loss even if the probability of such a scenario may be very low. Individual assessment is primarily based on the expert judgement of experienced officers from the. Expert judgements are regularly tested in order to decrease the difference between estimates and actual losses.

When assessment is performed on a portfolio basis, the Company determines the staging of the exposures and measures the loss allowance on a collective basis. The Company analyses its exposures by segments determined on the basis of shared credit risk characteristics, such that exposures within a group have homogeneous or similar risks. The key shared credit characteristics considered are: type of customer, date of initial recognition and term to maturity.

In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined as explained above, and discounted to present value using the instrument’s effective interest rate. The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future month during the lifetime period for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier month).

Two types of default probability are used to calculate expected credit losses: default probability for 12 months and default probability for the whole term. The assessment of the 12 month default probability is based on the latest available data on defaults for previous periods and is adjusted taking into account the forecast information if necessary. The probability of default for the entire term is an estimate of the probability of a default occurring during the remaining life of the financial instrument and is the sum of the 12 month default probabilities for the entire life of the instrument.

LGD represents the Company’s expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, type and seniority of the claim, and the availability of collateral or other credit support. The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event. The approach to LGD measurement can be divided into three possible approaches:

- measurement of LGD based on the specific characteristics of the collateral;
- calculation of LGD on a portfolio basis based on recovery statistics; or
- individually defined LGD depending on different factors and scenarios.

The Company calculates LGD based on specific characteristics of the
30. FAIR VALUE AND FINANCIAL RISK MANAGEMENT, CONTINUED

collateral, such as projected collateral values, historical discounts on sales and other factors for loans secured by real estate, cash and liquid securities. LGD is calculated on a collective basis based on the latest available recovery statistics for the remainder of the corporate loan portfolio and for retail secured and unsecured products.

Principles of assessment based on external ratings. Certain instruments have external credit risk ratings that are used to assess the credit risk parameters “probability of default” and “loss in case of default” based on statistics of defaults and collection funds published by relevant rating agencies. This approach applies to indebtedness of large corporate clients.

(iii) Liquidity risk
Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise. The Company aims to maintain the minimum level of cash and cash equivalents and other highly marketable instruments at an amount in excess of expected cash outflows on financial liabilities over the next 30 days.

As at 31 December 2019, the current assets of the Company exceeded its current liabilities by Tenge 11,875,443 thousand (in 2018: current assets of the Company exceeded its current liabilities by Tenge 7,117,889 thousand) (Note 4). The Company’s management is undertaking the following measures to control the liquidity risk:
• Entering into long-term agreements with customers to ensure sufficient cash flows from operating activities.
• Entering into agreements with financial institutions.

The tables below shows general information on undiscounted contractual payments on financial liabilities of the Company as at 31 December by the maturity period of these liabilities:

(iv) Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will have a negative effect on the Company’s income or the value of its holdings of financial instruments. The objective of market risk management is to control market risk exposure and hold it within acceptable parameters, while optimising the investment yield. The market risk management operations are carried out within the guidelines set by the Supervisory Board. As a rule, the Company does not apply special rules of hedge accounting in order to manage volatility in profit or loss for the period.

(v) Currency risk
The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than Tenge. These transactions are primarily denominated in US Dollars. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Company, primarily US Dollar. In respect of other monetary assets and liabilities denominated in foreign currencies, the Company’s policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances. The table below summarises the Company’s exposure to foreign currency exchange rate risk at the end of the reporting period:
30. FAIR VALUE AND FINANCIAL RISK MANAGEMENT, CONTINUED

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period, after tax, relative to the functional currency of the Company, with all other variables held constant:

<table>
<thead>
<tr>
<th>Impact on profit or loss</th>
<th>At 31 December 2019</th>
<th>At 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russian Rubles</td>
<td>US Dollars</td>
<td>Russian Rubles</td>
</tr>
<tr>
<td>Currency strengthening by 20% (strengthening by 20%)</td>
<td>(71,825)</td>
<td>1,562,797</td>
</tr>
<tr>
<td>Currency weakening by 20% (weakening by 20%)</td>
<td>71,825</td>
<td>(1,562,797)</td>
</tr>
</tbody>
</table>

(vi) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). For example, the Company has loans (Note 18) the interest rate of which depends on particular financial covenant ratio performed by the Company; the covenant is tested annually, the interest rate may vary for 1.5% per annum. Management of the Company, when managing interest risks, reviews the changes of the rates on financial instruments, which may significantly affect the positions with respect to this risk. For that the Company performs the analysis of the scenarios, including potential effects of the changes in the interactions between the types of interest risks and the general level of the exposure to interest risk, in particular, the ratio of allocation of the interest risks of the Company between the loans with the fixed and variable interest rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Company over the expected period until maturity.

At the reporting date, the interest rate profile of the Company, grouped by the type of interest rates, was as follows:

(vii) Fair value

Fair value measurements are analysed by level in the fair value hierarchy as follows:
(i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,
(ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and
(iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorizing financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment,
30. FAIR VALUE AND FINANCIAL RISK MANAGEMENT, CONTINUED

then that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Recurring fair value measurements
Fair value measurements of the Company’s financial instrument (Note 4) are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period.

Financial assets carried at amortised value
The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. The fair value of investments held to maturity was determined based on the demand quotations.

Liabilities carried at amortised cost
The fair value of Eurobonds is based on quoted market prices. Fair values of other liabilities were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturities were estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risks and remaining maturities. The fair value of liabilities repayable on demand or after a notice period (“demandable liabilities”) is estimated as the amount payable on demand, discounted from the first date on which the amount could be required to be paid (Notes 18, 19, 20).

31. CONTINGENT ASSETS AND LIABILITIES

(a) Insurance
The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company has an insurance coverage in respect of its property, plant and equipment and its third-party liabilities due to damage to health or property arising from accidents and acts of terror or the Company’s operations. The Company also has coverage for environmental damage arising from the operations accompanying its professional activity.

(b) Tax contingencies in Kazakhstan
The tax environment in the Republic of Kazakhstan is subject to change and inconsistent application and interpretations. Non-compliance with Kazakhstani law and regulations as interpreted by the Kazakhstani authorities may lead to the assessment of additional taxes, penalties and interest. Kazakhstani tax legislation and practice is in a state of continuous development, and therefore is subject to varying interpretations and frequent changes, which may be retroactive. In certain situations, to determine a tax base, the tax legislation refers to IFRS provisions. In such cases, interpretation of IFRS provisions by the Kazakhstani tax authorities may differ from accounting policies, judgments and estimates used by management for preparation of these financial statements, and this may result in additional tax liabilities for the Company. Tax periods remain open to retroactive review by the Kazakhstan tax authorities for five years. The Company’s management believes that its interpretation of the relevant legislation is appropriate and the Company’s tax positions will be sustained. In the opinion of the Company management, no material losses will be incurred in respect of existing and potential tax claims in excess of provision that have been made in these financial statements at 31 December 2019 and 2018.

(c) Transfer pricing
According to the transfer pricing law, the international business transactions are subject to the government control. This law prescribes Kazakhstani companies to maintain and, if required, to provide economic rationale and method of the determination of prices used in international business transactions, including the existence of the documentation supporting the prices and price differentials applied. Additionally, price differentials cannot be applied to the international business transactions with companies registered in offshore countries. In case of deviation of transaction price from market price, tax authorities have the right to adjust taxable base and to impose additional taxes, fines and interest penalties. The transfer pricing law in some areas lacks detailed clear-cut guidance as to how its rules should be applied in practice (for example, the form and content of documentation supporting the discounts), and determination of the Company’s tax liabilities within the context of the transfer pricing regulations requires an interpretation of transfer pricing law. The Company conducts transactions subject to the state transfer pricing control. The Company’s crossborder transactions are set at the market price based on the arms-length principle.
31. CONTINGENT ASSETS AND LIABILITIES, CONTINUED

(d) Short-term lease liabilities – the Company as a lessee

In the table below the future minimum lease payments on short-term lease agreements without an early termination option for the cases when the Company acts as a lessee are presented:

<table>
<thead>
<tr>
<th>In thousands of Kazakhstani Tenge</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within one year</td>
<td>299,148</td>
</tr>
<tr>
<td>From one to five years</td>
<td>585,511</td>
</tr>
<tr>
<td>Total</td>
<td>784,659</td>
</tr>
</tbody>
</table>

As at 31 December 2019 the total amount of future obligatory lease payments for the contracted lease that has not commenced yet is Tenge 789 million.

(e) Loan covenants

In accordance with the terms of loan agreements signed between the Company and its creditors, the Company shall comply with certain financial and non-financial covenants. Penalties may be charged for the breach of such covenants, or the banks may demand early repayment of financial liabilities. In order to control such risks, the Company monitors the compliance with such financial and non-financial covenants.

As at the reporting date of the financial statements the Company meets all requirements of financial covenants.

(e) Legal proceedings

The management does not have information on any significant actual or pending legal proceedings, as well as on potential claims that may be filed against the Company.

32. RELATED PARTIES TRANSACTIONS

(a) Ultimate controlling party

Mr. M.Zh. Sarsenov is the main shareholder and ultimate controlling party of the Company.

(b) Transactions with key management personnel

Key management remuneration

In 2019, the compensation to key management personnel included salary and short-term payments in the amount of 1,037,375 thousand (2018: Tenge 470,484 thousand), which are charged to personnel costs (Note 26).

(c) Other related party transactions

Below is the information on the transactions of the Company with other related parties.

Transactions with Mr. M.Zh. Sarsenov

On 1 June 2018, the Company entered into guarantee provision contract with its shareholder, under which the shareholder provided guarantee to Al Hilal Islamic Bank JSC for the Company’s liabilities under Murabaha Master Agreement for the purchase and sale of commodities No.4/2018-CMM dated 9 April 2018.

According to loan agreement signed between the Company and Sberbank of Russia JSC SB in November 2017, under which the shareholder provided to the bank performance guarantee for the Company, in the beginning of 2018 the Company executed agreement with its shareholder and agreed to pay for the provision of such guarantee to the shareholder guarantee fees in the amount of 3% per annum on loan balance. After a new loan agreement was signed between the Company and Sberbank dated 19 June 2018, under which shareholder’s guarantee was increased accordingly, the Company and its shareholder signed an additional guarantee agreement with the increase of amount, and interest rate on such guarantee was changed to 4% per annum due to increased foreign currency risks.

Due to the significant change in the exchange rate of US dollar to Tenge from the date of the guarantee provision contracts date and increasing currency risk related to the exchange rate of US dollar to Tenge, on 27 June 2019 the Company and its shareholder signed additional agreements to the guarantee provision contracts for the Company’s liabilities towards Sberbank and Al-Hilal. In accordance with these additional agreements the exchange rate of US dollar to Tenge applicable for the interest calculation and the interest rate (5% p.a.) were adjusted to current market conditions. The sale and purchase transactions with related parties and transaction balances with related parties for 2019 and 2018 are as follows:
32. RELATED PARTIES TRANSACTIONS

<table>
<thead>
<tr>
<th>Description</th>
<th>31 December 2019</th>
<th>31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ultimate controlling party - Mr. M.Zh. Saranov</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statement of profit or loss and other comprehensive income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ultimate controlling party - Mr. M.Zh. Saranov</td>
<td>900,122</td>
<td>720,036</td>
</tr>
<tr>
<td>Interest expenses on guarantee agreements (Note 27, 4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minority shareholder - International Finance Corporation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expenses on loans</td>
<td>12,033</td>
<td>41,308</td>
</tr>
<tr>
<td>Receivable from Eskene on provided collateral</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Advances paid to Steinhardt Holding N.V. are presented by advances paid for purchase of equity instruments. During 2019 the Company provided advances in the amount of Tenge 1,129,200 thousand (2018: Tenge 7,440,571 thousand). During 2019, the Company bought its Eurobonds through the parent company Steinhardt Holding N.V. on arm’s length basis pursuant to the Prospectus – the turnover amount was US dollar 1,000 thousand in nominal value (Tenge 378,185 thousand). The repurchased volume of Eurobonds was cancelled (2018: US dollars 12,223 thousand in nominal terms, Tenge 3,988,120 thousand).

Receivable from Eskene on provided collateral

On 17 July 2012, the Company provided 440 items of property, plant and equipment with total carrying amount of Tenge 3,107,736 thousand to the Eurasian Development Bank as a collateral under a loan agreement concluded between Eurasian Development Bank and Railcar Service Center – Eskene LLP, an entity under the common control of the Company’s ultimate controlling party. On 15 November 2013, the Company and Railcar Service Center – Eskene LLP signed an agreement on the terms of provision of this collateral. Under the terms of the agreement, for the provision of the collateral, Railcar Service Center – Eskene LLP pays the Company a one-off fee in the amount of Tenge 262,000 thousand payable at the time of repayment of the debt of Railcar Service Center – Eskene LLP owed to the Eurasian Development Bank, that is expected in 2023. As at 31 December 2019, the discounted fee amount was equal to Tenge 175,616 thousand (in 2018: 156,126 thousand) (Note 7). The Company expects this debt to be repaid in 2023.

In December 2013, the Company additionally provided 500 items of machinery and equipment to the Eurasian Development Bank as a collateral for the loan agreement. As at 31 December 2019, 940 items of the machinery and equipment with a total carrying amount of Tenge 6,928,298 thousand (2018: Tenge 4,593,059 thousand) were provided as a collateral for loans and borrowings received by Railcar Service Center – Eskene LLP.

Receivable from Eskene on construction of the railcar service center

In addition, according to the tripartite agreement on project support concluded on 16 July 2012 between the Company, Railcar Service Center – Eskene LLP, and the Eurasian Development Bank, the Company commits to provide technical personnel and technical support for the project of Railcar Service Center – Eskene LLP on the construction of the railcar service center in Atyrau region.

On 18 July 2019 the Company and Railcar Service Center – Eskene LLP signed the agreement for sale and purchase of the equipment for wagon repair sites of the Company for the total amount of Tenge 2,295,223 thousand.

As at 21 November 2019, the advance amount on construction of the railcar service center was fully repaid (in 2018: Tenge 73,166 thousand). Total indebtedness of Railcar Service Center – Eskene LLP due to the Company on advances paid as at 31 December 2019 amounts to Tenge 407,036 thousand (in 2018: Tenge 419,816 thousand).
32. RELATED PARTIES TRANSACTIONS

Lease profit from Eskene
On 1 October 2019 the agreement on oil tanks lease was signed between the Company and Railcar Service Center – Eskene LLP. The agreement is the short-term (less than 12 months) operational lease and does not imply a transfer of risks and benefits to the lessee. Lease agreement was signed at the market terms.

33. SUBSEQUENT EVENTS

Rail cars delivery
In January 2020 Zavod Metallokonztruikiy OJSC and Morskoy Dom LLP fulfilled their obligations on wagons delivery (Note 7).

Company’s rating
On 26 February 2020, the international rating agency Moody’s changed the forecast for all ratings of the Company from “Stable” to “Positive” and affirmed the rating at “B3”. The national scale rating was upgraded from B1.kz to “Ba3.kz”, the Company Eurobonds rating (ISIN XS0918292151) at “B3” and the rating of possible default at “B3 / LGD4.”

Borrowings
On 6 March 2020 the Company disbursed Tenge 4,440,000 thousand under the Loan Agreement of EBRD and used it in accordance with the purpose of the agreement. On 27 March 2020, Sberbank reduced the interest rate on loans in US dollars from 4.5% to 4% per annum.

Guarantees
During the first quarter of 2020, advance payments in the amount of Tenge 5,790 million were made to Mr. M.Zh. Sarsenov for guarantees received under the credit line agreements of the Company, and as reward based on the result of 2019. In the event of unfulfillment of certain conditions, the advance payments are subject to refund. No dividends based on the results of 2019 were declared.

Going concern
These financial statements have been prepared by the Company on the going concern basis, which involves the sale of assets and repayment of liabilities in the ordinary course of business. The management concluded that the preparation of these financial statements in accordance with the going concern principle is appropriate and, accordingly, the Company will be able to realise its assets and pay off its liabilities in the ordinary course of business.

These financial statements do not include any adjustments to the carrying amount of assets and liabilities, income and expenses, and classification of the statement of financial position that would be necessary if it was not possible to continue operating activities; such adjustments may be material.


According to the decree of the President of the Republic of Kazakhstan dated 15 March 2020 No. 285 “On the introduction of a state of emergency in the Republic of Kazakhstan”, a state of emergency was introduced for the period from 16 March 2020 until 15 April 2020. Major cities of Kazakhstan, including Almaty and Nur-Sultan fell under the quarantine regime; also, from 30 March to 5 April of the current year, the activities of all enterprises in the two above-mentioned cities were suspended. The Company’s activities for the period of quarantine were not suspended, the work of office employees was organised remotely.

At the same time, on 9 March 2020 oil quotes dropped amid the collapse of the OPEC deal, the price of Brent crude in March fell below $ 25 per barrel. The depreciation of tenge against the US dollar since the beginning of the year amounted to 17%, and on 20 March 2020 the tenge rate in relation to the US dollar rose to 448.05. National Bank of the Republic of Kazakhstan on 10 March 2020 raised the base rate from 9.25% to 12%.

The COVID-19 epidemic is spreading globally, with a sharp negative effect on the entire global economy. Management considers this outbreak to be a non-corrective event after the reporting date.

When assessing the Company’s ability to continue its operations in accordance with the going concern principle, management considered the following factors:
• as of 31 December 2019, short-term assets of the Company exceeded its current liabilities by 11,875,443 thousand tenge, including cash and cash equivalents and other highly liquid assets, amounted to 9,240,812 thousand tenge;
• as of and for the year ended 31 December 2019, the Company complied with the terms of all loan agreements;
• the current budget and cash flow forecast for 2020 demonstrates the ability of the Company to generate cash sufficient to continue its operations at full capacity;
• the sensitivity analysis of the cash flows to a possible decrease in the Company’s turnovers from planned indicators (10% decrease in revenue
33. SUBSEQUENT EVENTS

and 10% decrease in volumes), taking into account the weakening Tenge and the forecast for the Tenge exchange rate in the foreseeable future, demonstrates that in the forecasted period, the Company will have sufficient liquidity to repay existing loan obligations in accordance with the terms of existing contracts;
• the financial institutions – partners of the Company demonstrate their readiness to provide, if necessary, additional credit funds.
• the Company has entered into long-term contracts with major customers, and as of the date of approval of the financial statements there is no information from customers indicating a decrease in the volume of required services.

As of the date of the issuance of these financial statements, the situation is still developing; to date, there has not been any noticeable effect on the Company’s revenues and deliveries, but the future effect is difficult to predict. Management will continue to monitor the potential effect of the above events and will take all necessary measures to prevent negative consequences for the business, however:
• downtime / quarantine due to a pandemic will lead to a slowdown in business activity in general, which will affect the financial performance of the Company in the future;
• a drop in oil prices may have a negative effect on the Company’s revenue if prices do not recover in the near future;
• depreciation of tenge against the US dollar will negatively affect the financial results of the Company due to the fact that the 54% of the loan portfolio of the Company consists of loans denominated in US dollars.

34. SIGNIFICANT ACCOUNTING POLICIES

Current financial statements has been prepared in compliance with International Financial Reporting Standards (IFRS) on the basis of accounting rules at historical cost, excluding financial instruments, which are initially recognised based on the fair value, and revaluation of property, plant and equipment, financial instruments, evaluated at fair value, changes of fair value are reflected in gains and losses. The significant statements of accounting policy applied during the preparation of these financial statements are presented below. Besides the changes caused due to application of IFRS 9 and IFRS 15 from 1 January 2018, unless otherwise specified, mentioned principles consistently were applied to all periods, represented in current report. The significant statements of accounting policy in relation to financial investments and recognition of revenue that had been applied before 31 December 2017 are presented in Note 34.

Preparation of financial statements in accordance with IFRS requires application of certain critical accounting estimates. In addition, management of the Company should rely on its professional judgement in course of application of Company’s accounting policy. Accounting areas, which imply a higher level of judgement or complexity, as well as areas in which assumptions and estimates are material to the financial statements, are specified in the Note 4.

(a) Foreign currency translation

The financial statements are presented in Kazakhstani Tenge, which is the Company’s functional and presentation currency.

Transactions in foreign currencies are initially recorded in a respective functional currency at the official rate at the date when a transaction meets the recognition criteria.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the official rate of exchange ruling at the reporting date. Any exchange gains and losses arising from translation of assets and liabilities denominated in foreign currencies subsequent to the date of the underlying transaction are credited or charged to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are recognized using the exchange rates as at the dates of the initial transactions.

Weighted average currency exchange rates established by the Kazakhstan Stock Exchange (“KASE”) are used as official currency exchange rates in the Republic of Kazakhstan.

The currency exchange rate of KASE at 31 December 2019 was Tenge 382.59 per 1 US Dollar, 6.16 per 1 Russian Rouble and 429 per 1 Euro. These rates were used to translate monetary assets and liabilities denominated in US Dollars, Russian Rouble and Euro at 31 December 2019 (2018: 384.20 per 1 US Dollar, 5.52 per 1 Russian Rouble and 439.37 per 1 Euro).

(b) Property, plant and equipment

Property, plant and equipment, except for machinery and equipment, buildings and constructions are recorded at initial cost, net of accumulated
34. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

depreciation and accumulated impairment losses, if any.

Subsequent to recognition at initial cost, machinery and equipment, buildings and constructions are measured at revalued amounts, being their fair value at the date of revaluation and subsequently less any subsequent accumulated depreciation and impairment losses. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset’s initial cost. As at the revaluation date the accumulated depreciation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. Upon disposal, any revaluation reserve relating to the particular asset is transferred to retained earnings.

The cost of property, plant and equipment includes the replacement cost of parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When major overhaul inspection is performed, the expenses associated with it are recognised in the carrying amount of property, plant and equipment as a replacement of equipment if all recognition criteria are met. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Useful Life (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>not depreciated</td>
</tr>
<tr>
<td>Buildings</td>
<td>10-50</td>
</tr>
<tr>
<td>Facilities</td>
<td>3-37</td>
</tr>
<tr>
<td>Rolling stock</td>
<td>15-40</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>3-10</td>
</tr>
<tr>
<td>Other</td>
<td>2-20</td>
</tr>
</tbody>
</table>

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the reporting period when the asset is derecognised. The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Rolling stock category includes large repair parts to be installed to rolling stock and will be used more than 1 year.

(c) Right-of-use assets

The Company leases various offices, equipment and vehicles. Contracts may contain both lease and nonlease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate, equipment and vehicles for which the Company is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets arising from a lease are initially measured on a present value basis. Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- costs to restore the asset to the conditions required by lease agreements.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying assets' useful lives. Depreciation on the items of the right-of-use assets is calculated using the straight-line method over their estimated useful lives as follows:

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office</td>
<td>5</td>
</tr>
<tr>
<td>Equipment</td>
<td>10</td>
</tr>
<tr>
<td>Vehicles</td>
<td>5</td>
</tr>
</tbody>
</table>
34. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(c) Impairment
At the end of each reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists for property, plant and equipment carried at historic cost, management estimates the recoverable amount, which is determined as the higher of an asset’s fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the asset’s book value exceeds its recoverable amount the asset is considered as impaired and is written off till its recoverable amount.

(d) Financial instruments – key measurement terms
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market’s normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm’s length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows:
(i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,
(ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and
(iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses ("ECL"). Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the book values of the related items in the statement of financial position. The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the gross carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. For assets that are purchased or originated credit impaired ("POCI") at initial recognition, the effective interest rate is adjusted for credit risk, i.e. it is calculated based on the expected cash flows on initial recognition instead of contractual payments.

(e) Financial instruments – initial recognition.
Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there
34. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date on which the Company commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

(f) Financial assets

Classification and subsequent measurement – measurement categories.

The Company classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Group’s business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Classification and subsequent measurement – business model.

The business model reflects how the Company manages the assets in order to generate cash flows – whether the Company’s objective is: (i) solely to collect the contractual cash flows from the assets (“hold to collect contractual cash flows.”) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets (“hold to collect contractual cash flows and sell”) or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of “other” business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Company undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Company in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets’ performance is assessed.

Classification and subsequent measurement – cash flow characteristics.

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Company assesses whether the cash flows represent solely payments of principal and interest (“SPPI”). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

(g) Impairment of financial assets

Based on forecasts, the Company estimates expected credit losses associated with debt instruments measured at AC and FVTOCI, and with the risks arising from loan commitments and financial guarantee contracts. The company estimates expected credit losses and recognises an allowance for credit losses at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at amortised cost, trade and other receivables, loans issued are presented in the statement of financial position minus the estimated allowance for expected credit losses. For loan commitments and financial guarantees, a separate provision for expected credit losses is recognised as a liability in the statement of financial position. Changes in the amortised cost of debt instruments at fair value through other comprehensive income, excluding the estimated allowance for expected credit losses, are recognised in profit or loss. Other changes in the carrying amount are recognised in other comprehensive income in "gains less losses from debt instruments measured through other comprehensive income.

The Company applies a simplified model for impairment accounting for trade receivables. For bank deposits, cash on special account and cash and cash equivalents, the Company applies a “three stage” model of accounting for
34. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

impairment based on changes in credit quality from the date of initial recognition. A financial instrument that is not impaired at initial recognition is classified as related to Stage 1. For financial assets of Stage 1, the expected credit losses are estimated at the amount equal to the part of the expected credit losses for the whole period that arise as a result of defaults that may occur during the next 12 months or until the repayment date according to the contract, if it occurs before the expiration of 12 months (“12-month expected credit losses”). If the Company identifies a significant increase in credit risk from the moment of initial recognition, the asset is transferred to Stage 2, and the expected credit losses for this asset are estimated based on the expected credit losses for the entire term, that is, until the repayment date according to the agreement, but taking into account the expected prepayment, if it is provided (“expected credit losses for the entire term”). If the Company determines that the financial asset is impaired, the asset is transferred to Stage 3 and the expected credit losses for it are estimated as expected credit losses for the entire term. The Company uses information of rating agencies for the financial institutions credit ratings evaluation for determination of the accounting stage (Notes 13, 14, 15).

(h) Financial assets – write-off

Financial assets are written-off, in whole or in part, when the Company exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Company may write-off financial assets that are still subject to enforcement activity when the Company seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

(i) Financial assets - derecognition

The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

(j) Financial guarantees received

Financial guarantees received from the shareholder are accounted for as an executory contract and fees are accrued on an annual basis as incurred. The Company assesses whether the fees paid are in accordance with market terms at a date of initiation. If the transactions are performed at market rate, then fees are charged to profit or loss for the year. Judgements made with respect to the financial guarantees received are disclosed in the Note 4. Advances paid for the financial guarantees received are classified as current or non-current assets based on the years covered by the prepaid amount. Advances paid in prior years are amortised in profit or loss on a straight-line basis at the rate when these advances were paid. Additional costs are recorded based on the rates prevailing at the dates of the transactions.

(k) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as subsequently measured at amortised cost, except for financial liabilities at fair value through profit or loss: this classification applies to the loan of DBK-Leasing.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

Loans and borrowings

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the EIR method excluding loans and borrowings evaluated at fair value through profit or loss (Note 4). The Company determines the method of measurement at the date of initial recognition. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of profit or loss and other comprehensive income.

Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at amortised cost using the effective interest rate method.
34. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Foreign exchange profit/loss

Financial activity foreign exchange difference includes foreign exchange differences due to revaluation of the loans denominated in foreign currency in amount of interest payments adjustment. Operational activity foreign exchange difference includes revaluation of bank deposits, accounts receivable and account payable, denominated in foreign currency.

(I) Embedded derivative financial instruments

The Company adopted fair value accounting to the complex financial instrument, which contain several not closely related embedded derivatives. In this case the Company valued the whole hybrid instrument at fair value and did not recognise each component of this instrument separately (Note 4).

(m) Derecognition of financial instruments

Financial liabilities

The Company removes a financial liability (or a part of a financial liability) from its statement of financial position when, it is extinguished - i.e. when the obligation specified in the contract is discharged or cancelled or expires. A substantial modification of the terms of an existing financial liability (qualitative and quantitative) or a part of it (whether or not attributable to the financial difficulty of the debtor) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of an initial financial liability and the new financial liability is recognised in profit or loss.

Non-current assets classified as held for sale (or disposal group)

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Company’s management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period’s statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Assets are carried at the lower of their carrying amount and fair value less costs to sell, that are not amortised.

If the Company purchases non-current assets solely for the purpose of subsequent sale, such assets can be classified as held for sale at the acquisition date only if the sale requirement is satisfied within 12 months from the acquisition date and it is highly probable that other classification criteria that the assets do not satisfy on the acquisition date, will be completed within no more than 3 months after the acquisition.

The Company reassesses and tests the assets for impairment in accordance with IAS 16 and 36, and an impairment loss is recognised for any reduction to fair value less costs to sell. If, subsequently, the fair value increases, then the difference is recognised as income within the accumulated impairment loss i.e. IAS accounting principle also applies.

If long-term assets previously classified as held for sale no longer meet the necessary classification criteria, the Company ceases to account for them as held for sale, and recognises all adjustments in the “Continuing Operations” section and in the period when the Sales Plan has changed. Such changes are recognised as changes in accounting estimates, and not changes in accounting policy manual, without retrospective restatement.

Assets are returned to accounting in accordance with МСФО (IAS) 16, with recalculation of depreciation from the date of transfer to accounting in accordance with МСФО (IFRS) 5, while their assessment is made at the lower of:

• its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset not been classified as held for sale, and
• its recoverable amount at the date of the subsequent decision not to sell.
34. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Any adjustments to the carrying amount of assets previously classified as held for sale are recognised in the statement of comprehensive income as income from continuing operations in a period in which the classification criteria are no longer met.

(n) Offsetting financial instruments

Financial assets and financial liabilities are offset, and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realize the asset and settle the liability simultaneously.

(o) Inventories

Inventories are valued at the lower of cost or net realisable value. Costs include charges incurred in bringing inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. The same cost formula is used for all inventories having a similar nature and use. All inventories are valued using the average cost method.

(p) Leases

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the Group under residual value guarantees,
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Options for extension and termination of leases are included in a number of the Company's lease agreements for buildings and equipment. These conditions are used to provide maximum operational flexibility in managing the assets that the Company uses in its activities. Most of the options for extending and terminating a lease can only be exercised by the Company and not by the respective lessor. Extension options (or a period of time after the period specified in the terms of the termination option) are included in the lease term only if there is sufficient confidence that the contract will be extended (or will not be terminated). The assessment of the obligation also includes lease payments that will be made as part of the exercise of extension options if there is sufficient confidence that the lease will be extended.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases of the Group, the Group’s incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, collateral and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, and
- makes adjustments specific to the lease, e.g. term, country, currency and collateral.

Lease payments are allocated between principal and finance costs. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

When the Company leases wagons on a short-term basis for the period not longer than 12 months the agreements include:

- Lessor and the Company’s right to decrease the quantity of the leased wagons during the lease period without penalties;
- The right of the parties to terminate the agreement on a unilateral basis without penalties;
- Leased wagons were partially returned and partially substituted as per request of the lessor in the beginning of 2020, wagons lost in 2019 were not replaced by the lessor;
- Even though the contracts contain the right to substitute wagons, the Company believes that this right is not substantive.
34. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(q) Provisions
General
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement.

(r) Employee benefits
The Company does not have any additional pension arrangements separate from the state pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. The Company pays social tax according to the current statutory requirements of the Republic of Kazakhstan. Social tax is expensed as incurred.

The Company does not incur any expenses related to payment of pension benefits to its employees. According to the legislation of the Republic of Kazakhstan, the Company withholds pension deductions from wages of employees and transfers them to a Unified Government Pension Fund. Upon retirement of employees, all the payments are administered by the pension fund. The Company additionally bears the costs associated with the payment of Mandatory professional pension contributions to its employees in accordance with the requirements of the legislation of the Republic of Kazakhstan.

(s) Equity
The partnership interest in the Company is classified as equity since the Company has an irrevocable right to refuse the repurchase the partnership interest according to the Company’s charter and local legislation. The assets contributed to the charter capital are recognised at fair value at the time of contribution. Any excess of the fair value of contributed assets over the nominal value of contribution to the charter capital after its legal registration is allocated directly to other reserves within equity. Dividends are recognised as a liability and deducted from equity at the reporting date only if they are approved before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

(t) Income from the provision of wagons for use (short-term lease)
The company leases wagons. In case the Company decides that the lease agreements do not include finance lease the Company recognises the income from the provision of rolling stock for use evenly over the lease term based on the lease rates agreed with the lessee and includes it in profit or loss and other comprehensive income for the year.

This lease is classified as an short-term lease as the Company does not transfer to the customers the right to receive almost all of the economic benefits from the use of railcars. Agreements include:
- operating rules, including restrictions on the nature of the products being transported, and the maximum load;
- the extend of the customer’s right to use the railcar is determined - the territory of operation, the right to lease; sanctions are established in case of non-compliance with the railcar configuration during use;
- The Company independently decides on the safety of freight transportation in its railcars;
- The Company bears obligations for the maintenance and repair of railcars, and also reserves the responsibility to solve all issues of interaction with the railway administration;
- The Company carries out insurance of its own risks and risks to third parties during the operation of railcars;
- Although the lease agreements include a right to replace the wagons during the lease period, the Company decided that this right is not substantive.

(u) Revenue recognition
Revenue is income arising in the course of the Company ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. Revenues are recognised net of discounts, returns and value-added tax.

As part of revenue recognition analysis, the Company:
- identifies contract with a customer
- identifies promises under the contract
- identifies contract price
34. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

- allocates contract price between separate promises under agreement
- recognises revenue at the time (or during the period) it satisfies promises

The Company provides freight-forwarding and rail cars operating services (operating services). The Company analyses the agreements with customers against IFRS15 requirements in order to determine whether it acts as a principal or agent.

The Company may provide both freight-forwarding services and operating services under separate agreements or one agreement depending on the customers’ needs. In the instances when both services are performed under single agreement the scope of each service is separately described in the contract and separately priced considering market prices for each service.

For the contracts where contracts meet the criteria for the combination of contracts under IFRS15 (i.e. the contracts are negotiated as a package with a single commercial objective) the total consideration is allocated between the performance obligations using the relative stand alone price; nevertheless as the pricing of each service specified under each separate contract reflects the stand alone selling prices of those services there is no need for re-allocation of the consideration between those contracts.

In case the value of service provided by the Company exceeds amount of payment received a contract asset is recognised. In case amount of payments received exceeds value of services provided then a contract liability is recognised.

**Freight-forwarding services**

The Company provides freight-forwarding services which comprises following promised services: arranging the transportation to be provided by the carriers, payment on behalf of the customer of freight charges imposed by the carriers, payment of additional levies associated with transportation of goods on behalf of the customer, preparation of all documents required for dispatch of cargos, receipt and transfer of goods (i.e. handle paperwork when the goods are loaded and unloaded at the destination paper), arranging insurance and custom clearance, processing of payment/settlement services.

The Company considers that all these promises services referred to as freight-forwarding services represent one performance obligation since: the Company provides a significant service of integrating the services promised in the contract into a service that represents the combined output or which the customer has contracted; the services are viewed as highly interrelated/interdependent.

Based on the following factors the Company has concluded that it acts as an agent in provision of freight-forwarding services:

- the nature of the promises under freight-forwarding services is effectively to arrange for services to be provided by 3rd parties (i.e. arranging the railroad transportation, arranging insurance, arranging custom clearance)
- in accordance with legislation, industry standards and agreements the primary responsibilities for 3rd parties’ services lie with those 3rd parties;
- the Company does not have discretion to set prices on 3rd parties services;
- the Company does not control services provided by 3rd parties;
- the customers can buy those service directly from 3rd parties.

The transaction price for freight-forwarding services may represent a fixed pre-agreed rate or net amount of consideration received from the customer which the Company’s has right to withheld after paying for 3rd parties services. The commission is set as a % of 3rd parties’ cost of services, unless otherwise agreed with customers.

As the Company acts as an agent, it recognises revenue from freight-forwarding services, only in the amount of commission earned thus any reimbursement received from the customer for the payments made by the Company on behalf of the customer to the carriers, insurance companies or custom brokers is not presented as revenue and not presented as an expense but those items are netted off.

The Company recognises revenue from freight-forwarding services, as a separate stream. The freight forwarding services are recognised over time which the period from the contract inception to the point when the Company has arranged for the service to be provided by the third party. The progress of service is measured using the output method (milestones achieved).

**Rail cars operating services (operating services)**

The Company provide rail cars operating services which comprises following promised services: forming and agreeing a schedule of rail cars provision; provision of unidentified rail cars for use by the customer; dispatching of rail cars through centralised operating control in order to make the cars available at the customer’s premises and remote management of loaded and empty rails cars movements.

These promised services are interrelated/interdependent therefore the Company concluded the operating service represents one performance obligation.

The Company has also judged that there is no significant service of integrating the freight forwardingservices and operating services and these
34. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Services are also viewed as not being highly interrelated/interdependent, do not customise/modify each other therefore are treated as two separate performance obligations.

The price for operating services is determined as a fixed rate which depends on: route, type of goods transported, terms of transportation, type of wagons used.

In providing the operating services the Company acts as a principal. The Company presents costs associated with operating services as its expenses as the Company: is ultimately responsible for provision of this service, ensuring its quality; it provides the technical characteristics of rails cars are maintained; it has discretion to set the price for operating services and bears a credit risk exposure if a customer does not pay.

As part of providing operating services the Company incurs expenses related to empty runs charges after goods are unloaded at the point of destination. These expenses represent the Company’s cost of provision operating services and presented in cost of sales. The Company recognises revenue from operating services, as a separate revenue stream, over time when the services are provided; the progress is measured by passage of time.

The Company believes that provision of the rail cars under the operating services agreements does not contain a lease based on the following factors: the Company promises to provide unidentified rail cars and it has the right to provide any rail car out of the Company’s fleet; the Company provides rail cars to transport a specified goods and specified quantity of goods for a specified itinerary and timetable of the transportation and the customer cannot change type of the goods to transfer, itinerary or timetable of the transportation on its own; the customer has to return empty rail cars to the destinations specified in the Company’s instructions.

Rendering of other services

In respect of other services revenue is recognised by a reference to the stage of completion at the reporting date provided that the stage of completion and the amount of revenue can be measured reliably. The Company doesn’t disclose the remaining performance obligations as at the reporting date applying practical expedient as the Company’s agreements are short-term.

(v) Expense recognition

Expenses are accounted for at the time the actual flow of the related goods or services occur, regardless of when cash or its equivalent is paid, and is reported in the financial statements in the period which they relate to.

(w) Finance income and costs

The Company’s finance income and finance costs include:

- interest income;
- income from subsidies;
- discounting and amortisation of discount on financial instruments;
- income / expenses from the restructuring of bank loans;
- interest expense.

Interest income and expense shall be recognised by the effective interest rate method.

(z) Borrowing costs

Borrowing costs are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(y) Income tax expense

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss. Management periodically evaluates positions recorded in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred income tax liabilities are recognised for all taxable temporary differences, except when the deferred income tax liability affects neither the accounting profit nor taxable profit or loss.
 Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business acquisition and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Changes in the presentation of financial statements

Changes in the presentation of cash flows

During the year, the Company revised its approach in presentation of the following operations: advances for bonds repurchase – in the statement of cash flows; expenses associated with empty mileage of wagons – in the statement of profit and loss and other comprehensive income. In terms of advances for bonds repurchase, the Company concluded that although the payment of advances does not result in the decrease of financial liabilities, the ultimate goal of such advances should be presented as cash flows from financing activities rather than cash flows from operating activities, as was presented in the financial statements for the previous period.

As a result, the comparative information in the statement of cash flows for 2018 was adjusted as follows:

<table>
<thead>
<tr>
<th>In thousands of Kachchatvarin Tenge</th>
<th>Amount before reclassification</th>
<th>Adjustment</th>
<th>Amount after reclassification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjustment of working capital</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other current assets</td>
<td>(4,119,135)</td>
<td>3,375,028</td>
<td>(744,107)</td>
</tr>
<tr>
<td>Net cash from operating activities</td>
<td>12,160,424</td>
<td>3,375,028</td>
<td>15,535,452</td>
</tr>
<tr>
<td>Cash flow from financing activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advances for bonds purchase</td>
<td>-</td>
<td>(7,440,571)</td>
<td>(7,440,571)</td>
</tr>
<tr>
<td>Purchase of own bonds</td>
<td>(6,004,594)</td>
<td>4,065,543</td>
<td>(1,939,051)</td>
</tr>
<tr>
<td>Net cash used in financing activities</td>
<td>(7,164,038)</td>
<td>(3,375,028)</td>
<td>(10,539,066)</td>
</tr>
</tbody>
</table>

Changes in the representation of revenue

In previous periods the Company incorrectly presented the charges for empty mileage incurred as part of rail cars operating services as decrease of revenue as the Company didn’t bear risks of empty mileage fee change, as these costs were included into the operating services tariff and in case of empty mileage fee change, the Company has the right to change the operating services tariff. While preparing the financial statements for 2019 the Company concluded that the empty mileage fee is the cost that the Company bears when providing operating services where he Company acts as a principal. Therefore, these costs should be presented as cost of sales for operating services. As a result the comparative information in the statement of profit or loss and other comprehensive income for 2018 was amended as follows:

<table>
<thead>
<tr>
<th>In thousands of Kachchatvarin Tenge</th>
<th>Amount before reclassification</th>
<th>Adjustment</th>
<th>Amount after reclassification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>30,225,400</td>
<td>2,078,987</td>
<td>32,304,387</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(10,340,985)</td>
<td>(2,078,987)</td>
<td>(12,419,972)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>19,884,415</td>
<td>-</td>
<td>19,884,415</td>
</tr>
</tbody>
</table>

This decision of the Company and the respective reclassifications do not affect net income, comprehensive income and equity of the Company. These reclassifications do not affect the Company’s statement of financial position.

Changes in accounting policies

The Company changed its accounting policy for the valuation of buildings and constructions and decided to value the buildings and constructions at fair value (Note 4). As a result of the revaluation, the Company recognised an
34. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

An increase in the value of buildings and constructions in the amount of 167,465 thousand tenge in equity and an impairment loss in the amount of 127,838 thousand tenge. Impairment in the amount of 28,287 thousand tenge was recognized for construction in progress. The company believes that such a change provides reliable and more relevant information.

The company also changed the presentation of the movement of fixed assets and presented rolling stock as a separate company. Comparative data has been changed accordingly.

Changes in the financial statement presentation

During the year, the company changed the classification of net impairment losses of financial assets and assets under agreements with customers in the statement of profit or loss and other comprehensive income in the amount of KZT 190,232 thousand in 2019 (2018: KZT 139,846 thousand), which were previously included in other expenses.

35. PRESENTATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY

For the purposes of measurement under IAS 9 “Financial Instruments”, the company classifies financial assets into the following categories:

a) amortized cost,
b) fair value through other comprehensive income; or,
c) fair value through profit or loss.

Financial assets by measurement categories as at 31 December:

As at 31 December 2019 and 31 December 2018, all financial liabilities of the company except for financial lease acquired from DBK-Lease (Note 4) were carried at amortized cost.

36. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020 or later, and which the company has not early adopted.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).
- IFRS 17 “Insurance Contracts” (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).
- Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship and measurement uncertainty in financial reporting.
- Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).
- Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).
- Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The company believes that this standard will not have significant effect on the financial statement.
- Classification of long-term and short-term liabilities – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).
37. ACCOUNTING POLICIES BEFORE 1 JANUARY 2019

Accounting policies applicable to the comparative period ended 31 December 2018 that were amended by IFRS 16, are as follows.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. The arrangement is assessed for whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

*Company as a lessee – finance lease*

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Company, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

*Company as a lessee – operating lease*

Operating lease payments are recognised as an operating expense in the statement of comprehensive income on a straight-line basis over the lease term.

*Company as a lessor – operating lease*

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases.
Main goals and objectives for the next year

- The COVID-19 pandemic and a sharp drop in oil prices had a negative impact on business activity around the globe.
- We expect that in the short term the slowdown in economic activity will continue, the economic recovery will not begin until 2022.
- The above events triggered a fall in the currencies of developing countries, including Kazakhstani Tenge, which depreciated against the US Dollar by more than 15% from 383 to 448 in March 2020.

PLANS FOR 2020

- Maintain a position in the railway freight market
- Ensure the Company’s financial stability
- Organize smooth operation and safe stay of employees at their workplaces

OBJECTIVES

- Maintain the customer base and ensure profitability
- Minimize downtime due to lack of demand
- Optimize current expenses
- Reduce the capital expenditure program
- Liquidity control - elimination of cash gaps
- Continue the work to reduce the Company’s foreign currency liabilities
- Organize trouble-free operations, taking into account the possible re-outbreak of COVID-19 pandemic in the fall of 2020.
- Ensure the safe stay of employees at their workplaces-offices and repair sites
- Strengthen information security due to remote work
РЕГИСТРАТОР
АО «Единый регистратор ценных бумаг»
050040, Республика Казахстан, г. Алматы,
ул. Сатпаева, 30А/3, ЖК «Тенгиз Тауэрс»
Тел.: +7 (727) 272-47-60
E-mail: info@tisr.kz
www.tisr.kz

КОМПАНИЯ
ТОО «Исткомтранс»
050040, Республика Казахстан, г. Алматы,
пр. Аль-Фараби, 77/7, БЦ «Есентай Тауэр», 11 этаж
Тел.: +7 (727) 3-555-111
E-mail: eastcom@ect.kz
www.ect.kz

АУДИТОР
ТОО «ПрайсвотерхаусКуперс»
050059, Республика Казахстан, г. Алматы,
пр. Аль-Фараби, 34, БЦ «AFD», здание А, 4 этаж
Тел.: +7 (727) 330-32-00
www.pwc.kz