

**ANNUAL REPORT OF KTZ-FREIGHT
TRANSPORTATION LLP
BY THE END OF 2021**

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Address of the Chairman of the Supervisory Board

Dear ladies and gentlemen, readers of this Report!

We present to your attention the Annual report on the results of the activities of the largest subsidiary of the National Company "Kazakhstan Temir Zholy" Joint Stock Company (the Company) – KTZ-Feight Transportation Limited Liability Partnership (the Partnership) for the year of 2021.

The report is based on the principles of transparency and completeness of information disclosure for all concerned parties within the established standards of corporate governance.

The trends towards the steady formation of the Partnership as a National cargo carrier on the territory of the Republic of Kazakhstan are strengthened by the joint work of the Supervisory Board and the executive body represented by the Management Board of the Partnership.

The past year was not easy from the point of view of the macroeconomic situation and the development of competition in the market of cargo transportation using various modes of transport. Competition from private cargo carriers has been intensified. However, the National Cargo Carrier accepts these challenges learning the necessary lessons, mobilizing efforts and resources to solve the tasks assigned to it.

Readiness for serious work to expand the volume of transportation, services for customers, to search for non-standard solutions is due to strong positions and broad competencies in the market, as well as the status of a National cargo carrier and qualified personnel.

We have everything to remain the No. 1 choice for our customers in the long term.

In order to ensure effective process management and minimize risks arising from the constantly changing market environment, a Partnership Development Concept will have to be developed and defined in 2022. This Concept will determine the key values of performance indicators and financial stability, including to increase the investment attractiveness of the Partnership as part of the Company's group.

I express my gratitude to our shareholders, clients, investors and partners for effective, progressive cooperation.

I thank the staff of the Partnership as a whole and each individual for their dedication to the profession, striving for development and improving the efficiency of activities for the benefit of the economy of our country – the Republic of Kazakhstan.

Sincerely, Chairman of the Supervisory Board of KTZ-Freight Transportation LLP -

Managing Director for Production Processes of NC "KTZ" JSC

Urynbasarov Bauyrzhan Pazyzbekovich.

Address of the Chairman of the Management Board

Dear shareholders, customers, partners, investors and colleagues!

The KTZ-Freight Transportation Limited Liability Partnership (the Partnership) is currently the largest cargo carrier and locomotive traction operator in the territory of the Republic of Kazakhstan.

The only participant of the Partnership is the National Company "Kazakhstan Temir Zholy" Joint Stock Company.

On September 29, 2017, by the Decree of the Government of the Republic of Kazakhstan, the Partnership was designated as a National Cargo Carrier.

The Partnership is one of the largest employers and taxpayers of Kazakhstan, not only as part of the group of the Sole Participant, but also of the country as a whole.

The main objectives of the Partnership's activities are uninterrupted and high-quality provision of the needs of the economy and the population in the transportation of goods by rail, while ensuring the safety of train traffic and the safety of transported baggage, cargo.

Constantly working to increase the total volume of transportation, the Partnership is a leader in the transportation of socially significant goods, such as coal, grain and milling products, and other food products. At the same time, the Partnership is trying to continuously expand the types of activities - services for our clients.

The main priorities in the Partnership's activities are customer orientation, quality and safety of services provided, social responsibility of business, sustainable development.

The management system of the Partnership is certified for compliance with the requirements of international standards ISO 9001-2016, ISO 14001-2016, ISO 45001-2019, ISO 50001-2019

A reliable support in the implementation of the tasks facing the Partnership is a multi-thousand-strong labor collective, each of our employees. The Partnership strives to improve professional competencies, create the best conditions for work and recreation, provide social guarantees and stability.

In order to inform all concerned parties, as part of the implementation of the corporate governance mechanism, the Partnership has prepared this Report, which is planned to be issued on an annual basis.

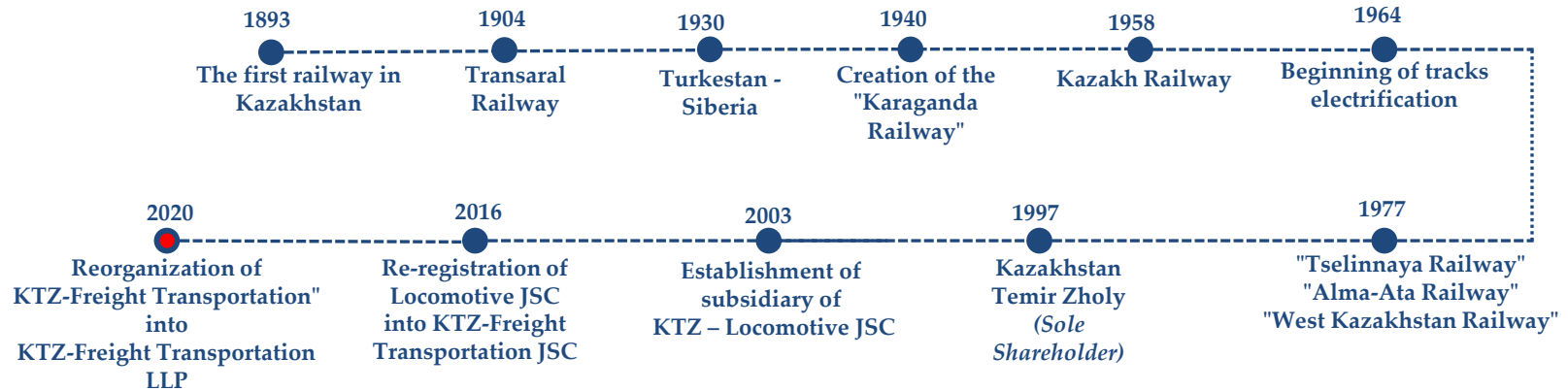
We thank you for your interest in this Report, as well as the activities of our Partnership, and wish you a successful business with confidence for effective cooperation leading to progressive development of the Republic of Kazakhstan.

Sincerely, the General Director (Chairman of the Management Board) of the Partnership
Petrov Vladimir Viktorovich.



About Partnership

History of KTZ-Freight Transportation LLP:



KTZ-Freight Transportation JSC was established on June 15, 2016 by renaming and re-registering Locomotive JSC into KTZ - Freight Transportation JSC.

KTZ-Freight Transportation JSC combined locomotive, wagon, freight and railway transport facilities, as well as the functions of NC "KTZ" JSC for integrated and indicative planning, calculations for freight transportation and international settlements.

KTZ-Freight Transportation JSC began to carry out its activities for the transportation of goods by rail from July 1, 2016.

Resolution of the Government of the Republic of Kazakhstan dated September 29, 2017 No. 608 "On Amendments to the Resolution of the Government of the Republic of Kazakhstan dated December 25, 2004 No. 1389 "On Certain Issues of the National Railway Company and National Carriers" KTZ-FT JSC is defined as the National Carrier for the transportation of goods.

KTZ-Freight Transportation JSC was reorganized into KTZ-Freight Transportation LLP from August 28, 2020, by transformation in accordance with the legislation of the Republic of Kazakhstan, based on the resolution of the Board of NC"KTZ" JSC dated January 14, 2020, Minutes No. 14.

KTZ-Freight Transportation LLP is the legal successor of KTZ-Freight Transportation JSC for all its obligations, in respect of all its creditors and debtors including the obligations disputed by the parties.

KEY ACTIVITIES

- cargo transportation
- transportation process management
- provision of traction rolling stock services
- provision of information services related to cargo transportation
- repair and maintenance of rolling stock

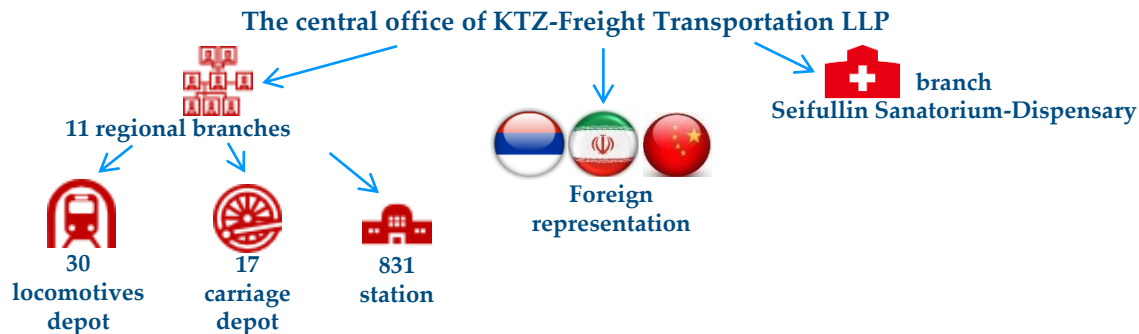
MAIN OBJECTIVES

- revenue extraction;
- uninterrupted and high-quality provision of the needs of the economy and the population in the transportation of goods by rail;
- ensuring the safety of train traffic and the safety of transported baggage, cargo;
- development of trunk and terminal infrastructure of transport corridors;
- increasing the transit potential of the Partnership;
- formation of the functions of a single operator, interaction with operators and owners of rolling stock and provision of rolling stock access to the main railway network

CONSUMER SEGMENTS

- Customers who do not use the services of freight forwarders (large shippers)
- Forwarders
- Operators
- Passenger carriers
- Cargo carriers

Structure of KTZ-Freight Transportation LLP



KTZ-Freight Transportation LLP has 12 branches: Seifullin Sanatorium-Dispensary, 11 branches of KTZ-Freight Transportation LLP including the Iletsk branch of the State Enterprise on the territory of the Russian Federation.

The structure of branches of KTZ Freight Transportation LLP includes: the main operational locomotive depots (TCE) - 30, including turnaround depots (TD) - 27, replacement points of locomotive crews (NTT) – 8;

The main operational car depots (CDC) – 17, including: maintenance points (MP) - 87, control points for maintenance of cars (CPMC) - 28, control posts (CP) - 286, technical transfer points (TTP) -74, interstate junction points (ISJP) - 18, wagon transfer points (WTP) - 2, points of wagons preparation for loading (PWPL) -20, points of washing of wagons - 6, mechanized points of current uncoupling repair of wagons (MPCRW) -12, points of current uncoupling repair (CUR) - 69, points of testing brakes (PTB)-4, auto-control points (ACP)-2;

Stations-831, including: extracurricular-26, 1st class - 46, 2nd class-59, 3rd class-79, 4th class - 161, 5th class – 460.

The Partnership has 528 buildings and structures on its balance sheet.

In accordance with the resolution of the Board of KTZ-Freight Transportation LLP dated October 27, 2020 (Minutes No. 10/03), the Partnership's branch - Passenger Locomotives was renamed to the Partnership's branch - Directorate for the Organization of the Transportation Process. On December 21, 2020, a certificate of registration of a branch of a legal entity was issued.

KTZ-Freight Transportation LLP owns 10.09% of the shares of KTZ-Finance LLC in order to attract borrowed funds in the capital market of the Russian Federation.

Structure of the authorized capital:

The Sole participant of KTZ-Freight Transportation LLP is NC KTZ JSC, which owns one hundred percent of the share in the authorized capital of the Partnership.

The authorized capital of KTZ-Freight Transportation LLP is 52,178,692,000 (fifty-two billion one hundred and seventy-eight million six hundred and ninety-two thousand) tenge.

Staff – 44,894 people



1,519 people .
Administrative and
Managerial
Personnel



41,618 people of
production staff

Fleet of locomotives – 1,678 units



516.5
electric
locomotives



715.5
diesel
locomotives



446
shunting
diesel
locomotives

Partners:



ALSTOM



BOMBARDIER



Main events of 2021

On March 04, 2021, by resolution of the Board of KTZ-Freight Transportation LLP (Minutes No. 03/01), the organizational structure of the branch of KTZ-Freight Transportation LLP - Aktobe branch of FT was approved.

On April 21, 2021, by resolution of the Board of KTZ-Freight Transportation LLP (Minutes No. 04/03), the organizational structure of the branch of KTZ-Freight Transportation LLP - Directorate for the organization of the transportation process was approved.

On May 13, 2021, the authorized body issued a license for the transportation of narcotic and psychotropic substances and their precursors.

The Management Board of NC KTZ JSC (Minutes No. 02/22 dated June 28, 2021) decided to reorganize KTZ-Freight Transportation LLP by allocating KTZ-Passenger Locomotives LLP. Registration with the authorized body was carried out on August 31, 2021.

By resolution of the Supervisory Board of KTZ-Freight Transportation LLP (Minutes No. 5 dated October 20, 2021), it was decided to close the branches of KTZ-Freight Transportation LLP: Kyzylorda branch of FT, Atyrau branch of FT, Magistau branch of FT by joining them to Aktobe branch FT as well as the renaming of Aktobe branch of FT to the Batys branch.



Development strategy

Strategic objectives

KTZ-Freight Transportation LLP in its activities is guided by the Development Strategy of NC "KTZ" JSC until 2029 approved by resolution of the Board of Directors of NC "KTZ" JSC dated September 06, 2019 (Minutes No. 13).

Strategic goals of NC KTZ JSC

1. Removing the Company from the financial risk zone and ensuring financial stability
2. Improving the Company's efficiency
3. Improving customer satisfaction
4. Guaranteeing the safety of train traffic
5. Ensuring the sustainable development of the Company



Strategic objectives of KTZ-Freight Transportation LLP

1. Customer orientation

- Development of the transportation sales function;
- Improving customer satisfaction;
- Improving the efficiency of locomotive traction;
- Improving the efficiency of maneuvering work.

2. Competitiveness

- Deregulation of tariffs for freight transportation and locomotive traction services;
- Optimization of specific fuel and electricity consumption of KTZ-FT LLP;
- Implementation of measures aimed at ensuring the safety of train traffic.

3. Increasing profitability

- Completion of the transformation project "Train Traffic Control Center (reset)";
- Securing the exclusive right to transit transportation for the National Carrier;
- Creation of the optimal target structure of the National Carrier.

4. Sustainable development

- Implementation of the "zero injury" principles;
- Improving social stability;
- Ensuring environmental sustainability.

5. Improving efficiency

- Reduction of the cost of services of KTZ-FT LLP;
- Exit of KTZ-FT LLP to the IPO.

Strategic initiatives of KTZ-Freight Transportation LLP:



MISSION:

We provide transportation of goods and passengers by rail with constant improvement of efficiency, safety, quality of transportation and related services improving the management style and methods at all levels of management.

We benefit consumers and society as a whole by providing safe and competitive transportation services, trying to be an effective partner and service provider in the field of freight rail transportation, providing services for traction rolling stock and its maintenance, as well as a wide range of transport and logistics services.

We are ready to cooperate and interact with all types and links of transport in order to provide the entire range of services to our customers at competitive prices without interruption.

We are constantly finding innovative solutions and improving business processes.

VISION:

Maintain a dominant position in the freight transportation market;

Maintain leadership positions, both in the range of services and their quality, and in economic efficiency due to the high professionalism of the staff, technical standards and advanced management and production processes;

Remain one of the largest employers and taxpayers;

Be a PL provider - effective, attractive to every client, partner and economy of Kazakhstan, acting in accordance with the best business practices and providing a full range of cargo transportation services from the selection of rolling stock to delivery to the destination station and delivery of the car to the client's driveway.



Market Overview

Kazakhstan's economy in 2021:

In 2021, Kazakhstan's economy continued to recover from the impact of the coronavirus pandemic and related restrictive measures.

By the end of 2021, Kazakhstan's GDP grew by 4.1% relative to the level of 2020, positive dynamics was observed in the following sectors of economy:

- construction – 7,6%;
- trade – 9.2%;
- manufacturing industry – 5,6%;
- mining industry – 1,7%;
- transportation and warehousing – 3.6%.

A decrease in growth rates occurred in the agricultural sector – by 2.4%.

In 2021, the volume of Kazakhstan's foreign trade exceeded the level of 2020 by 17.4%, exports increased by 26.9%, imports by 5.8%.

Transport industry of Kazakhstan:

The gradual decrease in the impact of the pandemic on the development of the transport industry has led to an increase in cargo turnover compared to 2020. The easing of quarantine measures and the gradual restoration of international air traffic and passenger trains affected the growth of passenger traffic by air and rail transport. At the same time, there was still a decrease in the indicator in road transport, which affected the decrease in the total passenger turnover in the country.

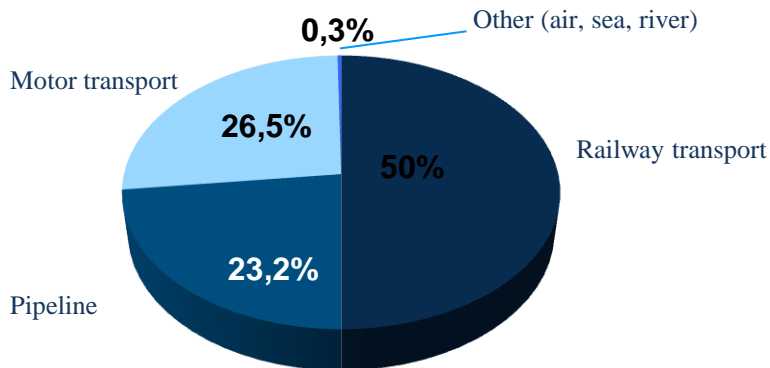
Cargo Transportation Market Overview:

In 2021, according to statistical data from the Bureau of National Statistics under the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan, cargo turnover by all modes of transport amounted to 597,196.2 million t/km, which is 1.5% higher than in 2020. The freight turnover of railway transport, which accounts for half of the total cargo turnover of the country, decreased by 1% and by the end of 2021 and amounted to 299,170.8 million t/km.

In the reporting year, the cargo turnover of air transport increased by 45.4%, pipeline transport - by 11.1%, water transport – by 6.9%.

The largest reduction in cargo turnover was observed in maritime transport – by 12.4%.

**Total market volume (all modes of transport):
597.162 billion t3/m for 2021.**



The main competitors of Railway transport are:

1. Road transport – 26.5% of the total volume of traffic in the Republic of Kazakhstan;
2. Pipeline transport – 23.2% of the total volume of transportation in the Republic of Kazakhstan.



Results of financial and operational activities

Financial Performance Report for 2021

Name	12 months of 2021				12 months of 2022
	plan	fact	deviation		plan
			(+,-)	%	
Total operating Profit	67.8	50.5	-17.3	-25,5%	28.3
EBITDA, KZT bln.	89.1	68.8	-20.3	-22,8%	52.0
Other income/expenses, KZT bln.	-17.7	-14.8	2.9	-17,0%	-29.9
Net income, KZT bln.	38.9	25.4	-13.5	-34,7%	-2.4

The main reasons for the deterioration of the indicators "Net Income", "EBITDA", "Total operating profit" by the end of 2021 are:

- An increase in the cost of payroll budget by 15.2 billion tenge due to a 10% increase in wages for employees from July 01, 2021 (an increase in payroll budget by 10% dated 01.01.2021 is provided for by the plan);
- Increase in fuel costs for train traction – 17.0 billion tenge including 1) failure to reach the planned level of specific diesel fuel consumption for train traction by 1.84 kg / meter (plan 25.4 kg / m, fact 27.24 kg / m) – 7.0 billion tenge; 2) price growth per ton – 8.2 billion tenge.
- Creation of a provision for expected credit losses on accounts receivable in the amount of KZT 7.8 billion.

According to the indicator "Other income / expenses", positive dynamics by 2.9 billion tenge or 17.0%, due to other financial income.

Key operational indicators for 2021:

Indicator (unit of measurement)	2020	2021		execution to:			
		plan	fact	plan		2020	
				(+,-)	%	(+,-)	%
Tariff cargo turnover (million tkm. net), including	231,783	234,992	225,625	-9 367	-4,0%	-6 158	-2,7%
RK	89 804	93 624	82 153	-11,471	-12,3%	-7 651	-8,5%
export	83 469	84 026	81 927	-2 099	-2,5%	-1 542	-1,8%
import	19 497	18 017	21 941	3 924	21,8%	2 444	12,5%
total in regulated messages	192,770	195,667	186,021	-9 646	-4,9%	-6 749	-3,5%
transit	39 013	39 325	39 604	279	0,7%	591	1,5%
Locomotive performance (thousand t/km gross)	1 857	1 862	1 796	-65.7	96,47%	-60.7	96,73%
Average daily mileage (km)	654	654	627	-27.2	95,84%	-27.7	95,76%
Local speed (km/h)	43.75	43.83	41.57	-2.26	94,85%	-2.18	95,02%

Factors:

-Due to increasing the share of traffic volumes by private carriers;
 -Decrease in traffic volumes due to the introduction of quarantine measures in the form of restrictions on the reception of goods at border crossings with China ;
 -Low grain harvest in 2021.

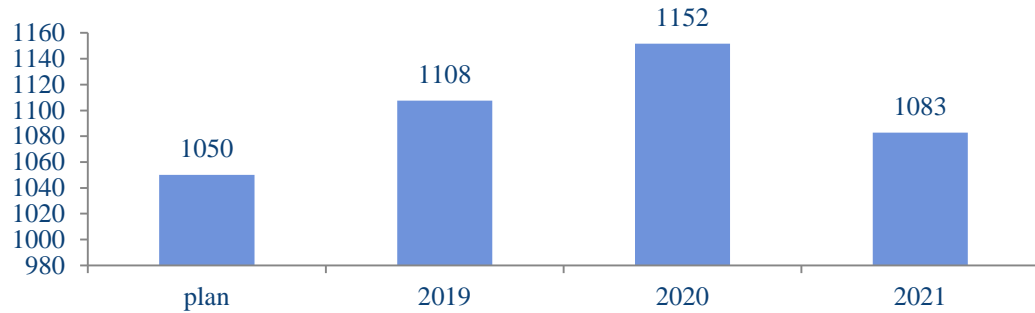
Factors:

The non-fulfillment of the indicator is due to a decrease in the average daily mileage of the locomotive and the local speed due to the growth of trains delayed from movement, including due to the untimely reception by the China and the strengthening of quarantine measures (COVID-19) and a decrease in the average weight of the train due to an increase in the passage of container trains with a low degree of use of the load capacity of wagons through the KZ territory.

Factors:

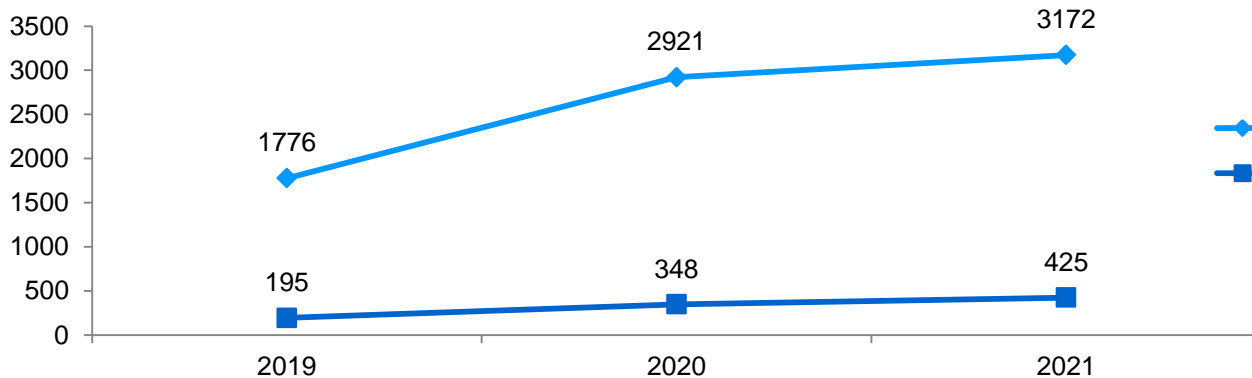
The decrease is due to an increase in the workload of the infrastructure (an increase in the number of trains left behind, an increase in the volume of traffic, warnings on speed limits in the conditions of technological "windows" for the overhaul of the track);

Container transportation: Fulfilling the speed of container trains in the direction of China – Europe for 2019-2021, km/day



Setting the speed according to the Action Plan to implement the "Nurly Zhol" State Program of Infrastructure Development for 2020 – 2025 - **1050 km/day**
Implementation to the plan was 103.2%

Actual speed for 2021 was
1,083 km/day.



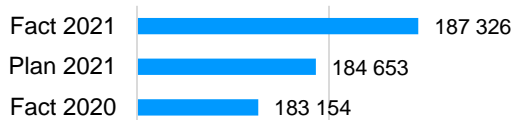
◆ number of container trains
■ number of transported TEUs, thous.

Information on fuel and energy consumption for train traction

Dynamics of changes in the specific consumption of diesel fuel

Indicator	Fact 2020	Plan 2021	Fact 2021	deviation by 2021 plan (+/-)	deviation by 2021 plan (%)	deviation by 2020 fact (+/-)	deviation by 2020 fact (%)	Result to plan 2021 (tons)	Result by plan 2020 (tons)
Work, million t/km br.	183,154	184,653	187,326	2 673	1,4%	4 171	2,3%	41 233	16 851
Consumption of diesel fuel, tons	482,465	469,071	510,304	41 233	8,8%	27 840	5,8%		
Specific consumption (kg/m)	26.34	25.40	27.24	1.84	7,2%	0.9	3,4%		

Work mln.tkm.br



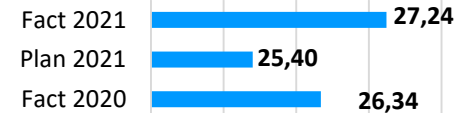
Deviation by 2020 +4,171 (+2.3%), by 2021 +2,673 (+1.4%)

Diesel fuel consumption (tons)



Deviation by 2020 +27,840 tons (+5.8%), by 2021 plan +41,233 tons (+8.8%)

Specific fuel consumption (kg/meas.)



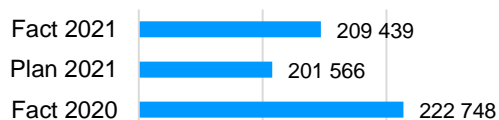
Deviation by 2020 +0.9 kg/m (+3.4%), by 2021 plan +1.84 kg/m (+7.2%)

In 2021, in comparison with 2020, the specific consumption of diesel fuel increased by 0.9 kg/m, to the approved targets, the specific consumption of diesel fuel increased by 1.84 kg/m.

Dynamics of changes in specific electricity consumption

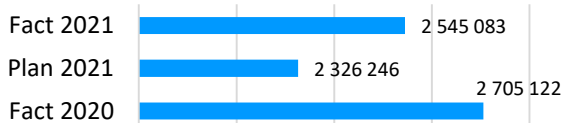
Indicator	Fact 2020	Plan 2021	Fact 2021	deviation by 2021 plan (+/-)	deviation by 2021 plan (%)	deviation by 2020 fact (+/-)	deviation by 2020 fact (%)	Result to the plan of 2021 thousand kWh	Result to the plan of 2020 thousand kWh
Work, million t/km br.	222,748	201,566	209,439	7 873	3.9	-13,309	-6.0	218,837	1 588
Electricity consumption, thousand kWh	2 705 122	2 326 246	2 545 083	218,837	9.4	-160 039	-5.9		
Specific consumption (kWh/ism)	121.44	115.41	121.52	6.11	5.3	0.08	0.06		
Percentage of contact network losses	8.41	8.0	7.73	0.73	10.4	-0.68	-8.08		

Work mln.tkm.br



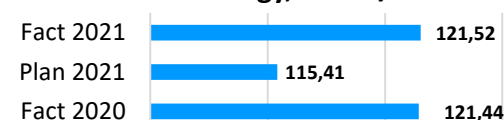
Deviation by 2020 – 13,309 (- 6.0%),
by 2021 plan +7,873 (+3.9%)

Electricity consumption, thousand kWh



Deviation by 2020 -160,039 thousand kWh (-5.9%),
by 2021 plan +218,837 thousand kWh (+9.4%)

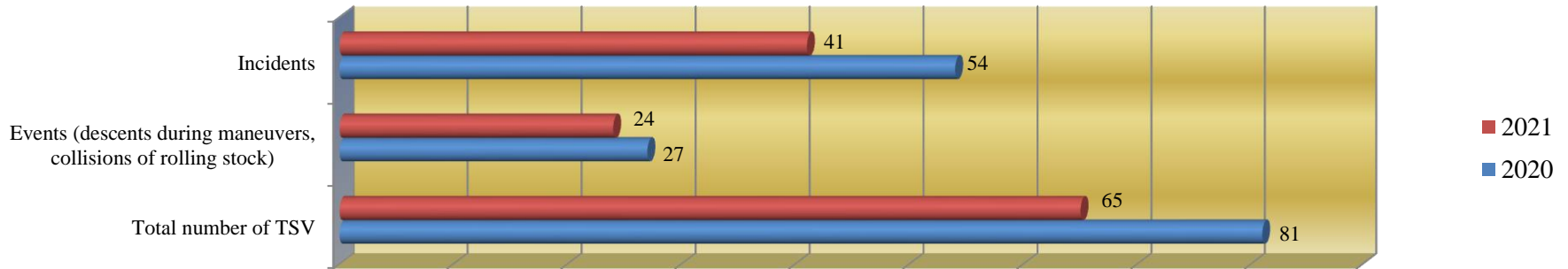
Specific consumption of electric energy, kW*h/meas.



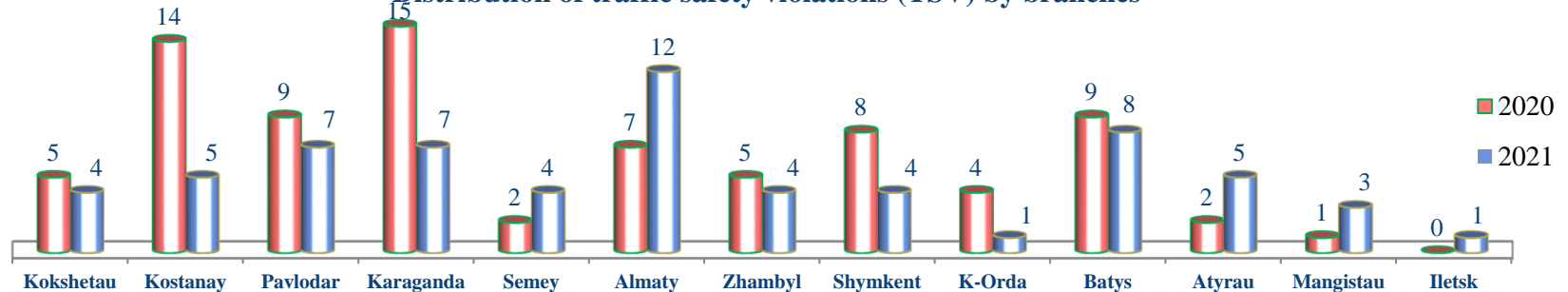
Deviation by 2020 +0.08 kWh/ism (+0.06%),
by 2021 plan + 6.11 kWh/ism (+5.3%)

In 2021, in comparison with 2020, the specific electricity consumption was increased by 0.08 kWh/m, to the approved planned indicators, the specific electricity consumption was increased by 6.11 kWh/m.

Traffic safety status by the end of 2021



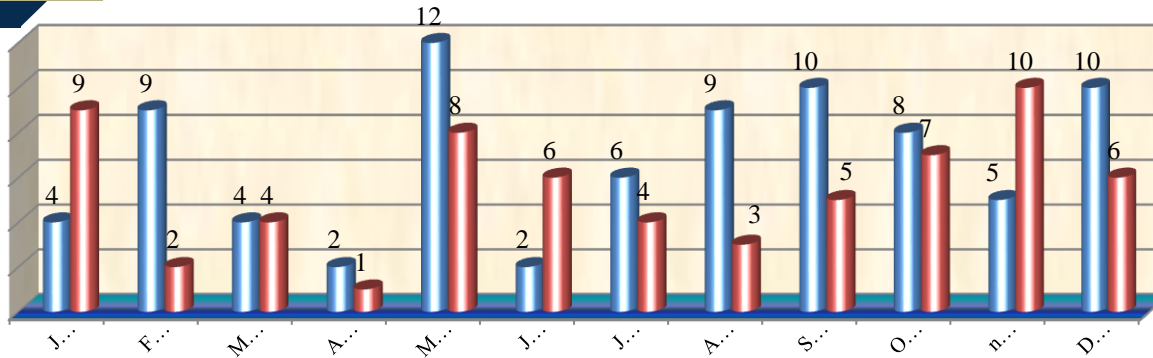
Distribution of traffic safety violations (TSV) by branches



The following freight departments admitted the largest number of TSVs: Almaty – 12 cases.; Aktobe - 8 cases; Pavlodar and Karaganda - 7 cases; Kostanay and Atyrau - 5 cases; Akmola, Semey, Zhambyl and Shymkent - 4 cases; Mangystau - 3 cases; Kyzylorda and Iletsk - 1 case each.

According to the severity (**of the case**), the following FT departments admitted the largest number of TSVs: Almaty – 7 cases; Pavlodar, Karaganda and Semey - 3 cases; Atyrau - 2 cases; Akmola, Kostanay, Zhambyl, Aktobe, Mangystau and Iletsk - 1 case each.

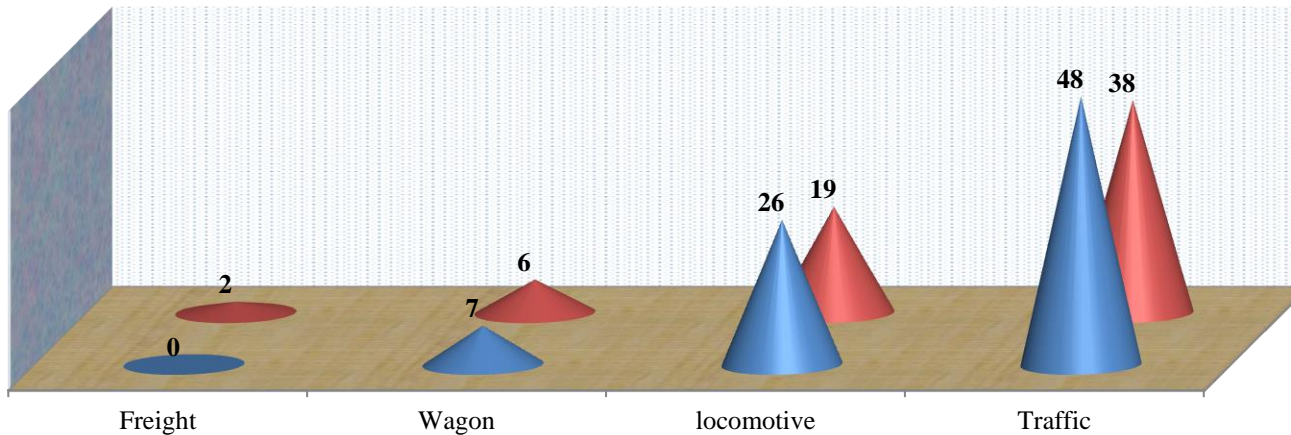
Comparative diagram of traffic safety violations (TSV)



The largest number of TSV was admitted in 2021:

- Q1 (January);
- Q2 (May);
- Q3 (September);
- Q4 (November)

■ 2020
■ 2021

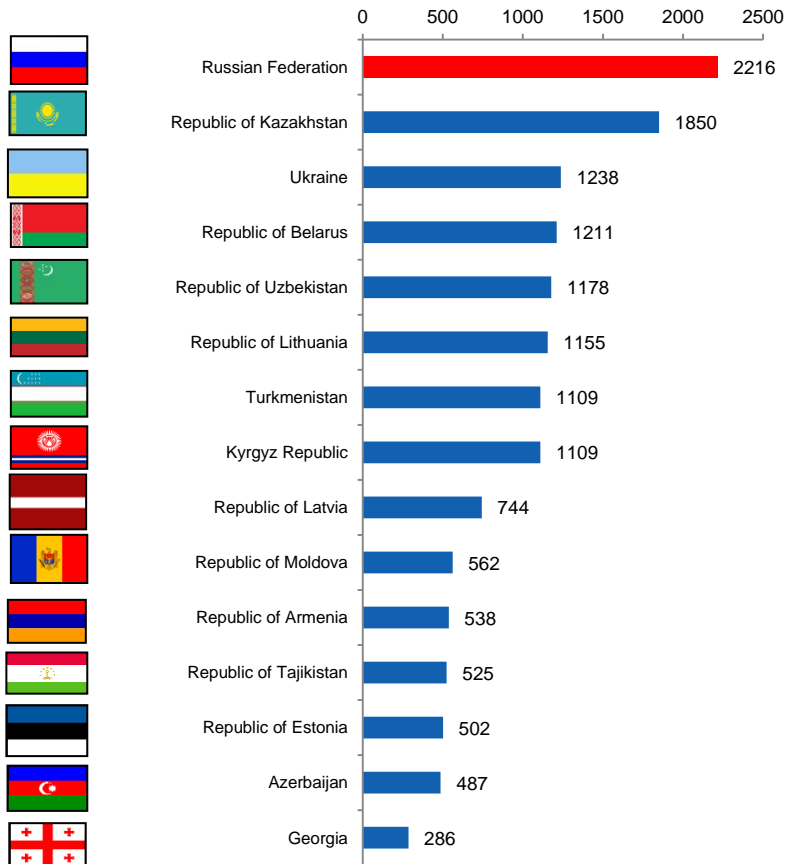


■ 2020
■ 2021

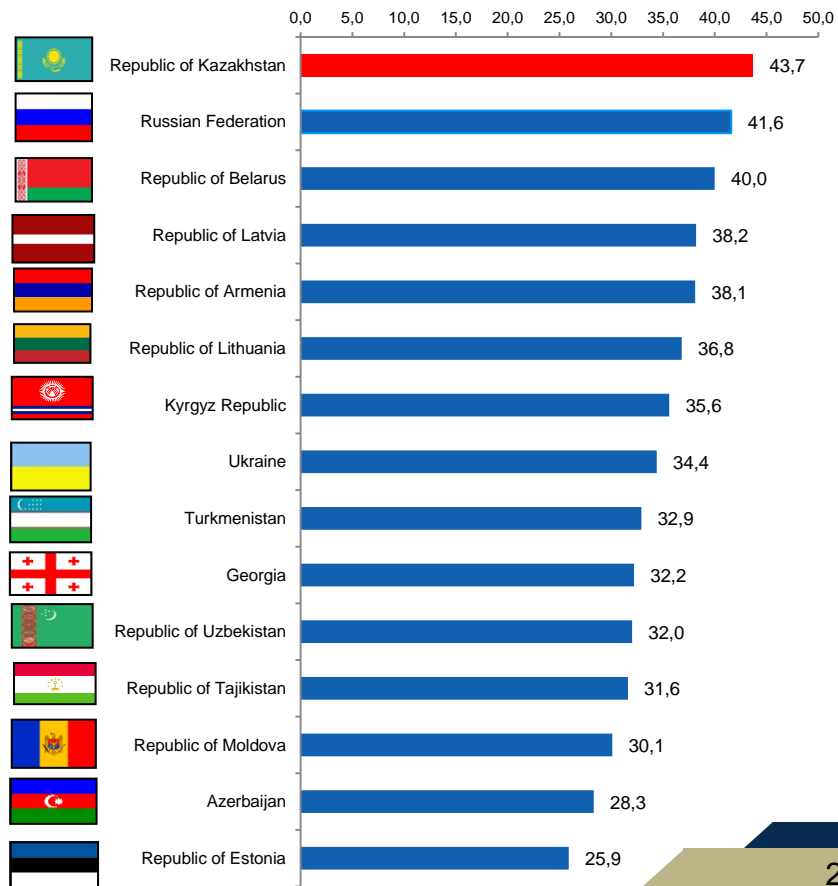
for the economy of the movement 38 cases vs 48 cases in 2020 (18 cases and 20 incidents);
 for the locomotive industry, 19 cases vs. 26 cases in 2020 (5 cases and 14 Incidents);
 for the carriage economy, 6 cases vs. 7 cases in 2020 (1 case and 5 Incidents);
 for cargo work - 2 cases Incidents versus 0 in 2020.

Benchmarking

Average daily performance of a locomotive, thousand tkm gross



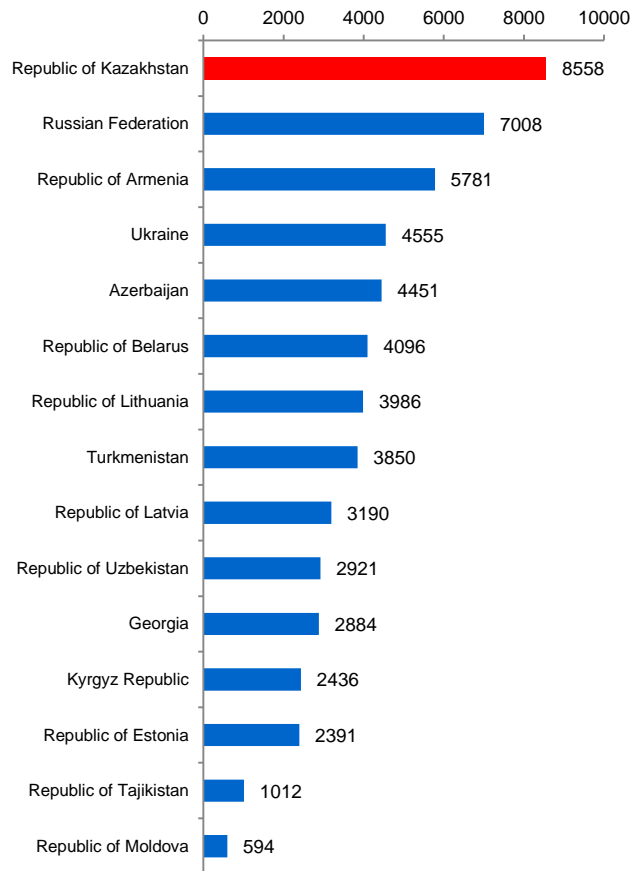
Average sectional speed of a freight train of all types of traction, km/h



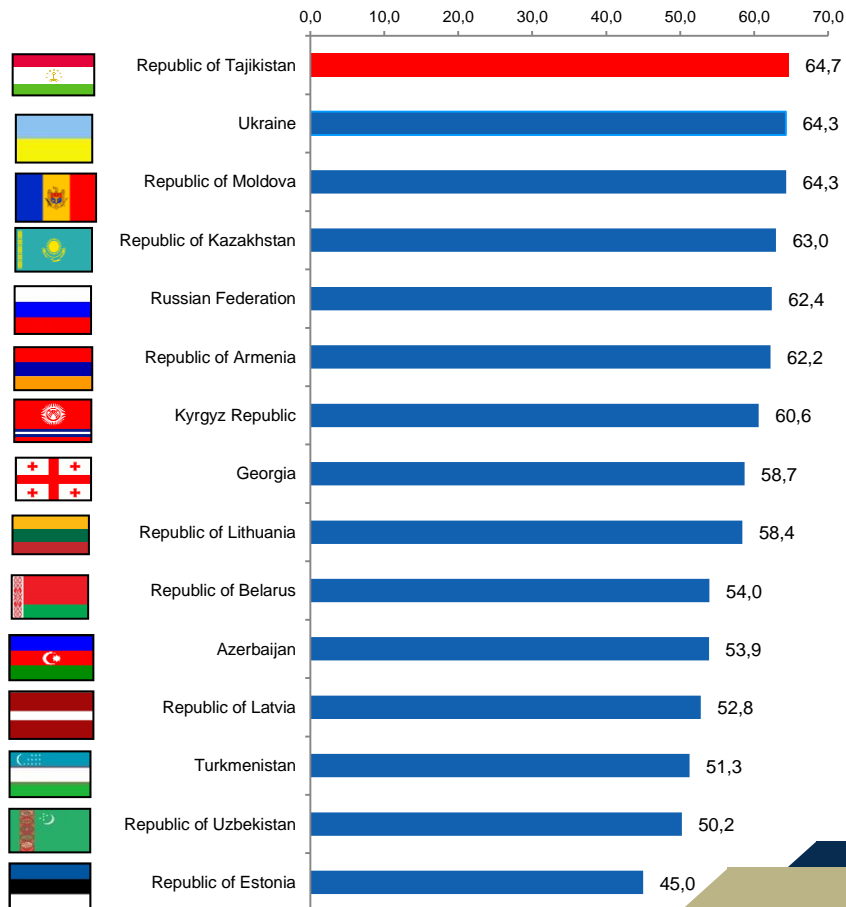
Source of information: Statistical data Direction of the Council for Railway Transport of the Commonwealth Member States

Benchmarking

Average daily productivity of a freight car, thousand tkm net



Average static load of the car, tons





Corporate governance of the Partnership

Corporate governance in KTZ-Freight Transportation LLP:

KTZ-Freight Transportation LLP is aware of the importance of improving corporate governance and strives to ensure openness and transparency of activities, as well as the practical implementation of the basic principles of the Corporate Governance Code.

Corporate governance structure in KTZ-Freight Transportation LLP:

The Sole participant of KTZ-Freight Transportation LLP is NC KTZ JSC, which owns one hundred percent of the share in the authorized capital of the Partnership. The Sole participant has the rights provided for by the legislation and the Charter.

**Government
of the Republic of
Kazakhstan:**



The Sole shareholder of NC "KTZ" JSC is National Welfare Fund "Samruk-Kazyna" JSC (Fund), the founder and sole shareholder of which is the Government of the Republic of Kazakhstan.

Membership of the Supervisory Board KTZ-Freight Transportation LLP as of 31.12.2021



Kassymbek Ardak Mahmuduly
Member of the Supervisory Board

For more than 15 years he worked in leadership positions, as a member of the Board of Directors in the oil and gas sector.

- 2017-2018 General Director of "PROTALENT" LLP;
- 2018-2019. Chairman of the Management Board of Kazyna Capital Management JSC (subsidiary of NMH "Baiterek");
- 2018-2019. Member of the Board of Directors (representative of Samruk-Kazyna JSC);
- 2018. Member of the Board of Directors of Tauken-Samruk JSC;
- 2018. Member of the Board of Directors of Kazatomprom JSC;
- 2018-2019. Member of the Board of Directors Chairman of the Board of Directors of Baiterek Venture Fund (subsidiary Fund of Kazyna Capital Management JSC);
- 2018-2019. Chairman of the Supervisory Board of BV Management (subsidiary Fund of Kazyna Capital Management JSC);
- 2021- present Member of the Supervisory Board of KazCloud LLP (representative of Samruk-Kazyna JSC);
- 2021- currently a member of the Board of Directors (representative of the sole shareholder) in KTZ – Freight Transportation JSC, KTZ Express JSC, Kedentranservice JSC.



Yelyubaev Kurman Islamovich
Member of the Supervisory Board

- 1981 – 2016. Service in the ranks of the CSS of the USSR, the CNS of the Republic of Kazakhstan; Head of the CNS Department for Astana;
- 2019 – currently Director of the Corporate Security Department of NC KTZ JSC.



Duzbayeva Meiramkul Altynbekovna
Chairman of the Supervisory Board

- 1994 - 2000 – Deputy Chairman of the State Property and Privatization Committee under the Ministry of Finance of the Republic of Kazakhstan;
- 2000 - 2002 – Director of KazakhOil-Products LLP, Executive Director for Investment Projects, Advisor to the President of KazakhOil NOC CJSC;
- 2002 - 2003 – Advisor to the General Director of the Caspian Industrial and Financial Group LLP;
- 2003 – 2006 – Executive Director for Corporate Development, Advisor to the First Vice President of NC KazMunayGas JSC;
- 2006 - 2007 – Director of the Strategy and Corporate Management Department of "Samruk" Kazakhstan Holding for the State Assets Management JSC;
- 2008 - 2015 – First Deputy General Director, General Director of Mercury Service Company LLP;
- 2009-2013 – General Director of TEK – Kazakhstan LLP;
- 2013 - 2016 – Member of the Management Board – Deputy Chairman of the Management Board of "Atameken" NCE RK;
- 2016 to the present – member of the Presidium of "Atameken" NCE RK;
- 2016 - 2017 – General Director of Kamkor Management LLP;
- 2017 – 2018 – General Director of Silkway Transit LLP;
- since December 2018 – Managing Director for Development of NC "KTZ" JSC.



Omarbekova Sholpan Sapargalievna
Member of the Supervisory Board

- 1991 – 2000. Economist Institute of Economics under the National Academy of Sciences of the Republic of Kazakhstan, •• 2000 – 2002. Chief Specialist of Kazgipromzhelektortrans JSC.
- 2002-2010. Financial Director, Vice President, Managing Director, Vice President for Finance, Vice President for Economics and Finance of Kaztranservice JSC;
- 2010 – present NC "KTZ" JSC, Director of the Tariff Policy Department, Vice President for Economics and Finance, Managing Director for Economics, Vice President, Financial Controller - Director of the Treasury Department, Financial Controller, since 03/08/2020 - Financial Director.



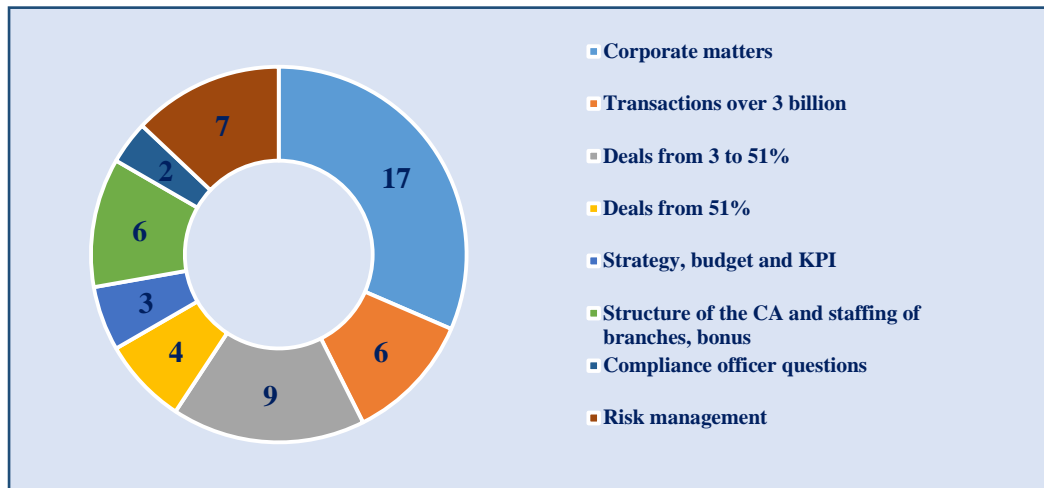
Smolina Alexandra Alexandrovna
Member of the Supervisory Board

- 2008 – 2009 intern, lawyer PU "Unified Personnel Development Center",
- 2009 – 2011 Lawyer of PU "Corporate University "Samruk-Kazyna",
- 2011-2019 Lawyer, Senior Lawyer, Leading Lawyer, Deputy Director, Director of the Department of International Contracts, Director of the Department of Legal Support of Large Oil and Gas Projects of KazMunayGas JSC;
- 2019-2020 Director of the Legal Department of Passenger Transportation JSC;
- 2020 – present Director of the International Contracts Department NC "KTZ" JSC.

Note:

On December 9, 2021, by resolution of the Board of Directors of NC "KTZ" JSC (Minutes No. 15), the powers of a member of the Supervisory Board, O.Kulakov, who previously held the position of Deputy Chairman of the Management Board for Freight Traffic of NC "KTZ" JSC, were terminated.

Issues considered at the meetings of the Supervisory Board:



In 2021, the Supervisory Board held 8 meetings, including 7 meetings in person, and 1 meeting in the form of absentee voting.

At the meetings of the Supervisory Board held in 2021, 54 issues were considered in various areas of activity of KTZ – Freight Transportation LLP.

The most important issues were considered at meetings held in person.

The information on the participation of the members of the Supervisory Board at the meetings of the Supervisory Board for the reporting period is presented below:

The Chairman of the Supervisory Board - Duzbayeva Meiramkul Altynbekovna, participated in 8 meetings out of 8 held.

Members of the Supervisory Board:

Omarbekova Sholpan Sapargalievna - participated in 8 meetings out of 8 held.

Kassymbek Ardak Mahmuduly - participated in 8 meetings out of 8 held.

Smolina Alexandra Alexandrovna - participated in 7 meetings out of 8 held, 1 meeting was missed due to a business trip.

Yelyubaev Kurman Islamovich - participated in 8 meetings out of 8 held.

Process of selection of Members of the Supervisory Board and competence:

The election of the Supervisory Board of KTZ-Freight Transportation LLP is carried out in accordance with the Rules for the formation of the membership of boards of directors/supervisory boards and the payment of remuneration and reimbursement of expenses to members of the board of directors/supervisory boards of subsidiaries of NC KTZ JSC approved by resolution of the Board of Directors of NC "KTZ" JSC dated December 24, 2021 (Minutes No. 16).

The main business processes of KTZ–Freight Transportation LLP are assigned to the members of the Supervisory Board in the following areas:

Chairman of the Supervisory Board Urynbasarov Bauyrzhan Pazyzbekovich

- Operational work and production indicators
- Industrial safety and environmental protection

Member of the Supervisory Board

Akhmetzhanov Anuar

- Strategic and organizational development
- Digitalization and efficiency
- Improving corporate governance

Member of the Supervisory Board Kassymbek Ardak Mahmuduly

- Compliance management
- Financial management

Member of the Supervisory Board Kakimov Askhat Samayevich

- Economics and budgeting
- Risks and internal controls

Member of the Supervisory Board Yernazarov Ilyas Bakhytzhonovich

- Legal support
- Personnel and social policy
- Anti-corruption policy

Member of the Supervisory Board Rakhimbekov Askar Nuridenovich

- Asset Management

Note:

On April 26, 2022, by resolution of the Supervisory Board of KTZ-Freight Transportation LLP (Minutes No. 15), the distribution of business processes supervised by members of the Supervisory Board of KTZ-Freight Transportation LLP was approved.

Membership of the Board of KTZ-Freight Transportation LLP as of 31.12.2021



Petrov Vladimir Viktorovich
Chairman of the Management Board

From July 1991 to April 2014 – held various positions from assistant compiler to first deputy of the branch of NC "KTZ" JSC - "Aktobe branch of the road".
From April 2014 to July 2016, Director of the branch of NC "KTZ" JSC - "Directorate of the transportation process".
From July 2017 to July 2018, he held the position of Chief Engineer, Vice President for Integrated Planning and Informatization, Executive Director for Integrated Planning, Executive Director for Operational Work of KTZ - Freight Transportation JSC.
From July 2018 to February 2019, Director of the branch, Chief Manager of the Marketing Department of the branch of KTZ Express JSC - "KTZE Operator".
From February 2019 to November 2020, the Chief Manager of Kaztemirtrans JSC.
From November 2020 to June 2021, Deputy General Director for Marketing and Planning of KTZ - Freight Transportation LLP.
Since June 2021, he has been appointed Acting General Director of KTZ-Freight Transportation LLP



Kobesov Kanat Kerimovich
Member of the Management Board

From January 2015 to January 2016 - Director of the Department for Formation of the Transit Policy Income Plan of the branch of NC "KTZ" JSC - Integrated Planning Directorate.
From January 2018 to December 2020 – General Director of Nurlı Zhol Trade LLP.
In December 2020, he was appointed Deputy General Director - Chief Engineer of KTZ-Freight Transportation LLP



Kaldybatyr Nurzhan Sarsembayevich
Member of the Management Board

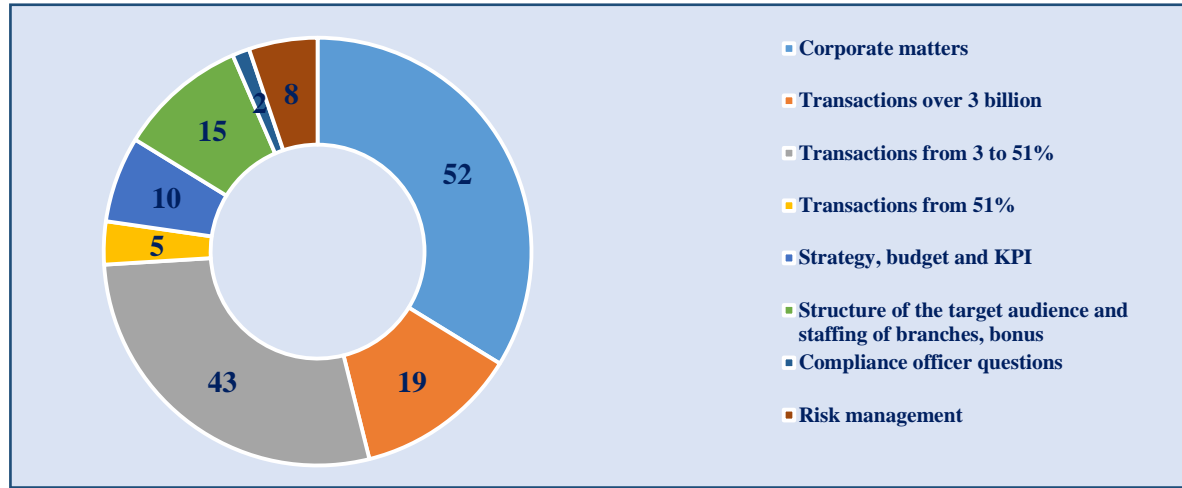
Since 2014 – Deputy Director of the Human Resources Management and Remuneration Department of NC "KazMunayGas" JSC.
Since 2017 – Deputy General Director of Oil Construction Company LLP
Since June 2019 – Managing Director for Administrative Affairs of Kaztemirtrans JSC.
In November 2020, he was appointed Deputy General Director for Corporate Affairs of KTZ-Freight Transportation LLP.



Imashev Alzhan Berikovich
Member of the Management Board

From January 2016 to May 2018 – Deputy General Director for Corporate Development of Pavlodar Petrochemical Plant LLP.
From May 2018 to September 2018 – Deputy General Director for Corporate Functions of Pavlodar Petrochemical Plant LLP.
From September 2018 to July 2019 – Deputy Chairman of the Management Board for the Corporate Center of Kazakhstan Petrochemical LLP
From July 2019 to November 2020 – Chairman of the Management Board of KLPE LLP
In November 2020, he was appointed Deputy General Director for Economics and Finance of KTZ-Freight Transportation LLP

Issues considered at Board meetings:



In 2021, the Board held 32 meetings.

At the Board meetings held in 2021, 154 issues were considered in various areas of activity of KTZ-Freight Transportation LLP.



**Information on compliance with the requirements
of the Corporate Governance Code and the Code of
Ethics and Conduct**

Information of KTZ-Freight Transportation LLP

on compliance with the principles and provisions of the Corporate Governance Code of NC KTZ JSC for 2021:

By resolution of the Board of the National Welfare Fund "Samruk-Kazyna" Joint Stock Company (the Fund) Minutes No. 22/15 dated May 27, 2105, the Corporate Governance Code (the Code) was approved for legal entities with one hundred percent of the voting shares (participation shares) belonged to the Fund as mandatory for the application of the corporate standard.

The objectives of the Code are to improve corporate governance in the Fund and organizations; ensure transparency of management; confirm the commitment of the Fund and organizations to follow the standards of good corporate governance.

According to the analysis results, 87% of the provisions of the Code are observed in practice in KTZ-Freight Transportation LLP, another 4% of the provisions of the Code are partially observed (with explanation of the reasons) and 0.3% of the provisions are not currently observed. 8% of the provisions of the Code are not applicable to the activities of KTZ-Freight Transportation LLP.

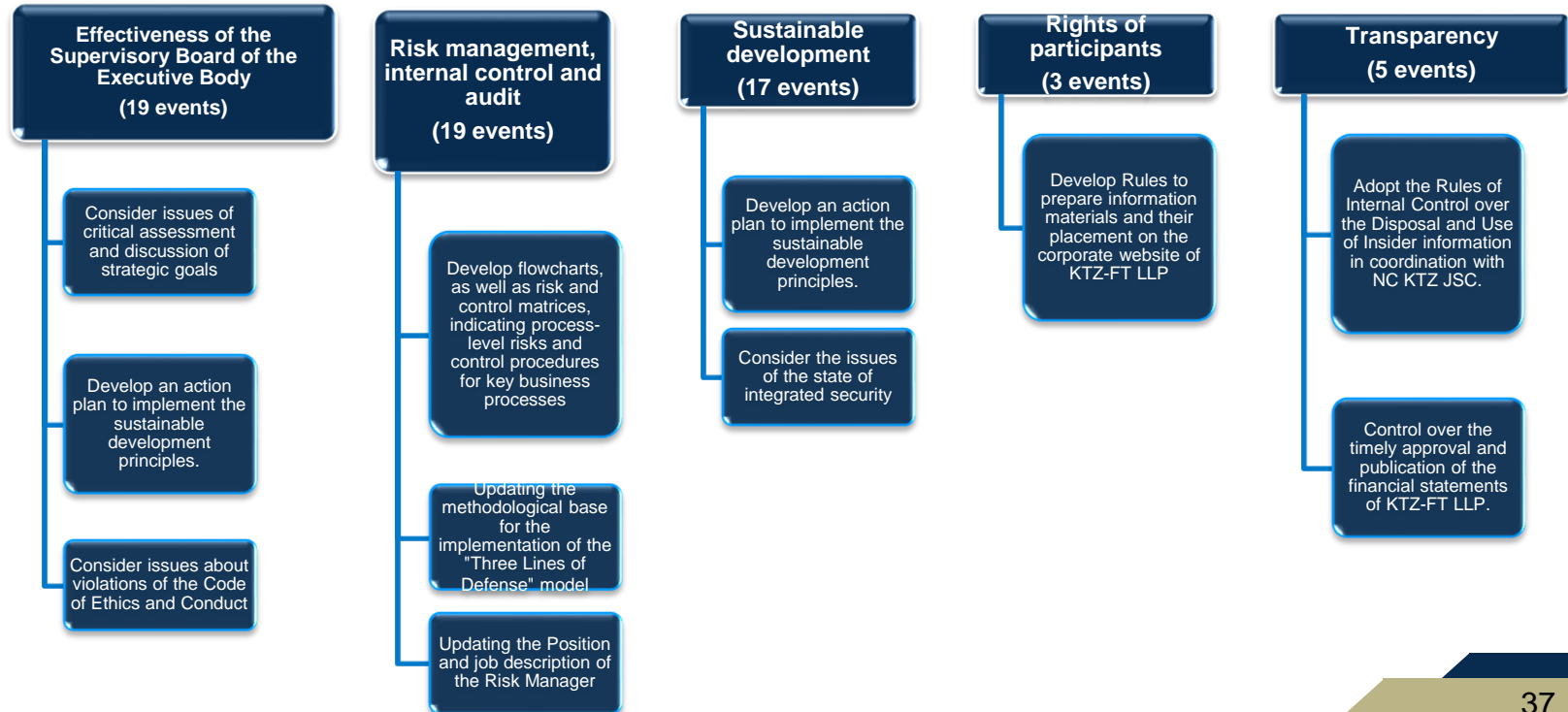
In general, it should be noted that according to the report analysis results, it was revealed that the fundamental principles and provisions of the Corporate Governance Code are observed by KTZ-Freight Transportation LLP. There is sufficient evidence that the main provisions of the Code are being implemented and meet the expectations of the Sole Shareholder.

On the implementation of plans to improve corporate governance:

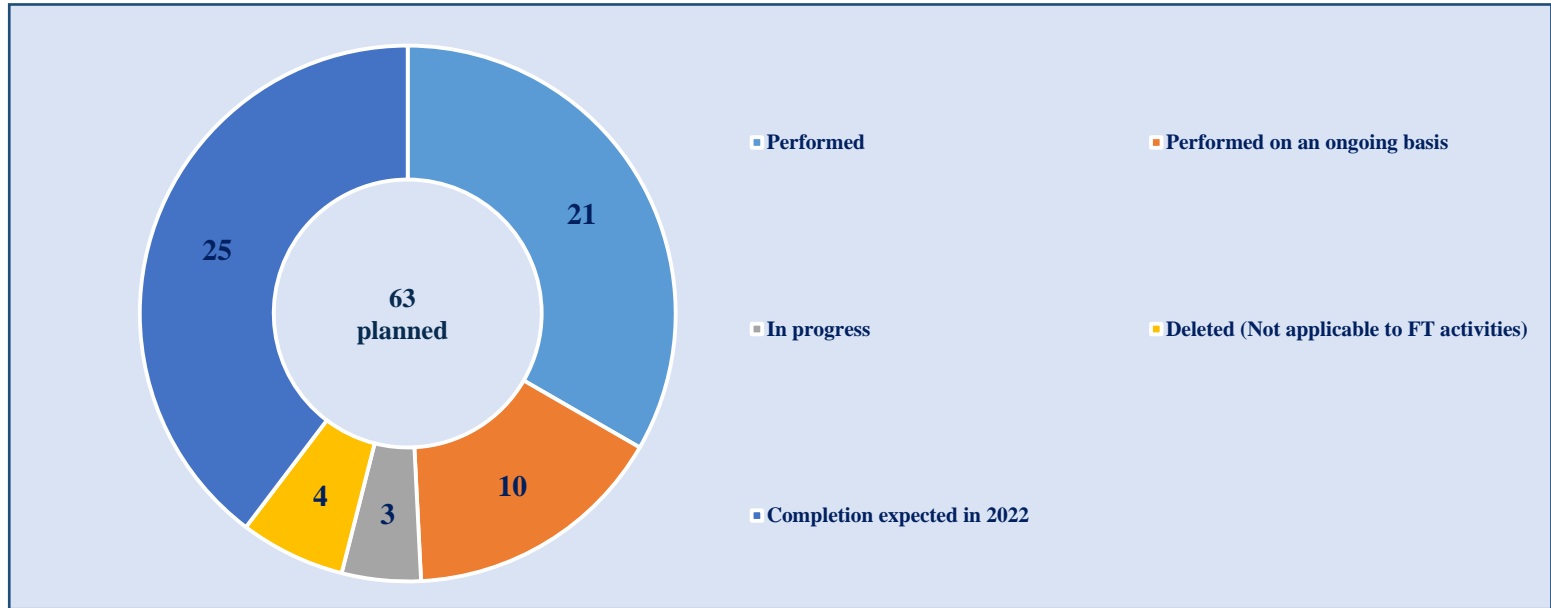
Action plan for improvement
of corporate governance system for 2021-2022.

The plan was developed in accordance with the comprehensive plan for improving corporate governance in subsidiaries of NC KTZ JSC for 2021-2022 Minutes No. 02/28 and approved by the Supervisory Board of KTZ-Freight Transportation dated October 20, 2021 Minutes No. 5, Issue No. 4.

The objectives of the action plan are to improve corporate governance, ensure transparency of management, and confirm commitment to follow the standards of good corporate governance.



Current implementation of the improvement action plan of corporate governance system for 2021-2022.




Code of Ethics and Conduct:

KTZ-Freight Transportation LLP is guided by the Code of Ethics and Conduct of NC KTZ JSC and its subsidiaries approved by resolution of the Board of Directors of NC KTZ JSC dated September 20, 2019, Minutes No. 14.

The purpose of the Code is to become a leader among similar companies in terms of sustainable development, quality and economic efficiency of the services provided by improving business processes, digitalizing activities and increasing the professionalism of employees. Also for the development of corporate culture and strengthening the Company's reputation as an open and honest market participant.

On December 27, 2021, Minutes No. 8 (Issue No. 6) approved by resolution of the Supervisory Board of KTZ-Freight Transportation LLP: "Anti-Corruption policy" aimed at minimizing the risk of involvement of officials and employees of the Partnership, regardless of their position, in corruption activities.

On December 27, 2021, Minutes No. 8 (Issue No. 7) approved by resolution of the Supervisory Board of KTZ-Freight Transportation LLP: "Policy on prevention and settlement of conflicts of interests of officials and employees" aimed at preventing conflicts of interests, it is one of the key mechanisms for combating corruption.



Integrated management system and corporate risk management system

INTEGRATED MANAGEMENT SYSTEM (IMS)

confirmed by certificates of compliance with the requirements of international standards:

ISO 9001-2016 "Quality management systems. Requirements"

ISO 14001-2016 "Environmental management systems. Requirements and application guidelines"

ISO 45001-2019 "Occupational safety and health management systems. Requirements and application guidelines"

ISO 50001:2019 "Energy management systems. Requirements and application guidelines"

Scope of certification of KTZ - Freight Transportation "Cargo transportation in the field of railway transport"



IQNet - Association of National Management System Certification Bodies



Quality Austria – international certification body

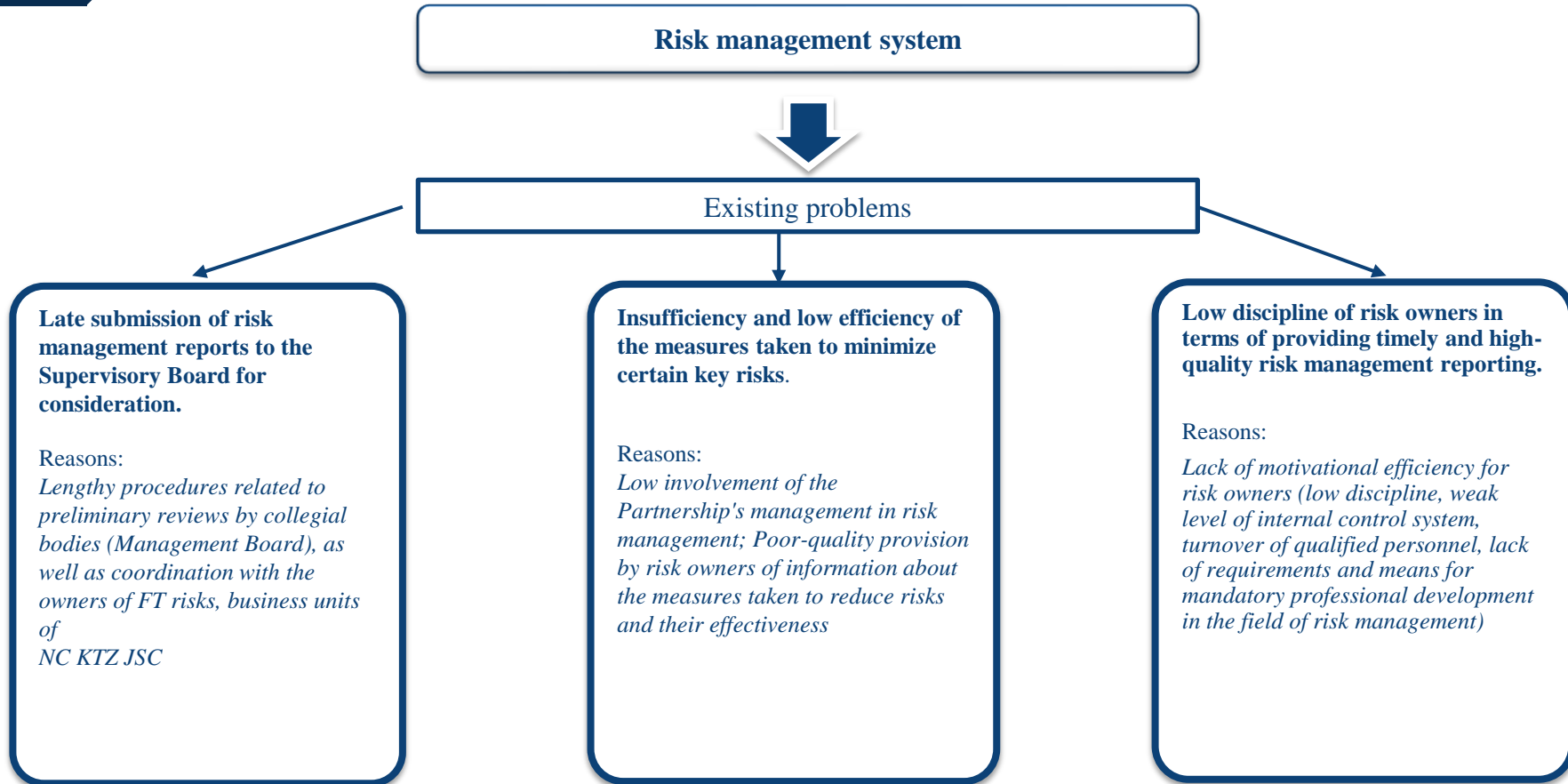


EUROASIA MS LLP - a conformity assessment body accredited in the Republic of Kazakhstan

Organization and implementation of work in the field of corporate risk management system for 2021

- ❑ The transition to proactive risk management has been implemented;
- ❑ The Manual on the Internal Control System (*for the implementation of the ICS activities*) has been developed and approved (resolution of the SB as of 26.11.2021, Minutes No. 7);
- ❑ The Risk Management and Internal Control Policy has been developed and approved (*defines the principles and approaches of risk management*) (resolution of the SB as of 26.11.2021, Minutes No. 7);
- ❑ Risk appetite, key risk indicators with risk tolerance levels have been developed and approved (resolution of the SB as of 26.11.2021, Minutes No. 7).
- ❑ A consolidated risk register, a map of inherent risks, and an action plan to minimize critical risks for 2022 have been developed and approved (resolution of the SB as of December 27, 2021, Minutes No. 8);
- ❑ Identification and assessment of risks was carried out (risk register and risk map for 2022 – slide 22) (*in order to identify potential risks affecting the achievement of the goals of the Partnership, updated in the form of a risk register, risk maps*);
- ❑ Work was carried out to describe the main business processes and develop the flowcharts, risk matrices and controls of the regulatory schedule for the movement of passenger and commuter trains (including private ones), container and freight trains; marketing plan for transportation in domestic and international communications; formation and approval of the capital investment plan, etc. (resolution of the Management Board dated December 30, 2021, minutes No. 12/05);
- ❑ An anonymous survey of employees of stations, operational locomotive depots and car depots was conducted (*questions were raised regarding the quality of workwear, personal protective equipment, remuneration system, payments of allowances and bonuses, quality of office equipment, compliance with the code of ethics and conduct, identification of corruption risks, etc.*);
- ❑ Appropriate measures have been considered and taken following the results of hearing quarterly risk management reports describing and analysing key risks (*agreed with the Risk Management and Internal Control Department of NC KTZ JSC*);
- ❑ Expert opinions were prepared with recommendations on increasing liabilities, concluding major transactions, on insurance issues, coordinating the budget and the Development Plan of the Partnership and other issues.

Significant shortcomings of the corporate risk management system



Risk map for 2021 (inherent risks)

The Consolidated Risk Register of the Partnership (the Register) has been developed in accordance with the Rules of Identification and Risk Assessment of KTZ–Freight Transportation JSC approved by resolution of the Board of Directors of KTZ–Freight Transportation dated June 1, 2018, Minutes No. 4.

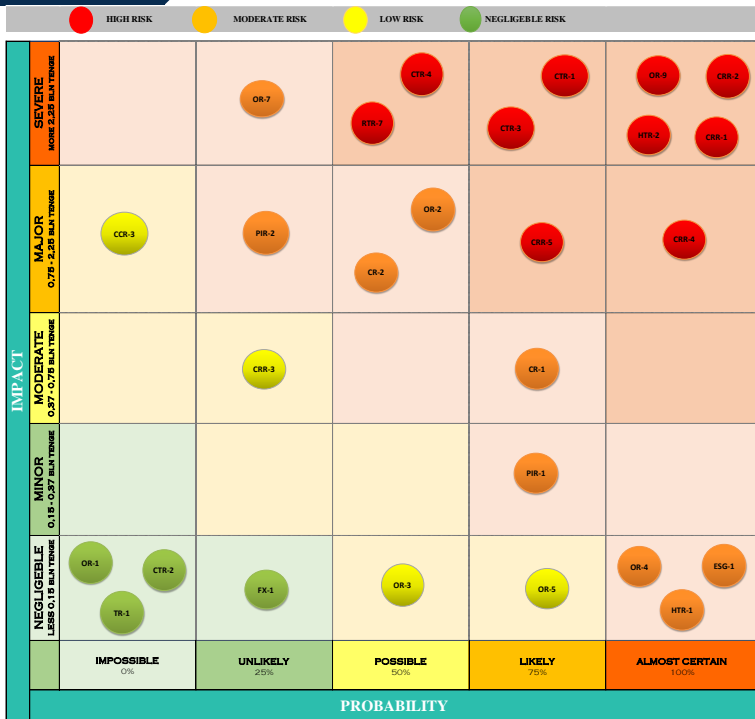
The register is a list of risks faced by the Partnership in the course of its activities, contains complete information about the risks (inherent risks). The presented draft register consists of 29 most significant identified risks.

The assessment of inherent risks is carried out taking into account the risk in terms of probability, impact and time of impact of the risk.

Facilitate the assessment of the significance of each risk in comparison with other risks, the risks are displayed graphically and form a Map of the inherent risks. The map shows probability or frequency on the horizontal axis, and impact strength or significance on the vertical axis.

The map of inherent risks allows to identify critical risks (red zone) that require special attention and the development of measures to manage them.

Risk map for 2022 (inherent risks)



PROBABILITY		IMPACT	
IMPOSSIBLE	0%	NEGLECTIBLE	LESS 0,15 BILLION TENGE
UNLIKELY	25%	MINOR	0,15 - 0,37 BILLION TENGE
POSSIBLE	50%	MODERATE	0,37 - 0,75 BILLION TENGE
LIKELY	75%	MAJOR	0,75 - 2,25 BILLION TENGE
ALMOST CERTAIN	100%	SEVERE	MORE 2,25 BILLION TENGE

КОД	DESCRIPTION OF THE RISK CATEGORYОПИСАНИЕ	КОД	DESCRIPTION OF THE RISK CATEGORYОПИСАНИЕ
CARGO TRAFFIC RISKS		CONTRACT RISK	
CTR-1	The volume of internal cargo turnover	CCR-1	Non-fulfillment of the contract for the supply of freight electric locomotives and components by the supplier EKZ LLP, sub-suppliers ALSTOM, CJSC TMH
CTR-2	The volume of import cargo turnover	CCR-2	Improper implementation of contractual obligations for the supply of locomotives by Transportation Global LLC
CTR-3	The volume of export cargo turnover	CCR-3	Improper implementation of contractual obligations of Kazpost JSC for the delivery of transportation documents
CTR-4	The volume of transit cargo turnover	IT & CYBER RISK	
		ICR-1	Failure of information systems
TARIFF RISK		LIQUIDITY RISK	
RTR-7	Risk of using a unified tariff instead of a transit one for the transportation of goods from Uzbekistan to the countries of the EEU through the territory of Kazakhstan	LR-1	Liquidity risk
CURRENCY RISK		CREDIT RISK	
FX-1	Depreciation of the national currency	CR-1	Non-repayment of receivables (occurrence of problem receivables)
OPERATIONAL RISK		CR-2	Debt for services rendered (loss of revenue from additional charges)
OR-1	Risk of an increasing the share of empty run of freight cars	TRAFFIC SAFETY & OCCUPATIONAL SAFETY AND HEALTH RISK	
OR-2	Lack of locomotive fleet	HTR-1	Traffic safety risk. Derailment / collision of rolling stock in the train and during shunting movement
OR-3	Risk of failure to keep the cargo safe	HTR-2	Safety and health protection (industrial injuries)
OR-4	Risk of untimely delivery of cargo due to the Partnership fault	ENVIRONMENTAL RISK	
OR-5	Weather worsening conditions, Seasonality	ESG-1	Environmental pollution
OR-6	Risk of fire due to the Partnership fault	HR RISKS	
OR-7	Risk of excessive consumption of fuel and energy resources	HR-1	Social discontent of employees
Risk of acceptance within the EEU of regulatory documents on the use of electronic navigation seals		HR-2	Violations of the Labor Code of the Republic of Kazakhstan upon termination of an employment contract at the initiative of the employer
OR-9	Mandatory attachment/removal of electronic navigation seals by the carrier's employees at the stations	HR-3	Staff turnover
PROCUREMENT RISKS		HR-4	Violations of the Labor legislation of the Republic of Kazakhstan
OR-10	Risk of violation of procurement rules during procurement procedures (Risks of the procurement process)	COMPLIANCE RISK	
PROJECT AND INVESTMENT RISKS		CCR-1	Risk of corruption
PIR-1	Lack of the possibility of using an automated system for developing forecast train schedules	CCR-2	Risk of internal corporate fraud (theft)
PIR-2	Risk of non-refund of advance payments for the project of implementing the Trip Optimizer system for TE33A series freight locomotives	CCR-3	Property risk
TAXATION RISK		TR-1	The risk of compensation by the Partnership for losses caused by delay and non-acceptance of cargo (oil products) of Oil Stream LLP
TR-1	Risk of Violation of the tax code requirements	CCR-4	The risk of collecting of debt under the contract for the purchase of services for the provision of recreational facilities for locomotive crews according to the claim of Alem-Pavlodar LLP
REPUTATIONAL RISK		CCR-5	
RP-1	Risk of deterioration of the Partnership's business reputation		

The following events are planned:

- Revision of the methodology in the field of risk management:**
 - ✓ amendments to the Rules of Identification and Risk Assessment due to changes in approaches to identification and risk assessment;
 - ✓ development of rules for determining risk appetite, risk tolerance, key risk indicators
(after updating similar documents of NC KTZ JSC).

- Improving the risk culture in the field of risk management and internal control:**
 - ✓ conducting training of the Partnership's risk coordinators in terms of qualitative identification of risks, formation of a risk register, an action plan to reduce risks, etc.

- Conducting an anonymous survey of the Partnership's employees to assess the culture of risk management and knowledge in the field of risk management and internal control.**

- Testing the effectiveness of control procedures for the main identified business processes** *(detection of deficiencies and weaknesses of control).*

- Development and implementation of a roadmap for the actions of structural units in a state of emergency.**



Sustainable development

Ensuring sustainable development

KTZ - Freight Transportation LLP attaches great importance to the principles of sustainable development in its development. Ensuring sustainable development is one of the strategic goals of the Development Strategy of NC KTZ JS until 2029, this goal contains ensuring sustainable development and provides for the implementation of three strategic initiatives:

- improvement of social stability and development of human resources;
- environmental sustainability;
- improvement of corporate governance.

Sustainable Development Management

The fundamental document of KTZ-Freight Transportation LLP on improving the management system in the field of sustainable development is the Policy in the field of sustainable development of NC KTZ JSC approved by resolution of the Board of Directors of NC KTZ JSC dated May 24, 2021 (Minutes No. 8, Issue No. 1), distributed to subsidiaries of NC KTZ JSC.

The policy defines the goals and principles in the field of sustainable development, establishes a mechanism for achieving the goals and implementing the principles of sustainable development, creating an effective management system for interaction with stakeholders.

Occupational injuries according to the results of 2021 (Labor protection).

For 12 months of 2021, 15 accidents were committed by KTZ – Freight Transportation LLP against 11 cases committed during the same period in 2020. Including with a fatal outcome - 4 cases, a disabled outcome – 2 cases, temporary disability – 9 cases.

Distribution of occupational injuries on farms:

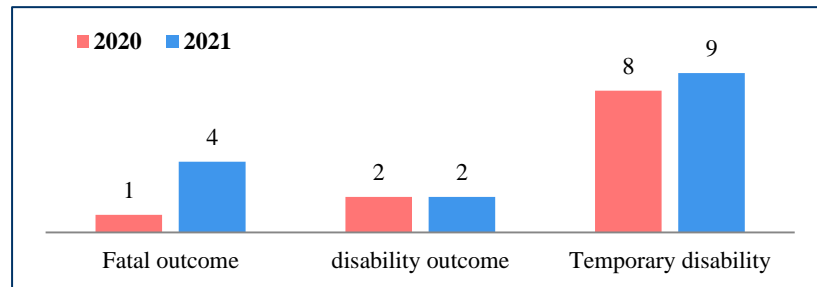
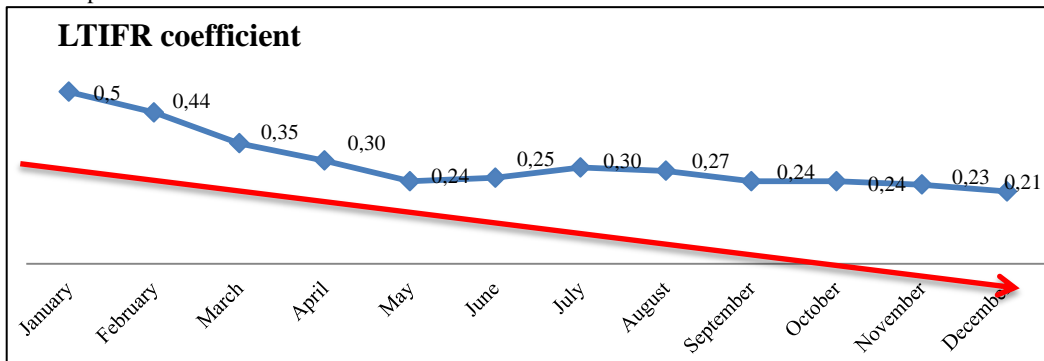
- carriage farm - 1 case;
- locomotive economy - 5 cases;
- economy of movement - 9 cases.

Total material damage from work-related accidents amounted to **162,739.41** thousand tenge, including payments:

- disability certificates – **3977.55** thousand tenge;
- compensation of harm to health, in connection with **professional disability, disability, loss of breadwinner** – **72,877** thousand tenge.
- one-time allowance to employees who have completely or partially lost their ability to work as a result of an accident at work or loss of a breadwinner **85 884,86** thousand tenge.

In the H2 of the year, the "H2 of the year without deaths" was announced. As part of the event, technical classes with practical demonstration of materials were held in the branches of KTZ – Freight Transportation LLP - "Almaty, Kyzylorda, Kostanay branch of the FT" and sold-out posters about the events were posted at the workplaces. During the period of the event, there were no cases with a fatal outcome.

The coefficient (LTIFR) at the beginning of 2021 was 0.50. According to the results of the 12 months of 2021, there is a decrease in the coefficient by 2 times to 0.21 with a plan of 0.23.



Measures to improve conditions, traffic and labor safety

1

- Promotion of the "10 steps to recovery" program
- Implementation of the "Seven Golden Rules" concept

2

- Conducting seminars on train safety and labor protection
- Improving the safety culture to the level of the world's best practices

3

- Changing the procedure for approving the results of the production facilities certification
- Organization of extraordinary certifications of production facilities

4

- Implementation of a comprehensive action plan to improve working conditions and safety (for the period of 2021, the event "H2 without fatalities" was announced, a targeted event "ATTENTION - COMPILER" was held, technical classes were held with a practical demonstration of materials on professions related to train traffic)

5

- Preventive measures to improve the level of traffic safety

ECOLOGY

LEVEL OF ENVIRONMENTAL EFFICIENCY (EE)

FACT			PLAN FOR 2021			FACT 12 MONTH 2021
2018	2019	2020	THRESHOLD VALUE	TARGET VALUE	CHALLENGE	
0.74	0.86	0.73	0.57	0.56	0.55	0.56

EFFICIENCY

FOR 2021, THE ENVIRONMENTAL EFFICIENCY LEVEL IS SET AT THE LEVEL OF 2020 (THE GOAL IS 0.57) DUE TO NON-IMPLEMENTATION.

THERE IS A NEGATIVE TREND IN 2019 AND 2020 DUE TO THE PAYMENT OF PENALTIES.

THE SHARE IN THE OVERALL ASSESSMENT OF 2021 - 1 5%.

FACT FOR 12 MONTHS OF 2021 - 0.56, TARGET VALUE OF EFFICIENCY HAS BEEN ACHIEVED.

EMISSIONS INTO THE ENVIRONMENT



EMISSIONS INTO THE E

REDUCTION OF EMISSIONS BY 7.33% WAS ACHIEVED DUE TO THE TRANSFER OF BOILER HOUSES AND HOUSEHOLD STOVES FROM SOLID FUEL TO ELECTRIC HEATING.

DECREASE IN THE VOLUME OF DISCHARGES BY 30.92% IS DUE TO A DECREASE IN THE NUMBER OF WAGONS SUPPLIED TO THE WASHING POINTS OF WAGONS

REDUCTION OF WASTE VOLUMES BY 2.3% WAS ACHIEVED DUE TO SEPARATE WASTE COLLECTION, AS WELL AS THE OUTSOURCING OF BUILDINGS.

FINANCIAL INCENTIVES

- In 2021, wages of employees of the Partnership's branches were indexed by 10% from January 1, 2021 and by 10% from July 1, 2021. Moreover, in 2021, employees of branches and the central office of the Partnership were paid one-time bonuses for the professional holiday - the Day of Transport Workers in the amount of 1 minimum salary and for the Independence Day of the Republic of Kazakhstan in the amount of 1.5 minimum salary. The Company made a decision to pay bonuses to employees of branches and the central office of the Partnership based on the results of 1 minimum salary; the total amount of bonuses paid amounted to KZT 6,685 million. Work has been carried out to amend the Collective Agreement (Amendment Agreement No. 1) for 2021-2023 on the allowance for the traveling nature of work for locomotive crews when they perform train work.
- The actual labor productivity calculated from income in 2021 amounted to 26,961 million tenge per person, which is 23% higher than the level of 2020, labor productivity of million t-km net / person increased by 6% by 2020.

IMPROVING THE LEVEL OF PROFESSIONAL KNOWLEDGE OF EMPLOYEES

In 2021, with the planned training of 4454 people, training and advanced training of 5643 employees were carried out. The training was conducted according to the services:

- 1746 people from the locomotive farm unit;
- 270 people from the traffic management unit (including the cargo work unit);
- 220 people from the wagon farm unit;
- 3407 people (labor protection, ecology, industrial safety, fire and technical minimum, electrical safety).
- In the context of training centers:
- Taraz Training Center - 877 employees;
- Pavlodar Training Center – 822 employees;
- Karaganda Training Center – 900 employees;
- Aktobe Training Center – 1017 employees;
- Nur-Sultan Center - 2027 employees.

SOCIAL AND LABOR RELATIONS

The collective agreement for 2021-2023 between KTZ-Freight Transportation LLP and its labor collective provides for the obligations voluntarily assumed by the Partnership for:

- compliance with the norms in the field of social and labor relations;
- provision of material support and social guarantees to employees, unemployed pensioners, disabled persons in the Partnership, as well as victims of industrial accidents and occupational diseases in the Partnership;
- provision of a number of social guarantees to young people, families of employees, including summer holidays and health improvement of children of employees of the Partnership;
- regulation of health protection issues;
- promotion of comprehensive professional development and training of personnel.

Every year, since 2016, a study of the Social Stability Rating has been conducted for the group of portfolio companies of Samruk-Kazyna JSC, which in 2021 amounted to 69% (2020 – 72%);

MEASURES TO PREVENT SOCIAL STABILITY

- Compliance with the Company's Code of Business Ethics and Conduct;
- Conducting individual meetings with protest-minded employees;
- Conducting regular informational meetings with the workforce;
- Maintaining the necessary level of living conditions in the workplace;
- Carrying out preventive measures for identified corruption violations in labor collectives;
- Timely response to employee complaints in view of their validity (legality);
- Using a personal example to involve employees in the implementation of digital transformation projects;

Social package of an employee of KTZ-FT LLP

- Early access to the industry manual of engine drivers and assistant engine drivers (57 years);
- Early retirement when optimizing a position;
- Reimbursement of the cost of travel by railway transport;
- Prosthetics of teeth;
- 20% surcharge for young professionals who arrived at small stations/sidings;
- Financial assistance for birth;
- Financial assistance for marriage registration;
- Preferential sanatorium-resort rehabilitation;
- Medical care;
- Summer holidays for children;

Financial statements



Financial statements:

See Consolidated Financial Statements of KTZ-FT LLP for the year ended December 31, 2021 – Annex 1.

Contacts

Contacts:

KTZ-Freight Transportation Limited Liability Partnership
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KTZ-Freight Transportation LLP

Consolidated financial statements
for the year ended 31 December 2021

KTZ-Freight Transportation LLP

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KTZ-FREIGHT TRANSPORTATION LLP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Management is responsible for the preparation of consolidated financial statements of KTZ-Freight Transportation LLP (hereinafter referred to as the "Company") and its subsidiary (jointly referred to as the "Group") that present fairly the consolidated financial position of the Group at 31 December 2021, and the consolidated results of its operations, consolidated cash flows and consolidated changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

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

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


Management is also responsible for:


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

The consolidated financial statements of the Group for the year ended 31 December 2021 were approved and authorised for issue by Group management on 14 March 2022.

On behalf of Group management


Petrur V. Y.
Acting Chairman of the Board (General Director)


Omarbakova Sh.S.
Deputy General Director for Economics and Finance


Kerimbekov Y.D.
Acting Chief Accountant - Director of Accounting Department

14 March 2022
Nur-Sultan, Republic of Kazakhstan

INDEPENDENT AUDITOR'S REPORT

To Sole Participant of KTZ-Freight Transportation LLP

Opinion

We have audited the consolidated financial statements of KTZ-Freight Transportation LLP (the "Company") and its subsidiary (jointly referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Key Audit Matters

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
<p>Recognition of revenue from freight transportation</p> <p>Revenue is disclosed in Note 20 of the consolidated financial statements</p> <p>In 2021, the Group has recognised revenue from freight transportation in the amount of 1,046,149,845 thousand tenge, which represent 89% of total revenue, and generated from domestic, international import, international export and international transit freight transportation services.</p> <p>There are several types of software application, being used to process and recognise revenue from freight transportation. The data of revenue recognised is being transferred to SAP accounting system. The consolidated financial statements capture revenue amount from SAP accounting system.</p> <p>Taking into account significance of revenue from freight transportation to the Group's financial performance and risks related to effectiveness of automated controls regarding the process of revenue recognition, we considered this to be a key audit matter.</p>	<p>Our audit procedures to test the correctness of revenue recognition from freight transportation, involved the following:</p> <ul style="list-style-type: none"> an analysis of revenue transactions related to freight transportations by using data visualisation techniques. We disaggregated the data at a level of revenue streams, in particular domestic, international import, international export and international transit freight transportations. We compared revenue streams generated from freight transportation using non-financial data such as average duration of transportations, volume of carried freight in tons per kilometre and types of cargo. with the help of our IT-specialists assessing the design and implementation of internal control activities in relevant IT applications and testing of operating effectiveness of application controls in relation to revenue from freight transportation. evaluating designed and implemented key manual internal control activities over recognition of revenue from freight transportation and testing of those controls activities for operating effectiveness. performing substantive analytical procedures of revenue from freight transportation by developing expectations of revenue using data on volumes of cargo and approved tariffs. Where necessary test of details of selected revenue streams was performed. assessing accuracy and completeness of disclosures of revenue from freight transportation in the consolidated financial statements.

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

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

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

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

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

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 consolidated 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.



Olga Belonova
Auditor
Qualification certificate
NoMF - 0000865
dated 13 August 2019



Zhang Y. Zhilysobayev
General Director
Deloitte LLP
State Audit License of the
Republic of Kazakhstan #0000015,
type MFU-2, issued by the Ministry of
Finance
of the Republic of Kazakhstan
dated 13 September 2006

14 March 2022
Almaty, Republic of Kazakhstan

KTZ-FREIGHT TRANSPORTATION LLP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021 (in thousands of Tenge)

	Notes	31 December 2021	31 December 2020
ASSETS			
Non-current assets			
Intangible assets		316,720	546,023
Property, plant and equipment	5	420,409,370	418,973,659
Advances paid for property, plant and equipment	6	60,154,740	80,545,415
VAT recoverable	7	32,328,633	12,569,422
Other non-current assets	8	14,143,923	12,050,646
Total non-current assets		527,353,386	524,685,165
Current assets			
Inventories	9	14,013,938	10,858,325
Trade and other accounts receivable	10	4,863,197	17,055,869
Loan to related party	28	-	14,001,081
Advances paid to related parties	28	26,455,289	4,508
VAT recoverable	7	21,365,489	60,844,724
Other current assets		7,471,632	2,376,957
Cash and cash equivalents	11	7,120,293	19,246,123
		81,289,838	124,387,587
Assets classified as held for distribution to the Parent Company	12	4,180,015	-
Total current assets		85,469,853	124,387,587
Total assets		612,823,239	649,072,752
EQUITY AND LIABILITIES			
Equity			
Charter capital	13	135,876,527	135,876,527
Foreign currency translation reserve		(71,643)	(51,740)
(Accumulated deficit)/retained earnings		(33,600,223)	31,032,740
Total equity		102,204,661	166,858,037
Non-current liabilities			
Long-term loans and debt securities	14	230,097,620	268,163,835
Employee benefit obligations	15	25,403,463	24,916,632
Deferred tax liabilities	24	52,791,107	43,863,438
Financial guarantee liabilities	25	1,440,125	1,654,295
Lease liabilities		2,463,790	3,285,655
Total non-current liabilities		312,196,105	341,883,855


KTZ-FREIGHT TRANSPORTATION LLP


**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021 (CONTINUED)**
(in thousands of Tenge)

	Notes	31 December 2021	31 December 2020
Current liabilities			
Current portion of long-term loans and debt securities	14	36,007,179	13,815,464
Current portion of employee benefit obligations	15	4,845,610	3,880,364
Current portion of lease liabilities		1,529,752	1,602,174
Current portion of financial guarantee liabilities	25	126,788	-
Trade accounts payable to third parties	16	31,491,491	32,458,336
Trade accounts payable to related parties	28	23,441,197	13,273,266
Other taxes payable and obligatory payments	17	8,063,600	6,235,349
Contract liabilities	18	70,812,061	54,776,705
Other current liabilities	19	18,716,570	14,309,202
		<u>195,034,328</u>	<u>140,330,860</u>
Liabilities directly attributable to assets classified as held for distribution to the Parent Company	12	3,388,145	-
Total current liabilities		<u>198,422,473</u>	<u>140,330,860</u>
Total liabilities		<u>510,618,578</u>	<u>482,214,715</u>
Total equity and liabilities		<u>612,823,239</u>	<u>649,072,752</u>

On behalf of Group management


Petr V.V.
Acting Chairman of the Board
(General Director)


Oleg Zhukov J.S.
Deputy General Director for Economics
and Finance


Kerimbekov V.B.
Director of Accounting
Department

14 March 2022
Nur-Sultan, Republic of Kazakhstan

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


KTZ-FREIGHT TRANSPORTATION LLP


**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021**
(in thousands of Tenge)

	Notes	2021	2020
Revenue	20	1,178,854,897	1,019,211,813
Cost of sales	21	<u>(1,053,117,219)</u>	<u>(892,027,415)</u>
Gross profit		75,737,678	128,174,398
General and administrative expenses	22	(17,362,731)	(17,184,379)
Accrual of allowance on expected credit losses	10	(7,834,932)	(151,339)
Finance income		1,401,774	1,319,444
Finance costs	23	(19,013,549)	(24,217,533)
Foreign exchange gain/(loss), net	27	2,184,561	(23,045,121)
Other income, net		652,727	86,529
Profit before tax		35,745,548	64,981,999
Corporate income tax expense	24	<u>(10,357,016)</u>	<u>(15,700,360)</u>
Profit for the year		25,388,532	49,281,639
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined employee benefits plan obligations	15	197,299	2,195,517
Items that may be reclassified subsequently to profit or loss:			
Foreign exchange differences on translation of foreign operations		(20,413)	(16,205)
Other comprehensive income for the year		176,886	2,179,312
Total comprehensive income for the year		25,565,418	51,460,951

On behalf of Group management


Petr V.V.
Acting Chairman of the Board
(General Director)


Oleg Zhukov Sh.
Deputy General Director for Economics
and Finance


Kerimbekov V.B.
Director of Accounting
Department

14 March 2022
Nur-Sultan, Republic of Kazakhstan

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

KTZ-FREIGHT TRANSPORTATION LLP

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021
(in thousands of tenge)**

Notes	2021	2020
Cash flows from operating activities:		
Cash inflows:	1,200,392,855	988,069,690
Sales of services	1,061,160,705	898,512,356
Advances received under contracts with customers	56,555,192	67,501,655
VAT refund	78,445,789	20,103,011
Other receipts:	3,231,169	1,952,278
Cash outflows:	(1,098,897,254)	(869,748,088)
Payments to suppliers for goods and services	(894,022,757)	(685,866,559)
Advances paid to suppliers for goods and services	(10,975,534)	(11,710,368)
Salaries paid	(114,859,189)	(100,939,784)
Interest paid	(18,655,044)	(17,565,664)
Income tax paid	(747,153)	(100,285)
Other payments to budget	(21,612,516)	(19,862,212)
Payment of taxes and salary related contributions	(25,468,330)	(22,084,103)
Other payments	(12,459,731)	(11,619,113)
Net cash received from operating activities	101,495,601	118,321,602
Cash flows from investing activities:		
Cash inflows:	14,141,526	2,997
Sale of property, plant and equipment	124,431	2,997
Repayment of a loan issued to the Parent Company	14,017,095	-
Cash outflows:	(103,545,586)	(80,229,615)
Purchase of property, plant and equipment and advances paid for property, plant and equipment	(103,280,400)	(66,228,534)
Purchase of intangible assets	(6,879)	-
Net cash outflow on disposal of subsidiary	(28,507)	-
Issue of loan to the Parent Company	-	(14,001,081)
Net cash used in investing activities	(89,404,060)	(80,226,618)
Cash flows from financing activities:		
Cash inflows:	-	10,209,840
Proceeds from loans	-	10,209,840
Cash outflows:	(24,132,656)	(50,635,183)
Repayment of loans	(12,853,663)	(24,120,442)
Repayment of debt securities issued	-	(13,780,259)
Transfer to restricted cash	(2,748,102)	(11,574,062)
Dividends paid	(7,392,246)	-
Lease payments	(923,476)	(1,004,007)
Other payments	(215,169)	(156,413)
Net cash used in financing activities	(24,132,656)	(40,425,343)
Net change in cash and cash equivalents	(12,041,115)	(2,330,359)
Cash and cash equivalents at the beginning of the year	19,246,123	22,021,798
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	(85,999)	(445,839)
Effect of changes in allowance for expected credit losses	1,284	523
Cash and cash equivalents at the end of the year	7,120,293	19,246,123

KTZ-FREIGHT TRANSPORTATION LLP

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021 (CONTINUED)
(in thousands of tenge)**

Notes	2021	2020	
Non-cash transactions:			
Purchase of property, plant and equipment using borrowed funds directly transferred by bank to supplier	14	27,705,007	5,728,726
Offsets with branch of Parent Company	-	624,185	25,083,764
Refinancing of loans from Parent Company by debt securities issue	14	-	192,858,107
Increase of charter capital by retained earnings	13	-	23,544,519
Disposal of subsidiary	29	-	-
Transfer of assets and liabilities to the Parent Company	12	(81,697,835)	-
VAT receivable offset with CIT payable	-	2,800,000	-

On behalf of Group management


Petrov V.S. Acting Chairman of the Board (General Director)


Kerimbekov Y.B. Acting Chief Accountant - Director of Accounting Department

14 March 2022
Nur-Sultan, Republic of Kazakhstan

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

KTZ-FREIGHT TRANSPORTATION LLP

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021
(in thousands of tenge)**

	Notes	Charter capital	Foreign currency translation reserve	Retained earnings/ (accumulated deficit)	Total equity
As at 1 January 2020		112,332,008	(35,025)	465,733	112,762,716
Profit for the year		-	-	49,261,639	49,261,639
Other comprehensive income for the year		-	(16,205)	2,195,517	2,179,312
Total comprehensive income for the year		-	(16,205)	51,477,156	51,460,951
Charter capital contribution	13	23,544,519	-	(23,544,519)	-
Effect of non-substantial modification of the terms of debt securities issued	14	-	-	2,634,370	2,634,370
As at 31 December 2020		135,876,527	(51,230)	31,632,740	166,858,037
Profit for the year		-	-	25,388,532	25,388,532
Other comprehensive income for the year		-	(20,413)	197,299	176,886
Total comprehensive income for the year		-	(20,413)	25,585,831	25,565,418
Disposal of subsidiary	29	-	-	87,974	87,974
Dividends	13	-	-	(7,392,246)	(7,392,246)
Transfer of assets and liabilities to the Parent Company	12	-	-	(83,697,835)	(83,697,835)
Correction of the effect of non-substantial modification of the terms of debt securities issued	14	-	-	783,313	783,313
As at 31 December 2021		135,876,527	(71,643)	(33,600,223)	102,204,661

On behalf of Group management

Petrov V.V. Chairman of the Board of Directors
(General Director)

14 March 2022
Nur-Sultan, Republic of Kazakhstan

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

KTZ-FREIGHT TRANSPORTATION LLP

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021
(in thousands of tenge)**

1. GENERAL INFORMATION

Locomotive Joint Stock Company was established in accordance with the decision of the sole shareholder, National Company Kazakhstan Temir Zholy JSC (the "Parent Company" or "NC KTZ JSC") and was registered on 14 October 2003.

On 15 June 2016, Locomotive Joint Stock Company was renamed to KTZ-Freight Transportation Joint Stock Company (the "Company"), which from 1 July 2016, took on the function of railway cargo transportation.

On 28 August 2020, the Company was reorganised into a limited liability partnership pursuant to the legislation of the Republic of Kazakhstan, based on the resolution of the Parent Company's Management Board of 14 January 2020. The partnership is the legal successor of all rights and obligations of KTZ-Freight Transportation JSC in accordance with the deed of transfer approved by the resolution of the Parent Company's Management Board dated 14 January 2020.

During 2019, the Company acquired 99% interest in Airport Management Group LLP for 15 thousand tenge from the subsidiary of the Parent Company, KTZ Express JSC. On 9 December 2019, Airport Management Group LLP was re-registered as Passenger Locomotives LLP (the "Subsidiary"). The activity of the Subsidiary is the provision of locomotive traction services in passenger traffic. In January 2021, the Company transferred a 99% interest in its subsidiary Passenger Locomotives LLP to the Parent Company. As a result, the Company lost control over Passenger Locomotives LLP (Note 29). As at 31 December 2021, Passenger Locomotives LLP was reorganised by merger with KTZ-Passenger Locomotives LLP in December 2021.

The consolidated financial statements comprise the results of operations of the Company and its Subsidiary (hereinafter jointly referred to as the "Group").

The Government represented by National Welfare Fund Samruk-Kazyna JSC (the "Shareholder") is the ultimate shareholder of the Group. Detailed information on related party transactions is presented in Note 28.

The Group's operations are governed by the Entrepreneurship Code of the Republic of Kazakhstan dated 29 October 2015. The Committee of the Ministry of National Economics of the Republic of Kazakhstan for the Regulation of Natural Monopolies, Protection of Competition and Consumer Rights (the "Committee") monitors tariffs for services of railway freight transportation and locomotive traction rendered by the Group. The level of regulated tariffs in freight transportation varies depending on the type of cargo transported and the type of sections (electrified, non-electrified sections of the main railway network). Tariffs for the transportation of goods in international transit and the transportation of goods in containers are not regulated by the State.

From 1 January 2021, in accordance with letter of the Committee No. 43-1-43/5790 dated 30 December 2020, tariffs for freight transportation services until the end of 2021 were approved. The decrease in the tariff for freight transportation services in 2021 was 6.2% in average.

KTZ-FREIGHT TRANSPORTATION LLP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021 (in thousands of tenge)

In accordance with the order of the Committee dated 27 November 2020 No. 70-OD, tariffs for services of main railway networks for 2021-2025 were approved with an increase in 2021 by 35.8%, and an annual growth from 2022 to 2024 on average by 5% and in 2025 - by 4%. From 1 January 2021, pursuant to Order No. 166-GP dated 31 December 2020, differentiation of freight traffic tariffs was introduced for services of the main railway network: for diesel locomotives on non-electrified lines and for electric locomotives on electrified lines, as well as for locomotive traction services: diesel traction and electric traction. Given the above differentiation, the increase in tariffs for transportation of goods in wagons and containers for 2021 was 13% in average.

The increase in tariffs for locomotive traction services directly impacts the Group's revenue. The Group purchases services of the main railway network from the Parent Company and sells it to its clients as part of a package of services for management of the transportation process, therefore, a change in tariffs impacts both revenue and the cost of services.

The average number of the Group's employees for the years ended 31 December 2021 and 2020 was 43,838 people and 46,797 people, respectively.

The registered office of the Group is located at: 10 Kunayev St., Nur-Sultan, 010000, Republic of Kazakhstan.

Operating environment

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

Because the Republic of Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. In March 2020, global oil prices dropped by over 40%, which resulted in immediate weakening of the tenge against the major currencies.

Management of the Group continues to follow the development of COVID-19. Many regions of the Republic of Kazakhstan and other countries introduce restrictions from time to time to contain the spread of the virus, many of which affect, suspend or close down operations.

At the same time, the restrictive measures to close state borders due to the quarantine regime have not had a significant impact on freight traffic in the Republic of Kazakhstan and other countries, as freight rail traffic has not been suspended. The Group continued to operate as usual.

In the second half of 2020, China introduced a number of quarantine measures in the transit zone on the border with the Republic of Kazakhstan. Additional checks and quarantine measures affected the throughput of import, export and transit traffic lines in both directions. The Group, in cooperation with the state authorities of the Republic of Kazakhstan, are taking measures aimed at restoring capacity and uninterrupted traffic on the border of the two states.

KTZ-FREIGHT TRANSPORTATION LLP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021 (in thousands of tenge)

Despite the situation described above, the volume of transit traffic increased during the year ended 31 December 2021 compared to the previous year.

The Company's management is monitoring the dynamics of COVID-19 spread, but currently it does not expect a significant impact of the pandemic on future operations of the Group. The significance of the effect of COVID-19 on the Group's business largely depends on the duration and the incidence of the pandemic effects on the world economy and the economy of the Republic of Kazakhstan.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Statement of compliance

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its Subsidiary (Note 1) made as of 31 December each year.

Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

KTZ-FREIGHT TRANSPORTATION LLP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021 (in thousands of tenge)

Consolidation of a Subsidiary begins when the Company obtains control over the Subsidiary and ceases when the Company loses control of the Subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date the Company gains control until the date when the Company ceases to control the Subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

In January 2021, the Company transferred a 99% interest in its subsidiary, Passenger Locomotives LLP to the Parent Company. As a result, the Company lost control over Passenger Locomotives LLP (Note 29).

Going concern principle

These consolidated financial statements of the Group have been prepared on a going concern basis. It assumes the disposal of assets and settlement of liabilities in the foreseeable future as part of the normal course of business. As at 31 December 2021, current liabilities of the Group exceeded current assets by 114,193,745 thousand tenge, excluding assets and non-current liabilities classified as held for distribution to the Parent Company (Note 12) [31 December 2020: 15,943,773 thousand tenge].

In assessing going concern principles, management considered the Group's financial position, expected future financial results, loans, available credit facilities and its capital expenditure commitments, expected tariffs, foreign currency exchange rates and other factors that affect the ability to meet obligations to creditors of the Group.

As at 31 December 2021, a portion of the Group's current liabilities were represented by the following:

- trade accounts payable to related parties in the amount of 23,441,197 thousand tenge (Note 28);
- current portion of long-term loans and debt securities from related parties of 26,948,868 thousand tenge;
- advances received under contracts with customers – related parties in the amount of 21,347,690 thousand tenge (Note 18).

Based on previous experience, management of the Group believes that, if necessary, the timing of repayment of payables can be agreed with related parties.

As at 31 December 2021, current portion of long-term loans and debt securities on bank loans from third parties was 9,058,311 thousand tenge.

As at 31 December 2021, the Group has an available credit facility at Citibank Kazakhstan JSC of 30,000 thousand US dollars (equivalent to 12,954,000 thousand tenge at exchange rate as at 31 December 2021).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021 (in thousands of tenge)

The Group does not expect any difficulties in meeting its debt obligations or violations of contractual obligations. The Group will have the opportunity to repay amounts due in 2022 according to an agreed payment schedule against available cash and receipts from services in future.

The Group monitors compliance with the covenants under the EBRD and HSBC France loans. The Group expects to be able to comply with the terms of the loan agreements and meet the covenants (Note 14).

The Group is dominant in the provision of locomotive traction services and meets major corporate freight transportation needs in the oil and gas, metal, coal production and other industrial sectors.

In addition, the Parent Company provided a letter, in which it confirms an intention to continue providing the Group with financial and operational support, which may also be provided with the Shareholder's support. After an analysis, management concluded that the Group has sufficient resources to continue operating activities and repay its liabilities, and that it is appropriate to apply the going concern principle in preparing these consolidated financial statements.

Accordingly, these consolidated financial statements have been prepared based on the assumption that the Group will continue as a going concern in the foreseeable future.

The basis for determining the cost

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Functional currency and presentation currency

The consolidated financial statements of the Group are presented in the currency of the economic environment in which it operates (its functional currency). For the purposes of these consolidated financial statements, the financial results of activities and financial position of the Group are expressed in Kazakhstani tenge (the "tenge"), which is the presentation currency for these consolidated financial statements. The functional currency of all Group companies is Kazakhstani tenge, except for a branch located in the Russian Federation, which is accounted for in Russian roubles.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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Tenge is not fully convertible currency outside of the Republic of Kazakhstan. Transactions in foreign currencies are accounted for at the transaction date market rate set by the Kazakhstan Stock Exchange ("KASE"). For foreign currencies that were not traded at the KASE sessions, the exchange rates are calculated by the National Bank of the Republic of Kazakhstan using cross-rates to the US dollar in accordance with quotations received through the channels of the REUTERS news agency quotes.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates as of the reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items, arising after date of the operation, are recognised in profit or loss in the period in which they arise except for exchange differences on foreign currency loans relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency loans.

The following table summarises tenge foreign currency exchange rates at the following dates:

	31 December 2021	31 December 2020
US dollar	431.8	420.91
Euro	489.1	516.79
Swiss franc	473.15	477.60
Russian rouble	5.76	5.62

The following table summarises the weighted average exchange rates for tenge for the years ended 31 December:

	2021	2020
US dollar	426.03	412.95
Euro	503.88	471.44
Swiss franc	466.13	440.52
Russian rouble	5.79	5.73

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
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Adoption of new and revised standards

In the current year, the Group has applied the below amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board ("IASB") that are effective for an annual period that begins on or after 1 January 2021. Their adoption has not had any significant impact on the disclosures or on the amounts reported in these consolidated financial statements.

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – *Interest rate benchmark (IBOR) reform. Phase 2;*
- Amendments to IFRS 16 *Extension of practical expedient from assessing whether a COVID-19 related rent concession is a lease modification.*

New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these consolidated financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

Description of the standard and interpretation	Applicable to annual periods beginning on or after
IFRS 17 (including the June 2020 Amendments to IFRS 17) <i>Insurance Contracts</i>	1 January 2023
Amendments to IFRS 10 and IAS 28 <i>Sole or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Date to be determined by the IASB
Amendments to IAS 1 <i>Classification of Liabilities as Current or Non-current</i>	1 January 2023
Amendments to IFRS 3 <i>Reference to the Conceptual Framework</i>	1 January 2022
Amendments to IAS 16 <i>Property, Plant and Equipment—Proceeds before Intended Use</i>	1 January 2022
Amendments to IAS 37 <i>Onerous Contracts – Cost of Fulfilling a Contract</i>	1 January 2022
Annual Improvements to IFRS Standards 2018-2020 Cycle <i>Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture</i>	1 January 2022
Amendments to IAS 1 and IFRS Practice Statement 2 <i>Disclosure of Accounting Policies</i>	1 January 2023
Amendments to IAS 8 <i>Definition of Accounting Estimates</i>	1 January 2023
Amendments to IAS 12 <i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>	1 January 2023

Management does not expect that the adoption of standards above will have a significant impact on the consolidated financial statements of the Group in the future periods.

3. SIGNIFICANT ACCOUNTING POLICIES

Property, plant and equipment

Property, plant and equipment are initially recorded at cost or deemed cost, net of accumulated depreciation and impairment losses.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021 (in thousands of tenge)

Subsequent costs

Major repairs involving replacement of spare parts

Major repairs with the replacement of spare parts, including mainly costs to replace locomotive engines, are capitalised to the extent that future economic benefits can be received, and such expenses can be calculated or measured with sufficient accuracy. The replaced assets are analysed for future benefits and as such, are measured at the lower of cost and net realisable value and recorded within inventories. The excess of the carrying amount over the net realisable value of replaced assets is recognised as an expense in profit or loss. The property, plant and equipment from which future benefits are not expected is immediately recorded in profit or loss.

Cost of major technical inspections

Subsequent expenses on items of property, plant and equipment are capitalised to the extent that future economic benefits can be received and such expenses can be calculated or measured reliably. Expenses on regular major technical inspections to check for faults are recognised in the carrying amount of a locomotive. Thereby any remaining carrying amount of expenses on the previous inspection are derecognised. Major technical inspections are amortised during the period before the next major technical inspection. Such intervals for electric locomotives 7 years, for diesel locomotives – 10 years based on current industry practices and existing conditions. All other subsequent costs, such as repair and maintenance costs, are recognised in profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction and production of a qualifying asset are added to the value of the asset before the assets are mainly ready for intended use or sale. Borrowing costs also include exchange differences arising from loans in foreign currency to the extent they are considered an adjustment of interest expenses. As a result, the capitalised borrowing costs denominated in foreign currencies, adjusted for exchange differences, cannot exceed the borrowing costs that would have been capitalised if the loans had been denominated in the functional currency. Any excess over exchange difference is recognised in profit or loss.

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

Impairment of property, plant and equipment

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021 (in thousands of tenge)

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are used in operations to service locomotives and perform transportation activities.

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised in consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables that do not have a significant financing component which are measured at transaction price. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021 (in thousands of tenge)

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

Impairment of financial assets

The Group always recognises lifetime expected credit losses (ECL) for trade receivables. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021 (in thousands of tenge)

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within twelve months after the reporting date.

The Group considers the following variables to measure a significant credit risk increase:

- legislative, technological or macroeconomic changes have taken place with a significant negative impact on the borrower;
- information is available on significant unfavourable events in relation to the credit or other credits with other creditors, for example, credit annulment, contractual violations or revisions due to financial difficulties and others;
- the borrower has lost a major client or supplier, or is experiencing other significant negative change in its particular market;
- the specifics of the Group's operating industry are taken into consideration.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Default is determined based on past due days. The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021 (in thousands of tenge)

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Financial liabilities

Financial liabilities are classified either as financial liabilities measured at fair value through profit or loss (FVTPL) or as other financial liabilities.

Financial guarantee contract liabilities

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contract liabilities are measured initially at their fair values and are measured subsequently at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount recognised initially less, where appropriate, cumulative income recognised in accordance with IFRS 15.

Profit or loss arising as a result of changes in the financial guarantee cost are recognised immediately in profit or loss.

Other financial liabilities

Other financial liabilities, including loans and debt securities issued, trade and other accounts payable, are initially measured at fair value less transaction costs. Subsequently, other financial liabilities are measured at amortised cost using effective interest method.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021 (in thousands of tenge)

Equity

Dividends

Dividends are recognised as a liability and deducted from equity as at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed in consolidated financial statements if they are declared before the reporting date or declared after it, but before consolidated financial statements are authorised for issue.

Revenue recognition

The Group recognises revenue mainly from rendering the following services:

- freight transportation services;
- transportation process management services;
- freight locomotive traction services;
- locomotive lease services;
- locomotive crew services;
- message transmission services during detention of railcars.

The Group recognises revenue to reflect the transfer of promised goods or services to customers in the amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue is recognised net of value-added tax (VAT) and rebates.

Revenue from freight transportation services

Freight transportation services

The Group recognises revenue from domestic, international import, international export and international transit freight transportation services. Revenue from freight transportation services is recognised over the time. The extent of completion of the freight transportation process is calculated as the ratio of transportation volumes provided as at the reporting date to the total transportation volumes.

As stipulated by the contracts with customers, the services are provided based on a 100% prepayment of the monthly volume of freight transportation. Prepayments received from customers for transportation services not yet rendered are recognised in contract liabilities as advances received under contracts for freight transportation services at the date of receipt of payment.

Meanwhile, the Group has no significant financing component resulting from a short time period between the provision of promised services to the customer and the moment the customer pays for the services provided.

Deferred income is recognised as revenue in the reporting period as services are provided.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021 (in thousands of tenge)

Pursuant to the Committee's Order on the Approval of a temporary decreasing coefficient for regulated services of the main railway network in freight transportation, certain contracts envisage discounts dependent on the volumes of services consumed. Revenue from these services is recognised based on contractual prices less estimated discounts.

Other revenue from freight transportation

Other revenue mainly includes additional charges associated with freight transportation such as warehousing, wagon delivery, cleaning and preparation charges, payments for the use of wagons and containers and payments for wagon/container detention and delay on main and station tracks and transit railway. These charges do not represent separate performance obligations and are recognised in the same manner as revenue from the freight transportation service to which they relate and which is recognised over time.

Revenue from transportation process management

The Group recognises revenue from rendering the services of transportation process management for the branch "Direction of railway network" of the Parent Company to ensure an uninterrupted transportation process by rail throughout the territory of the Republic of Kazakhstan.

Revenue from transportation management services is recognised over time as services are rendered, based on tariff estimates for services of the main railway network, approved by the Committee.

Revenue from rendering the locomotive traction services

The Group recognises revenue from rendering the services of freight locomotive traction over time as services are provided. Services are provided for a total time locomotive in route and downtime at the stations of the change of locomotive crews. The volume of services is measured in locomotive hours. Revenue from rendering the services of locomotive traction is calculated based on the volume of services rendered according to the actual data from an automated driver route processing system and established tariffs.

Locomotive lease services and locomotive crew services

Based on the agreements with a related party, the Group recognises revenue from the lease of locomotives and services of locomotive crews that support the process of locomotive traction and operation of traction rolling stock in passenger route. The services of locomotive crews are provided during the time the locomotive crew is at work, from the starting point to the submission of locomotive engineer's final report. The volume of services is measured in crew-hours. Locomotive lease charges depend on the series of locomotives and daily rates.

Revenue from the lease of locomotives and services of locomotive crews is recognised over time.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021 (in thousands of tenge)

Message transmission services during detention of railcars

Message transmission services during detention of railcars represent the services provided to the Parent Company, which include the registration and transmission of information about the railway transport detention. Messages include details about detention that occurred through the fault of the participants in the transportation process and entailed a violation of the technological process of transportation.

Revenue from message transmission services during detention of railcars is recognised at the time of service delivery.

Taxation

Income tax expense represents the sum of the corporate income tax currently payable and deferred tax.

Corporate income tax

The corporate income tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for corporate income tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, increasing taxable profit and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021 (in thousands of tenge)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Leases

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021 (in thousands of tenge)

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the right-of-use asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are included in property, plant and equipment.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the Property, Plant and Equipment accounting policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient, as the Group does not have such contracts.

As required by IFRS 16, the Group recognised the repayment of the principal debt in cash flows from financing activities. In accordance with the Group's accounting policies, interest paid is classified as part of cash flows from operations. Short-term lease payments, lease payments for low-value assets and variable lease payments not included in the measurement of the lease liability are presented as part of operating activities.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021 (in thousands of tenge)

The Group as lessor

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

When a contract includes both lease and non-lease components, the Group applies IFRS 15 to allocate the consideration under the contract to each component.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In applying the Group's accounting policies, which are described in Note 3, management is required to make assumptions, estimates and judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Estimates and the underlying judgments are based on past experience and other factors that are considered appropriate in the particular circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in estimates are reflected in the period in which the estimate was revised, if the change affects only that period, or in the period in which the estimate was revised, and in future periods, if the change affects both current and future periods.

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

Recoverability of VAT

At each reporting date, the Group estimates its provision for non-recoverable VAT incurred from the provision of international transportation services. The Group cannot charge VAT to customers and, accordingly, can only realise it from the tax authorities.

The Group considers information on the expected VAT recoverable received from its tax department, correspondence with the state tax authorities and historical recovery experience. The actual amount of VAT recoverable may differ from amounts estimated by the Group, which could have a significant impact on future operating results. As at 31 December 2021, VAT receivable in the amount of 21,365,489 thousand tenge (Note 7) was classified as current assets. The Group expects this amount to be refunded by the tax authorities during 2022. The Group's management believes that VAT receivable can be recovered in full.

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Allowance on expected credit losses

Management's determination of allowances on expected credit losses on trade receivables and other financial assets requires management to make assumptions based on their best estimates of the Group's ability to realise these assets. In determining doubtful debts, the historic, expected behaviour of customers and forward looking macro-economic factors are considered. The changes in the economy or individual conditions of the customer can require adjustments of allowance for doubtful trade receivables and other financial assets in these consolidated financial statements.

As at 31 December 2021 the Group analysed expected credit losses and accrued an allowance for overdue trade receivables in the amount of 7,834,932 thousand tenge, of which 7,645,061 thousand tenge were accrued on trade receivables from a related party JSC KTZ Express for freight transportation services (Note 28).

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated using the straight-line method over the useful life of the assets. The Company determines the useful lives of its assets, including large items of property, plant and equipment, such as locomotives. Estimates related to estimated useful lives, residual value and depreciation methods are reviewed at each reporting date and revised, if needed. Any adjustments are accounted for prospectively as a change in calculation estimates. Estimates with respect to the useful lives and residual value of assets depend on expected use, repair and maintenance programmes, scope of activity, improvements in technology and other operating activities. As a result of changes in these estimates, depreciation charges can significantly differ from amounts reported in prior years.

The estimated useful lives of property, plant and equipment used by the Company are presented below (in years):

Buildings and constructions	20-45
Machinery and equipment	15-40
Railway transport	4-40
Other property, plant and equipment	5-15

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5. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery and equipment	Railway transport	Others	Construction in progress	Total
Cost							
Balance at 1 January 2021	999,341	11,297,102	12,386,613	620,053,080	2,771,850	1,570,001	649,077,987
Additions	-	703	1,208,593	-	11,900	120,209,781	121,430,977
Internal transfers	-	89,376	481,903	116,496,957	8,039	(117,076,275)	-
Reclassification to assets held for distribution to the Parent Company (Note 12)	-	-	-	-	-	(791,870)	(791,870)
Transfer of assets to the Parent Company (Note 12)	-	-	(8,639)	(114,278,803)	(1,403)	-	(114,288,845)
Lease modification	-	212,455	-	-	-	-	212,455
Lease termination	-	(45,656)	-	-	-	-	(45,656)
Disposals	(4,140)	(49,653)	(117,838)	(737,259)	(18,937)	(97,111)	(1,024,938)
Balance at 31 December 2021	995,201	11,504,327	13,950,632	621,533,975	2,771,449	3,814,526	654,570,110
Accumulated depreciation and impairment							
Balance at 1 January 2021	-	(5,394,766)	(4,654,027)	(219,390,144)	(665,391)	-	(230,104,328)
Charge for the year	-	(180,217)	(732,610)	(16,182,378)	(50,345)	-	(17,145,550)
Depreciation of right-of-use assets	-	(137,221)	(771,062)	-	-	-	(908,283)
Lease termination	-	3,990	-	-	-	-	3,990
Transfer of assets to the Parent Company (Note 12)	-	-	4,264	13,100,841	1,244	-	13,106,349
Disposals	-	30,191	108,093	733,699	15,099	-	887,082
Balance at 31 December 2021	-	(5,678,023)	(6,045,342)	(221,737,982)	(699,393)	-	(234,160,740)
Net book value as at 31 December 2021	995,201	5,826,304	7,905,290	399,795,993	2,072,056	3,814,526	420,409,370

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	Land	Buildings and constructions	Machinery and equipment	Railway transport	Others	Construction in progress	Total
Cost							
Balance at 1 January 2020	982,736	11,213,385	11,736,331	570,894,331	2,756,237	7,350,268	604,933,288
Additions	-	-	539,814	-	6,357	43,901,234	44,447,405
Internal transfers	-	80,828	164,883	49,335,642	27,626	(49,608,979)	-
Reclassification from assets held for sale	16,605	95,921	-	-	-	-	112,526
Lease modification	-	(42,127)	-	-	-	-	(42,127)
Lease termination	-	(50,073)	-	-	-	-	(50,073)
Disposals	-	(832)	(54,415)	(176,893)	(18,370)	(72,522)	(323,032)
Balance at 31 December 2020	999,341	11,297,102	12,386,613	620,053,080	2,771,850	1,570,001	649,077,987
Accumulated depreciation and impairment							
Balance at 1 January 2020	-	(5,005,072)	(3,399,137)	(203,139,207)	(589,807)	-	(212,133,223)
Charge for the year	-	(200,962)	(533,763)	(16,427,776)	(92,008)	-	(17,254,509)
Reclassification from assets held for sale	-	(72,887)	-	-	-	-	(72,887)
Depreciation of right-of-use assets	-	(130,690)	(771,062)	-	-	-	(901,752)
Lease termination	-	14,345	-	-	-	-	14,345
Disposals	-	280	49,935	176,839	16,424	-	243,478
Balance at 31 December 2020	-	(5,394,766)	(4,654,027)	(219,390,144)	(665,391)	-	(230,104,328)
Net book value as at 31 December 2020	999,341	5,902,336	7,732,586	400,662,936	2,106,459	1,570,001	418,973,659

As at 31 December 2021, the cost of fully depreciated property, plant and equipment amounted to 109,940,795 thousand tenge (31 December 2020: 96,917,336 thousand tenge)

As at 31 December 2021 and 2020, the Group had no property, plant and equipment pledged as collateral.

During 2021, the Group commissioned 54 locomotives with a total cost of 111,416,074 thousand tenge (2020: 23 locomotives with total cost of 44,937,762 thousand tenge). Other internal transfers represent capital repairs of locomotives and commissioned other property, plant and equipment.

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During 2021, the Group transferred to the Parent Company 86 passenger locomotives with a carrying amount of 101,182,496 thousand tenge (Note 12).

Carrying amount of right-of-use assets is presented as follows:

	31 December 2021	31 December 2020
Buildings and constructions	945,561	911,993
Machinery and equipment	2,891,486	3,662,548
	<u>3,837,047</u>	<u>4,574,541</u>

6. ADVANCES PAID FOR PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2021 and 2020, advances paid for property, plant and equipment comprised the following:

	31 December 2021	31 December 2020
Supply of electric locomotives	55,158,637	64,654,004
Supply of diesel locomotives	4,996,103	15,891,411
Others	620,296	617,477
	<u>60,775,036</u>	<u>81,162,892</u>
Less: allowance for impairment of advances to suppliers for property, plant and equipment	(620,296)	(617,477)
	<u>60,154,740</u>	<u>80,545,415</u>

7. VAT RECOVERABLE

As at 31 December 2021, there was a receivable in the amount of 53,694,122 thousand tenge for value added tax due to the turnover on international transportation taxed at a zero rate (31 December 2020: 73,414,146 thousand tenge). The current portion of VAT recoverable amounted to 21,365,489 thousand tenge (31 December 2020: 60,844,724 thousand tenge) (Note 4).

8. OTHER NON-CURRENT ASSETS

	31 December 2021	31 December 2020
Restricted cash	13,724,273	11,490,728
Receivables from employees	286,330	404,347
Prepaid expenses	-	1,432
Others	133,320	154,139
	<u>14,143,923</u>	<u>12,050,646</u>

Restricted cash represents amounts in euro pledged as collateral for loans received from HSBC France. The encumbrance of cash will be removed after the repayment of these loans.
During 2021, the Group transferred 2,748,102 thousand tenge to restricted cash (2020: 11,574,062 thousand tenge).

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9. INVENTORIES

	31 December 2021	31 December 2020
Fuel	8,842,348	6,435,904
Spare parts	1,974,054	1,781,622
Special clothing	1,620,506	1,364,313
Raw materials and supplies	265,719	274,752
Others	1,328,402	1,150,887
	<u>14,035,029</u>	<u>11,007,478</u>
Less: allowance for slow-moving and obsolete inventories	(21,091)	(149,153)
	<u>14,013,938</u>	<u>10,858,325</u>

10. TRADE AND OTHER ACCOUNTS RECEIVABLE

	31 December 2021	31 December 2020
Trade accounts receivable from related parties (Note 28)	8,120,919	16,602,247
Other accounts receivable from related parties (Note 28)	2,962,683	552
Trade accounts receivable from third parties	1,720,415	806,079
Other accounts receivable from third parties	454,954	295,470
	<u>13,258,971</u>	<u>17,704,348</u>
Less:		
allowance on expected credit losses for trade accounts receivable from related parties (Note 28)	(7,735,155)	(90,089)
allowance on expected credit losses for trade accounts receivable from third parties	(432,053)	(361,346)
allowance on expected credit losses for other accounts receivable from third parties	(228,523)	(196,522)
allowance on expected credit losses for other accounts receivable from related parties (Note 28)	(43)	(522)
	<u>(8,395,774)</u>	<u>(648,479)</u>
	<u>4,863,197</u>	<u>17,055,869</u>

As at 31 December 2021, other accounts receivable from related parties include receivables from KTZ-Passenger Locomotives LLP of 2,962,624 thousand tenge under the Agreement on reimbursement of advances paid for passenger electric locomotives (Note 28).

The average credit period on services provided to customers of the Group is 30 days. The Group does not charge interest on outstanding trade accounts receivable.

Movement in the allowance on expected credit losses for the years ended 31 December was as follows:

	2021	2020
At 1 January	(648,479)	(526,300)
Accrued	(9,618,394)	(340,337)
Recovered	1,783,462	388,998
Written-off	87,637	29,160
	<u>(8,395,774)</u>	<u>(648,479)</u>
At 31 December		

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Aging analysis of trade and other accounts receivable and risk profile of trade and other accounts receivable based on the Group's allowance matrix as at 31 December 2021 and 2020 is presented as follows:

31 December 2021	Not overdue	Past due					Total
		<30	31-120	121-210	211-360	>361	
Expected credit loss rate	0%	0.52%	2.36%	10.28%	53.22%	100%	
Gross carrying amount	3,417,463	1,116,719	147,332	102,654	153,371	8,321,432	13,258,971
Lifetime ECL	-	(3,784)	(3,259)	(7,963)	(59,336)	(8,321,432)	(8,395,774)

31 December 2020	Not overdue	Past due					Total
		<30	31-120	121-210	211-360	>361	
Expected credit loss rate	0%	0.14%	0.64%	4.85%	43.01%	100%	
Gross carrying amount	3,993,068	375,193	12,721,539	25,298	28,328	560,922	17,704,348
Lifetime ECL	-	(363)	(81,700)	(1,157)	(4,337)	(560,922)	(648,479)

11. CASH AND CASH EQUIVALENTS

	31 December 2021	31 December 2020
Cash in current bank accounts, in tenge	7,035,046	195,940
Cash in current bank accounts, in Euro	55,397	-
Short-term deposits, in tenge	14,930	19,041,417
Cash in current bank accounts, in Russian roubles	15,330	10,054
Cash in current bank accounts, in US dollars	-	496
	<u>7,120,703</u>	<u>19,247,817</u>
Less: allowance on expected credit losses for cash and cash equivalents	(410)	(1,694)
	<u>7,120,293</u>	<u>19,246,123</u>

12. TRANSFER OF ASSETS AND LIABILITIES TO THE PARENT COMPANY

Under the Roadmap for establishing KTZ-Passenger Locomotives LLP, approved by a decision of the Development Committee and the Action Plan for improving Corporate Governance of NC KTZ JSC for 2018-2020, a number of measures were developed to reorganise the Group by spinning off KTZ - Passenger Locomotives LLP with further merger with Passenger Locomotives LLP, which was earlier transferred to the Parent Company (Note 29). Main activity of KTZ-Passenger Locomotives LLP is a provision of services as a passenger locomotive traction operator.

On 31 August 2021, KTZ-Passenger Locomotives LLP was registered at the justice authorities of the Republic of Kazakhstan and on 1 September 2021, in accordance with the separation balance sheet approved by the Management Board of NC KTZ JSC, the Group recognised the transfer of assets and liabilities to a related party, KTZ-Passenger Locomotives LLP, through equity in retained earnings (Note 13). The sole participant of KTZ-Passenger Locomotives LLP is NC KTZ JSC.

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Since the spin-off component does not represent a significant business line for the Group, the Group has not classified the financial result of the component in discontinued operations.

	31 August 2021
ASSETS	
Property, plant and equipment (Note 5)	101,182,496
Advances paid for property, plant and equipment	19,226,270
Other non-current assets	300,015
Inventories	22,403
Total assets	<u>120,731,184</u>
LIABILITIES	
Long-term loans and debt securities (Note 14)	24,880,604
Current portion of long-term loans and debt securities (Note 14)	5,927,023
Trade accounts payable to third parties	6,225,722
Total liabilities	<u>37,033,349</u>
Net assets	<u>83,697,835</u>

Further, upon the completion of all legal procedures, the Group will recognise a decrease in the charter capital of the main company of the Group by the amount of transferred assets and liabilities.

Assets and liabilities classified as held for distribution to the Parent Company

As at 31 August 2021, the process of separation liabilities under the long-term loan agreement with HSBG France was not completed. As the disbursement of tranches for the purchase of passenger locomotives under the contract continues, under the Roadmap, the approval of the adjusted separation balance sheet is provided as at the date of completion of separation liabilities under the agreement.

As at 31 December 2021, the Group classified assets and liabilities arising from the transfer of assets and liabilities on 1 September 2021 and transferrable to KTZ-Passenger Locomotives LLP as assets and liabilities held for distribution to the Parent Company, at the lower of their carrying amount and fair value less distribution costs. The Group expects the transaction to be completed within 12 months. The transfer of assets and liabilities will be recognised through equity:

	31 December 2021
Assets	
Property, plant and equipment (Note 5)	791,870
Advances paid for property, plant and equipment	3,388,145
Total assets classified as held for distribution to the Parent Company	<u>4,180,015</u>
Liabilities	
Long-term loans and debt securities (Note 14)	2,938,890
Current portion of long-term loans and debt securities (Note 14)	449,255
Total liabilities directly attributable to assets classified as held for distribution to the Parent Company	<u>3,388,145</u>
Net assets	<u>791,870</u>

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As at 31 December 2021, long-term loans and debt securities classified as held for distribution to the Parent Company include loans received from HSBC France and relate to passenger locomotives.

13. EQUITY

In 2020 based on the resolution of the Parent Company's Management Board dated 14 January 2020, KTZ-Freight Transportation Joint Stock Company was reorganised into KTZ-Freight Transportation Limited Liability Partnership pursuant to the laws of the Republic of Kazakhstan. The charter capital of the partnership was specified in the amount of the net assets of the joint-stock company, which is 135,876,527 thousand tenge. Thus, the charter capital of the partnership was increased out of retained earnings in the amount of 23,544,519 thousand tenge.

On 18 August 2020, the issue of authorised shares of KTZ-Freight Transportation JSC was cancelled due to reorganisation.

Disposal of subsidiary

In January 2021, under a trust management agreement, the Group transferred a 99% interest in the subsidiary Passenger Locomotives LLP to the Parent Company and as a result of the loss of control over the subsidiary, recognised the disposed net liabilities of 87,974 thousand tenge through equity in retained earnings (Note 29).

Other distributions

In August 2021, the Group was reorganised by splitting into two subsidiaries of NC KTZ JSC: KTZ-Freight Transportation LLP and KTZ-Passenger Locomotives LLP.

The Group transferred a part of assets and liabilities in accordance with the separation balance sheet approved by the Management Board of NC KTZ JSC and recognised disposed net assets of 83,697,835 thousand tenge through equity in retained earnings (Note 12).

Dividends paid

In 2021, the Group declared and fully paid dividends of 7,392,246 thousand tenge. During 2020, the Group neither declared nor paid any dividends.

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14. LOANS AND DEBT SECURITIES

As at 31 December 2021 and 2020, loans and debt securities, including interest accrued, comprised the following:

	Original currency	Maturity date	31 December 2021		31 December 2020	
			Amount	Weighted average effective interest rate, (%)	Amount	Weighted average effective interest rate, (%)
Loans received						
HSBC France	Euro	30 June 2030	53,295,579	3.62%	62,114,643	4.87%
KTZ Finance LLC	Russian rouble	1 June 2022	23,178,560	10.01%	22,572,417	10.03%
European Bank for Reconstruction and Development	Tenge	18 September 2024	-	13.65%	6,305,022	12.27%
Debt securities issued						
Bond loan 1	Tenge	3 October 2034	85,931,012	14.37%	83,141,217	10.45%
Bond loan 2	Tenge, indexed to Swiss franc	5 December 2023	80,617,039	3.25%	81,375,246	3.52%
Bond loan 3	Tenge	15 November 2024	26,470,754	9.25%	26,470,754	10.02%
			269,492,944		281,979,299	
Current portion of loans and debt securities			36,007,179		13,815,464	
Non-current portion of loans and debt securities			230,097,620		268,163,835	
Liabilities directly attributable to assets classified as held for distribution to the Parent Company (Note 12)			3,388,145		-	
			269,492,944		281,979,299	

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Loan repayment periods are presented below:

	31 December 2021	31 December 2020
Within 1 year	36,456,434	13,815,464
1-2 years	87,763,080	34,061,552
2-3 years	33,167,719	92,826,732
3-4 years	7,327,863	37,420,863
4-5 years	6,465,628	10,046,497
Over 5 years	98,312,220	93,808,191
	269,492,944	281,979,299

As at 31 December 2021 and 2020, there were no property, plant and equipment that were used as collateral for the Group's loans (Note 5).

Loans received

HSBC France

On 31 May 2012, the Group entered into a joint General Framework Agreement with HSBC France, HSBC Bank Plc and HSBC Kazakhstan Subsidiary Bank JSC, with the support of COFACE export and credit agency, to finance the purchase of freight and passenger electric locomotives. The remuneration is paid off in semi-annual instalments at EUR CIRR rate + margin of 0.4%. The principal debt is due in semi-annual instalments until fully repaid in 2030.

Under the signed agreement and addendums thereto, the Group received loans of 55,829 thousand Euro for the year ended 31 December 2021 (the equivalent of 27,705,007 thousand tenge at the exchange rate on the date of transfers), which were directly transferred to ALSTOM Transport SA for the purchase of electric locomotives.

For the year ended 31 December 2020, the loans of 11,998 thousand Euro were received (the equivalent of 5,728,726 thousand tenge at the exchange rate on the date of transfers), which were directly transferred to ALSTOM Transport SA for the purchase of electric locomotives.

KTZ Finance LLC

On 19 June 2017, the Group received a loan from KTZ Finance LLC in the amount of 4,000,000 thousand roubles (the equivalent of 21,880,000 thousand tenge at the exchange rate on the date of transfer) at a 9.85% interest per annum.

Interest is paid twice a year. Principal is repaid in lump sum at the end of the loan term, 1 June 2022.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021 (in thousands of tenge)

NC Kazakhstan Temir Zholy JSC

In June 2020, the Group, represented by the Company, issued bonds at Astana International Financial Centre - Astana International Exchange Ltd (AIX) in favour of NC KTZ JSC, under the First Bond Programme with a nominal value of up to 210,000,000 thousand tenge. The purpose was the repayment of intragroup loans from NC KTZ JSC indexed to US dollar in the amount of 96,777,500 thousand tenge, indexed to Swiss franc in the amount of 70,240,600 thousand tenge, as well as loans denominated in tenge in the amount of 25,840,007 thousand tenge.

The First Issue with issue size of 96,777,500 thousand tenge was with a coupon rate of 14.58% per annum and maturity on 3 October 2034 with the aim of refinancing loan No. 1. The frequency of coupon payment - twice a year. As a result of substantial modification of the debt, the Group recognised an under-amortised discount in the amount of 1,351,630 thousand tenge as an interest expense in the statement of profit or loss. During the second half of 2020, the Group made early redemption of bonds for the value of 13,780,259 thousand tenge.

In December 2020, the Company received a notice from the Parent Company on reduction of the First Issue's coupon rate to 5.08% per annum over the period from 3 October 2020 to 2 April 2021. The Group recognised an adjustment to the carrying amount of bonds due to non-substantial modification in the amount of 2,814,046 thousand tenge including deferred tax of 179,676 thousand tenge in the consolidated statement of changes in equity.

In the second half of 2021, the Group recognised additional 976,213 thousand tenge, including deferred tax of 192,900 thousand tenge to the amount of the initial adjustment to the carrying amount of the bonds due to non-substantial modification in the consolidated statement of changes in equity.

The Second Issue of bonds indexed to the Swiss franc was in the amount of 70,240,600 thousand tenge with a coupon rate of 3.25% per annum and maturity on 5 December 2023 for the purpose of refinancing loan No.2. The coupon shall be paid once a year.

The Third Issue with issue size of 25,840,007 thousand tenge was with a coupon rate of 9.25% per annum and maturity on 15 November 2024 with the aim of refinancing loan No. 3. The frequency of coupon payment - once a year.

As the maturity dates and currency of the second and third issues do not differ from the original loans, the creditor and interest rates remain unchanged, the refinancing was recognised as a non-substantial modification of the original loans.

European Bank for Reconstruction and Development ("EBRD")

As a result of the reorganisation by spinning-off KTZ-Passenger Locomotives LLP, tranches received under the EBRD credit line of 5,686,379 thousand tenge were transferred to KTZ-Passenger Locomotives LLP in accordance with the separation balance sheet (Note 12).

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Loan covenants and their compliance

The terms of the loans received from the EBRD and HSBC France provide for compliance with specific financial covenants. These financial covenants are calculated on a semi-annual and annual basis as agreed with the EBRD and HSBC France.

In 2019, the Group agreed new financial and non-financial terms with HSBC France. Starting from 2020, the Parent Company of the Group must comply with the following covenants: the Parent Company shall have two of the three credit ratings (S&P, Fitch and Moody's) at least at BB level. As at 31 December 2021, this covenant was met.

In March 2020, the Group signed an addendum to the Loan Agreement with the EBRD, whereby new financial performance thresholds were set for the Group. These figures are calculated based on the consolidated financial statements of the Parent Company on a semi-annual and annual basis. As at 31 December 2021, the Parent Company complied with the specified values of loan covenants.

The Group is continuing to monitor compliance with the established covenants on a regular basis.

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Changes in liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	<u>Bank loans</u>	<u>Loans from related parties</u>	<u>Debt securities issued</u>	<u>Total loans and debt securities</u>	<u>Lease liabilities</u>	<u>Total</u>
At 1 January 2021	68,419,665	22,572,417	190,987,217	281,979,299	4,887,829	286,867,128
Principal payment	(12,853,663)	-	-	(12,853,663)	-	(12,853,663)
Lease payments	-	-	-	-	(923,476)	(923,476)
Total cash changes from financing activities	(12,853,663)	-	-	(12,853,663)	(923,476)	(13,777,139)
Effect of changes in foreign exchange rates	(4,795,498)	576,101	(704,451)	(4,923,848)	-	(4,923,848)
Interest expenses and discount amortisation	2,543,908	1,922,941	13,430,081	17,896,930	743,578	18,640,508
Capitalisation of interest on loans and bonds issued ¹	705,860	389,472	3,461,674	4,557,006	-	4,557,006
Interest paid	(2,575,635)	(2,054,582)	(13,119,722)	(17,749,939)	(902,105)	(18,652,044)
Other receipts ²	27,705,007	-	-	27,705,007	-	27,705,007
Transfer of liabilities to the Parent Company (Note 12) ³	(30,807,627)	-	-	(30,807,627)	-	(30,807,627)
Reimbursement of payments for liabilities transferred to the Parent Company ⁴	3,046,161	-	-	3,046,161	-	3,046,161
Lease modification	-	-	-	-	212,215	212,215
Other changes	(94,659)	(227,795)	(976,214)	(1,298,668)	(24,499)	(1,323,167)
At 31 December 2021	53,295,579	23,178,560	193,018,805	269,492,944	3,993,542	273,486,486

¹ The capitalisation of interest on loans and debt securities represents capitalised expenses that are directly attributable to the acquisition of qualifying assets (electric locomotives).

² Other receipts are represented by loans received from HSBG France, which were directly transferred to ASTOM Transport SA for the purchase of electric locomotives.

³ The transfer of liabilities to the Parent Company is represented by the disposal of loans from HSBG France and the EBRD, which were transferred to KTZ-Passenger Locomotives LLP according to the separation balance sheet.

⁴ Payments for the repayment of principal and interest on liabilities transferred to the Parent Company that are subject to reimbursement by KTZ-Passenger Locomotives LLP.

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	Bank loans	Loans from related parties	Debt securities issued	Total loans and debt securities	Lease liabilities	Total
At 1 January 2020	65,272,284	213,427,148	-	278,699,432	5,980,473	284,679,905
Principal payment	(24,120,442)	-	(13,780,259)	(37,900,701)	-	(37,900,701)
Lease payments	-	-	-	-	(1,004,007)	(1,004,007)
Proceeds from loans received	10,209,840	-	-	10,209,840	-	10,209,840
Total cash changes from financing activities	(13,910,602)	-	(13,780,259)	(27,690,861)	(1,004,007)	(28,694,868)
Effect of changes in foreign exchange rates	10,237,565	2,159,065	10,959,944	23,356,574	-	23,356,574
Interest expenses and discount amortisation	3,376,597	8,887,698	9,128,563	21,392,858	868,534	22,261,392
Capitalisation of interest on loans and bonds issued ⁵	610,976	105,787	705,486	1,422,249	-	1,422,249
Interest paid	(2,875,589)	(7,889,325)	(6,070,578)	(16,835,492)	(730,172)	(17,565,664)
Other receipts ⁶	5,728,726	-	-	5,728,726	-	5,728,726
Effect of non-substantial modification of the terms of debt securities issued	-	-	(2,814,046)	(2,814,046)	-	(2,814,046)
Lease modification	-	-	-	-	(41,920)	(41,920)
Refinancing of loans from Parent Company by bond issue	-	(192,858,107)	192,858,107	-	-	-
Other changes	(20,292)	(1,259,849)	-	(1,280,141)	(185,079)	(1,465,220)
At 31 December 2020	68,419,665	22,572,417	190,987,217	281,979,299	4,887,829	286,867,128

⁵ The capitalisation of interest on loans and debt securities represents capitalised expenses that are directly attributable to the acquisition of qualifying assets (electric locomotives).

⁶ Other receipts are represented by loans received from HSBC France, which were directly transferred to ACSTOM Transport SA for the purchase of electric locomotives.

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15. EMPLOYEE BENEFIT OBLIGATIONS

Obligatory payroll deductions

The Group pays social tax in accordance with the legislation of the Republic of Kazakhstan. Social tax and other payroll expenses are recognised as they are incurred. For the years ended 31 December 2021 and 2020, social tax expenses and social contributions recognised through the cost of sales and general and administrative expenses amounted to 23,364,525 thousand tenge and 19,822,790 thousand tenge, respectively (Notes 21 and 22).

The Group also withholds and contributes 10% of its employees' salaries as cumulative pension fund contributions. According to the legislation of the Republic of Kazakhstan, pension contributions are an obligation of employees, and the Group has neither current nor future employee benefit obligations, except as specified below.

Defined benefit plans and other long-term employee benefit obligations

Obligations under the defined benefit plan and other long-term employee benefit obligations are payable in accordance with a Labour Union Agreement for 2021-2023 between the Group and its employees.

During 2019, the Group introduced certain Rules related to early retirement (the "Rules") in order to meet the plan of reducing the number of employees employed by the Group in the next 5 years. The Rules are effective for employees who reach a minimum age of five years before the retirement age that has been established by the legislation.

The Labour Union Agreement and the Rules apply to employees of the Group who meet the established requirements.

In accordance with these documents, the Group provides the following basic payments and benefits:

Post-employment benefit:

- one-time retirement benefit;
- financial aid in the event of the death of a pensioner;
- reimbursement of expenses for dental prosthetics for pensioners;
- financial aid to pensioners for the holidays;
- reimbursement of expenses for pensioners to pay for travel by rail;
- providing pensioners with vouchers for sanatorium-resort care;
- one-time financial aid to pensioners for anniversaries;
- one-off payment upon early termination of the employment contract, depending on the length of service in the industry in accordance with the Rules;
- benefit until the employee reaches the retirement age in the amount of not less than 70 thousand tenge and not more than 200 thousand tenge per month as a one-off payment for the entire period until the employee reaches the retirement age or on a monthly basis in accordance with the Rules.

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Other long-term liabilities:

- financial aid to employees for sanatorium-resort care;
- reimbursement of expenses for dental prosthetics to employees;
- one-time bonus to employees for anniversaries;
- reimbursement of railway tickets to employees.

These programs are not funded. The Group's policy with respect to these programs does not provide for the accumulation of assets to cover liabilities, employees do not make additional contributions to the programs.

	31 December 2021	31 December 2020
Non-current portion of obligations under defined benefit plans	25,403,463	24,916,632
Current portion of obligations under defined benefit plans	4,845,610	3,880,364
	30,249,073	28,796,996

Movement in the present value of defined benefit plan and other long-term employee benefits obligation for the years ended 31 December 2021 and 2020 is as follows:

	31 December 2021	31 December 2020
Total obligation at the beginning of the year	28,796,996	30,236,256
Current service cost	873,905	1,182,405
Past service cost	301,603	196,469
Interest expenses	2,964,595	2,751,489
Actuarial gain	(759,640)	(862,964)
Total expenses recognised in profit or loss	3,380,463	3,267,399
Actuarial remeasurement recognised in other comprehensive (income)/loss:	(197,299)	(2,195,517)
- change in financial assumptions	205,858	(210,740)
- experience based adjustment	(173,917)	(1,886,588)
- change in demographic assumptions	(229,240)	(98,189)
Payments for the year	(1,716,558)	(2,511,142)
Consequences of business combination	(14,529)	-
Total defined benefit plan obligation at the end of the year	30,249,073	28,796,996

Total liabilities on the defined benefit plan and other long-term employee benefits recognised in profit or loss for the years ended 31 December are presented as follows:

	2021	2020
Cost of sales (Note 21)	3,164,731	2,992,752
General and administrative expenses (Note 22)	215,732	274,647
	3,380,463	3,267,399

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The Group's liabilities were estimated based on the published statistical data regarding mortality in the Republic of Kazakhstan and actual Group data concerning employee and pensioner headcount, age, gender, years of service and turnover and statistics on staff changes, given that all employees who will be given an opportunity to use the Rules will use them when they reach the minimum required age, i.e. not earlier than 5 years before the retirement age established by law. The average life expectancy after the onset of retirement age for current and former employees who retired is 14.3 years for men and 18.4 years for women.

Other significant actuarial assumptions as at the date of the consolidated statement of financial position are as follows:

	2021	2020
Discount rate	10.40%	10.30%
Expected annual growth rate of future financial aid	4.21%	4.23%
Expected annual growth rate of future minimum salaries	5.30%	4.61%
Expected annual growth rate of future railway ticket cost	5.55%	7.05%
Expected growth of pension contributions	5.30%	4.61%

The sensitivity analysis carried out by an actuary showed that the maximum increase in employee benefit obligations will be 7.4% if the inflation rate increases by 1% and 7.1% if the discount rate decreases by 1%.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit plan obligation as it is unlikely that the change in assumptions would occur in isolation of one another (some of the assumptions may be correlated).

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the consolidated statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

16. TRADE ACCOUNTS PAYABLE TO THIRD PARTIES

	31 December 2021	31 December 2020
Accounts payable for fuel	11,805,316	6,943,056
Accounts payable for service maintenance of locomotives	9,247,801	9,094,516
Accounts payable for electricity	3,549,131	11,306,500
Accounts payable for inventories	2,772,356	639,996
Accounts payable for services provided	2,744,968	2,219,343
Accounts payable for property, plant and equipment	594,072	548,675
Others	787,747	806,250
	31,491,491	32,458,336

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

	31 December 2021	31 December 2020
Tenge	28,649,983	28,365,403
US dollars	2,821,787	3,301,764
Russian roubles	19,721	20,567
Swiss francs	-	770,602
	31,491,491	32,458,336

17. OTHER TAXES PAYABLE AND OBLIGATORY PAYMENTS

	31 December 2021	31 December 2020
Pension fund and social insurance fund contributions	4,182,915	3,037,454
Personal income tax	2,072,002	1,673,884
Social tax	900,013	685,689
Social insurance liability	423,268	361,678
Value added tax	48,170	83,821
Others	437,312	372,823
	8,063,680	6,215,349

18. CONTRACT LIABILITIES

As at 31 December 2021 and 2020, contract liabilities were presented as follows:

	31 December 2021	31 December 2020
Advances received under contracts for freight transportation and locomotive traction services	61,116,007	47,844,937
Deferred income under freight transportation services contracts	9,096,054	6,931,768
	70,812,061	54,776,705

As at 31 December 2021, advances received under contracts for freight transportation and locomotive traction services will be recognised as revenue during the year.

For the year ended 31 December 2021, revenue recognised in the reporting period, which was included in contract liabilities at the beginning of the period, amounted to 54,776,705 thousand tenge.

As at 31 December 2021, advances received under contracts for freight transportation and locomotive traction services included advances received from related parties of 21,347,690 thousand tenge (Note 28) (31 December 2020: 20,199,450 thousand tenge).

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19. OTHER CURRENT LIABILITIES

	31 December 2021	31 December 2020
Salaries payable	6,814,297	5,145,558
Contributions received from suppliers for participation in tenders	1,292,221	841,799
Total other current financial liabilities	8,106,518	5,987,357
Unused vacation provision	7,680,143	6,370,908
Litigation liabilities	1,964,375	1,269
Corporate income tax liabilities	5,540	19,256
Others	959,994	1,930,412
Total other current non-financial liabilities	10,610,052	8,321,845
	18,716,570	14,309,202

As at 31 December 2021, the Group recognised liabilities under the claim from Oil Stream LLP to recover losses caused by the suspended transportation of accepted cargo (oil products) and non-acceptance of the remaining cargo in the amount of 1,905,928 thousand tenge through other expenses.

20. REVENUE

For the years ended 31 December, revenue included the following:

	2021	2020
Freight transportation services	1,046,149,845	926,753,554
Transportation process management services	59,416,632	56,522,860
Locomotive traction in freight route	37,537,837	11,770,188
Locomotive lease services	12,667,963	-
Locomotive crew services	9,564,270	-
Message transmission services during detention of railcars	6,025,960	6,592,100
Locomotive traction in passenger route	-	11,846,189
Other revenue	7,492,390	5,726,922
	1,178,854,897	1,019,211,813

During 2021, due to the transfer of Passenger Locomotives LLP to the trust management of the Parent Company and subsequent merger with KTZ-Passenger Locomotives LLP, the Group has not recognised revenue from the locomotive traction in passenger route.

During 2021, the Group recognised revenue from the locomotive lease services and locomotive crew services to the related parties Passenger Locomotives LLP and KTZ-Passenger Locomotives LLP in the amount of 22,232,233 thousand tenge (Note 28).

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For the years ended 31 December, revenue from freight transportation services included the following:

	2021	2020
<i>Revenue from freight transportation services by destinations:</i>		
International transit route	400,596,854	354,698,097
Domestic route	290,899,162	252,287,223
International export route	175,379,887	162,296,638
International import route	126,245,820	112,622,548
<i>Other revenue on freight transportation services:</i>		
Additional charges	45,974,446	38,631,459
Others	7,053,676	6,217,589
	1,046,149,845	926,753,554

Below is the revenue under contracts with customers by the recognition method for the years ended 31 December:

	2021	2020
<i>Over time:</i>		
Revenue from freight transportation services by destinations	993,121,723	881,904,506
Transportation process management services	59,416,632	56,522,860
Locomotive traction in freight route	37,537,837	11,770,188
Locomotive lease services	12,667,963	-
Locomotive crew services	9,564,270	-
Locomotive traction in passenger route	-	11,846,189
Other freight transportation services	53,028,122	44,849,048
<i>At a point in time:</i>		
Message transmission services during detention of railcars	6,025,960	6,592,100
Other revenue	7,492,390	5,726,922
	1,178,854,897	1,019,211,813

During 2021, the Group concluded that other services represent variable consideration for freight transportation services, for which the performance obligation is recognised over time. Comparative information for such services was corrected accordingly.

For the years ended 31 December 2021 and 2020, the Group rendered services to related parties for 261,130,336 thousand tenge and 220,651,326 thousand tenge, respectively (Note 28).

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21. COST OF SALES

	2021	2020
Services of the main railway network	545,296,751	438,360,727
Personnel costs	158,020,280	131,899,473
Locomotive maintenance and other services	116,228,263	107,031,287
Fuel	113,176,261	109,181,019
Temporary balancing fee	65,059,733	-
Electricity	37,247,047	41,743,935
Depreciation and amortisation	17,887,026	18,025,419
Cargo security and escort services	17,499,036	15,365,453
Materials and supplies	10,210,544	9,502,942
Power dispatch services	6,954,588	6,957,879
Employee benefit costs (Note 15)	3,164,731	2,992,752
Wagon lease	935,481	292,203
Other expenses	11,428,478	9,684,326
	<u>1,103,117,219</u>	<u>891,037,415</u>

For the years ended 31 December, personnel costs included the following:

	2021	2020
Payroll	134,467,844	111,718,911
Social tax and social contributions	22,391,418	18,662,339
Accrual/(recovery) of unused vacation provision (Note 19)	1,161,018	(481,777)
	<u>158,020,280</u>	<u>131,899,473</u>

Pursuant to the Law on Railway Transport, a temporary balancing fee has been introduced from 1 January 2021 to support passenger transportation sourced from the revenue of KTZ-Freight Transportation LLP from the transit transportation. The temporary balancing fee is regulated by the Committee.

In 2021, the Group entered into two agreements effective until 31 December 2021 on the temporary balancing fee with Passenger Locomotives LLP on the costs of locomotive traction in passenger route in the amount of 55,387,477 thousand tenge and with NC KTZ JSC on costs for services of the main railway network in passenger route in the amount of 9,672,256 thousand tenge (Note 28).

Expenses for materials mainly include spare parts used in the technical maintenance and current repairs of locomotives.

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22. GENERAL AND ADMINISTRATIVE EXPENSES

	2021	2020
Personnel costs	9,650,911	11,569,700
Social events	3,634,218	1,875,042
Short-term lease expenses	716,878	716,377
Taxes	567,435	336,957
Business trip and representation expenses	476,547	452,978
Depreciation and amortisation	382,174	351,430
Office equipment technical support services	285,658	252,195
Employee benefit expenses (Note 15)	215,732	274,647
Communication services	118,911	162,748
Bank services	27,960	44,147
Other expenses	1,306,307	1,148,158
	<u>17,382,731</u>	<u>17,184,379</u>

For the years ended 31 December, personnel costs included the following:

	2021	2020
Payroll	8,534,768	10,139,743
Social tax and social contributions	973,107	1,160,451
(Recovery)/accrual of key management personnel bonus provision	(5,181)	184,342
Accrual of unused vacation provision (Note 19)	148,217	85,164
	<u>9,650,911</u>	<u>11,569,700</u>

23. FINANCE COSTS

	2021	2020
Interest on loans and debt securities (Note 14)	14,885,265	18,558,211
Unwinding of discount on loans and debt securities (Note 14)	3,011,665	2,834,647
Interest on lease liabilities (Note 14)	743,578	868,534
Amortisation of fee for undrawn loan from HSBC France	221,179	549,222
Recognition of discount on restricted cash	85,920	1,363,288
Others	65,942	43,631
	<u>19,013,549</u>	<u>24,217,533</u>

24. CORPORATE INCOME TAX EXPENSE

Companies established in the Republic of Kazakhstan are subject to corporate income tax on taxable profit according to the legislation of the Republic of Kazakhstan. In 2021 and 2020, income tax rate was 20%.

	2021	2020
Deferred income tax expense	8,734,769	15,603,642
Current corporate income tax expense	1,622,247	96,718
	<u>10,357,016</u>	<u>15,700,360</u>

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

	2021	2020
Profit before tax	35,745,548	64,981,999
Statutory tax rate	20%	20%
Theoretical tax expense at the statutory income tax rate	7,149,110	12,996,400
Temporary balancing fee for services of the main railway network in passenger route	1,934,451	-
Non-deductible expenses	1,273,455	2,703,960
Income tax expense	10,357,016	15,700,360

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

	31 December 2021	Recognised in profit or loss	Recognised in equity	31 December 2020
Deferred tax assets				
Tax losses carried forward	-	(6,315,438)	-	6,315,438
Allowance on expected credit losses	1,726,212	1,563,727	-	162,485
Unused vacation provision	1,536,029	261,847	-	1,274,182
Lease liabilities	794,151	(183,415)	-	977,566
Litigation liabilities	392,875	392,621	-	254
Financial guarantee contract liabilities	313,383	(17,476)	-	330,859
Discount on restricted cash	213,305	(66,661)	-	279,966
Others	605,469	(180,030)	-	785,495
	5,581,424	(4,544,821)	-	10,126,245
Deferred tax liabilities				
Property, plant and equipment	(58,367,395)	(4,559,762)	-	(53,807,633)
Correction of the effect of non-substantial modification of the terms of debt securities issued	(4,850)	367,726	(192,900)	(179,676)
Others	(286)	2,088	-	(2,374)
	(58,372,531)	(4,189,948)	(192,900)	(53,989,683)
Deferred tax liabilities, net	(52,791,107)	(8,734,769)	(192,900)	(43,863,438)

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	31 December 2020	Recognised in profit or loss	Recognised in equity	31 December 2019
Deferred tax assets				
Tax losses carried forward	6,315,438	(9,905,685)	-	16,221,123
Allowance on expected credit losses	1,274,182	113,389	-	1,160,793
Lease liabilities	977,566	(218,520)	-	1,196,095
Financial guarantee contract liabilities	330,859	(19,248)	-	350,107
Discount on restricted cash	279,966	279,966	-	-
Allowance on expected credit losses	162,485	57,225	-	105,260
Litigation liabilities	254	254	-	-
Others	785,495	137,729	-	647,766
	10,126,245	(9,554,899)	-	19,681,144
Deferred tax liabilities				
Property, plant and equipment	(53,807,633)	(6,053,117)	-	(47,754,516)
Correction of the effect of non-substantial modification of the terms of debt securities issued	(179,676)	-	(179,676)	-
Others	(2,374)	4,374	-	(6,748)
	(53,989,683)	(6,048,743)	(179,676)	(47,761,264)
Deferred tax liabilities, net	(43,863,438)	(15,603,642)	(179,676)	(28,080,120)

Movement in deferred tax for the years ended 31 December is presented as follows:

	2021	2020
As at 1 January	(43,863,438)	(28,080,120)
Recognised in profit or loss	(8,734,769)	(15,603,642)
Recognised in equity	(179,900)	(179,676)
As at 31 December	(52,791,107)	(43,863,438)

25. FINANCIAL GUARANTEE LIABILITIES

The Group, together with other subsidiaries of NC KTZ JSC group, acts as a guarantor for the issued Eurobonds of the Parent Company presented below. The Group accounts for these obligations at the higher of allowance for expected credit losses and fair value net of accumulated income. As at 31 December 2021, the Group recognised liabilities under these guarantees for a total of 1,566,913 thousand tenge, including a current portion of 126,788 thousand tenge (31 December 2020: 1,654,295 thousand tenge).

In June 2020, the Parent Company paid 217,022,000 US Dollars (87,542,334 thousand tenge) as partial early repayment of Eurobonds with a total par value of 1,100,000,000 US dollars issued in 2012.

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	Guarantee objective	Guarantee issue date	Guarantee period	Guarantee value (at the exchange rate as at 31 December 2020)
	Under a trust agreement, NC Kazakhstan Temir Zholy JSC, Kaztemirtrans JSC, Passenger Transportation JSC, Vagonservice JSC, Suburban Transportation JSC and KTZ-Freight Transportation LLP together and separately provide an unconditional and irrevocable guarantee to repay Eurobond debt principal and interest on time.	20 June 2014	20 June 2022	185,000 thousand Swiss francs (equivalent to 87,532,750 thousand tenge)
BNY Mellon Corporate trustee Services limited				
	Under a trust agreement, NC Kazakhstan Temir Zholy JSC, Kaztemirtrans JSC, Passenger Transportation JSC, Vagonservice JSC, Suburban Transportation JSC and KTZ-Freight Transportation LLP together and separately provide an unconditional and irrevocable guarantee to repay Eurobond debt principal and interest on time.	8 November 2012	10 July 2042	882,878 thousand US dollars (equivalent to 382,269,900 thousand tenge)
BNY Mellon Corporate trustee Services limited				
	Under a trust agreement, NC Kazakhstan Temir Zholy JSC, Kaztemirtrans JSC, Passenger Transportation JSC, Vagonservice JSC, Suburban Transportation JSC and KTZ-Freight Transportation LLP together and separately provide an unconditional and irrevocable guarantee to repay Eurobond debt principal and interest on time.	5 December 2019	5 December 2023	250,000 thousand Swiss francs (equivalent to 118,287,500 thousand tenge)
BNY Mellon Corporate trustee Services limited				
				equivalent to 887,090,150 thousand tenge

26. FINANCIAL AND CONTINGENT LIABILITIES

Contingent capital commitments

As at 31 December 2021, the Group had capital commitments for acquisition of electric and diesel locomotives of 1,116,990,813 thousand tenge (31 December 2020: 1,317,756,631 thousand tenge).

Contingent liabilities

Regulation of operations

Since the Group has a dominant position in the provision of freight transportation and locomotive traction services, the tariffs on freight transportation and locomotive traction services of the Group are monitored by the Committee.

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Legal claims

The Group is subject to various legal proceedings related to its business operations, such as property damage claims.

As at 31 December 2021, the Group received claims in the total amount of 6,097,173 thousand tenge, including claims for refund due to the failure to apply a 0.01 reduction factor against the fee for the delay of wagons, containers or cargo on its transit railway axles of 2,416,916 thousand tenge and claims for unjustified write-off of funds for the delay of a wagon, cargo or container on its transit railway axles of 3,680,257 thousand tenge.

The management of the Group does not believe that such pending or potential claims, individually or in aggregate, are likely to have any material negative effect on the Group's financial position or financial results of operations.

The Group assesses the likelihood of the occurrence of significant liabilities and accrues the corresponding provision in its consolidated financial statements only when it is probable that events giving rise to the liability will occur and the amount of the liability can be measured reliably.

No allowance has been created in these consolidated financial statements for any of the contingent liabilities mentioned above.

Insurance

The insurance market is still at the early stage of development in the Republic of Kazakhstan, therefore many types of insurance common in other countries are not available. As at 31 December 2021 and 2020, the Group had insurance coverage for third party property or environmental damage as a result of accidents at the Group's assets or facilities or in connection with its operations. The Group does not have business interruption liability insurance.

Taxation

During 2019-2020, a tax audit of the Company was carried out covering the period from 1 January 2016 to 30 June 2018. On 26 November 2020, the Company received a tax audit report. According to the report, additional taxes and penalties amounted to 5,406,994 thousand tenge, including non-resident corporate income tax of 2,615,766 thousand tenge with penalties, VAT of 996,290 thousand tenge and non-resident VAT of 1,794,938 thousand tenge including penalties.

According to the preliminary results of the audit, the Group reflected additional VAT charges in the amount of 980,497 thousand tenge in the consolidated financial statements for 2019 and sent a complaint to the Appeal Commission of the Ministry of Finance of the Republic of Kazakhstan.

On 22 October 2021, the Appeal Commission of the Ministry of Finance of the Republic of Kazakhstan reviewed the Company's complaint and partially canceled the tax audit results appealed by the Group. As a result of consideration of the complaint, a notice was issued on the accrual of taxes and penalties in the amount of 1,129,874 thousand tenge, including 133,584 thousand tenge of the corporate income tax with penalties and 996,290 thousand tenge of VAT. As at 31 December 2021, the Group accrued and reflected all amounts of additional taxes, fines and penalties in the total amount of 182,997 thousand tenge, including additional VAT accrual in the consolidated financial statements for 2019.

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Accordingly, the Group did not create additional tax audit allowance following the tax audit results in the consolidated financial statements.

27. FINANCIAL INSTRUMENTS

The following table combines information about:

- classes of financial instruments based on their nature and characteristics;
- carrying amounts of financial instruments.

	Carrying value			
	Financial assets		Financial liabilities	
	Measured at amortised cost	At the higher of allowance for expected credit losses and fair value less accumulated income	Measured at amortised cost	Total
31 December 2021				
Cash and cash equivalents (Note 11)	7,120,293	-	-	7,120,293
Trade and other accounts receivable (Note 10)	4,863,197	-	-	4,863,197
Restricted cash (Note 8)	13,724,273	-	-	13,724,273
Other current assets	468,873	-	-	468,873
Loans and debt securities (Note 14)	-	-	269,492,944	269,492,944
Lease liabilities	-	-	3,993,542	3,993,542
Trade accounts payable (Note 16, 28)	-	-	54,932,688	54,932,688
Other current liabilities (Note 18)	-	-	8,106,518	8,106,518
Financial guarantee contract liabilities (Note 25)	-	1,566,913	-	1,566,913
	Carrying value			
	Financial assets		Financial liabilities	
	Measured at amortised cost	At the higher of allowance for expected credit losses and fair value less accumulated income	Measured at amortised cost	Total
31 December 2020				
Cash and cash equivalents (Note 11)	19,246,123	-	-	19,246,123
Trade and other accounts receivable (Note 10)	17,055,869	-	-	17,055,869
Loan to related party (Note 28)	14,001,081	-	-	14,001,081
Restricted cash (Note 8)	11,490,728	-	-	11,490,728
Other current assets	258,265	-	-	258,265
Loans and debt securities (Note 14)	-	-	281,979,299	281,979,299
Lease liabilities	-	-	4,887,829	4,887,829
Trade accounts payable (Note 16, 28)	-	-	45,731,602	45,731,602
Other current liabilities (Note 18)	-	-	5,987,357	5,987,357
Financial guarantee contract liabilities (Note 25)	-	1,654,295	-	1,654,295

Capital risk management

The Group manages the risk of insufficient capital to ensure that the Group can continue operating as a going concern while maximizing profits for the Parent Company by optimising the debt-equity balance. In comparison with 2020, the general strategy of the Group has not changed.

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The Group's capital structure includes charter capital, foreign currency translation reserve and (accumulated deficit)/retained earnings.

Summary of significant accounting policies

Significant accounting policies and adopted methods, including recognition criteria, basis for estimates and the basis for recognising income and expenses with respect to each financial asset, financial liability and equity instrument are disclosed in Note 3 to the consolidated financial statements.

Objectives of financial risk management

Risk management is an essential element of the Group's operations. The Group monitors and manages financial risks related to the Group's operations through internal reports on risks which describe the exposure to risk by the degree and size of risks. These risks include the market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. The description of the Group's risk management policies in relation to those risks is discussed below.

Interest rate risk

Interest rate risk is the risk of changes in market interest rates which can result in decrease of returns on investments and increase in cash outflow on loans of the Group. The Group limits its interest rate risk by monitoring changes in interest rates in currencies in which cash and loans are denominated and, by retaining an acceptable ratio between loans with fixed and floating interest rates.

For assets and liabilities with maturity period of more than twelve months, fair value is the present value of estimated future cash flows discounted at the effective rates existing at the end of the reporting year.

Currency risk

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

A substantial part of the Group's liabilities is denominated in Swiss francs and euros. Foreign exchange gains or losses arise as a result of changes in the exchange rate of tenge in relation to foreign currencies in which liabilities are denominated. For the years ended 31 December 2021 and 2020, the foreign exchange gain amounted to 2,184,581 thousand tenge and the foreign exchange loss - 23,045,121 thousand tenge, respectively.

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The carrying value of financial assets and financial liabilities in foreign currency is presented as follows:

	Financial assets		Financial liabilities		Net position	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Euro	13,894,128	11,490,728	(53,295,579)	(62,114,643)	(39,401,451)	(50,623,915)
Swiss franc	-	20,572	(80,876,161)	(82,145,848)	(80,876,161)	(82,125,276)
Russian rouble	15,476	10,110	(23,198,281)	(22,592,884)	(23,192,805)	(22,582,874)
US dollar	-	406	(4,129,578)	(3,301,764)	(4,129,578)	(3,301,358)

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 20% increase and decrease in currency units against the relevant foreign currencies. 20% - the reasonably possible change in foreign exchange rates used for internal reporting of foreign currency risk to key management personnel and represents management's assessment of reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 20% change in foreign currency rates. The sensitivity analysis includes all financial instruments denominated in the relevant foreign currency.

The following table details change in financial assets and liabilities to a 20% weakening of tenge against the relevant currency. A positive number indicates an increase in profit for the reporting period, whereas a negative number – decrease in profit. For a 20% strengthening to the relevant currency, there would be an equal and opposite impact on the profit.

	Euro effect	
	31 December 2021	31 December 2020
Financial assets	2,778,826	2,298,146
Financial liabilities	(10,659,116)	(12,427,929)
	<u>(7,880,290)</u>	<u>(10,124,783)</u>

	Swiss franc effect	
	31 December 2021	31 December 2020
Financial assets	-	4,134
Financial liabilities	(16,175,232)	(16,428,170)
	<u>(16,175,232)</u>	<u>(16,425,036)</u>

	Russian rouble effect	
	31 December 2021	31 December 2020
Financial assets	3,095	2,022
Financial liabilities	(4,639,656)	(4,518,597)
	<u>(4,636,561)</u>	<u>(4,516,575)</u>

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	US dollar effect	
	31 December 2021	31 December 2020
Financial assets	-	81
Financial liabilities	(825,916)	(660,353)
	<u>(825,916)</u>	<u>(660,272)</u>

Credit risk

The credit risk arising from counterparties' failure to meet the terms of agreements on the Group's financial instruments is usually limited to the amounts, if any, by which their liabilities exceed the liabilities of the Group to these counterparties. Group policy provides for transactions with financial instruments with a number of solvent counterparties. The maximum exposure to credit risk is represented by the carrying value of each financial asset.

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

The Group's policy provides for constant control over transactions to be held with customers who have adequate credit history and that the transactions do not exceed set credit limits. The Group mainly works on an advance basis with third party organisations for freight transportation services. Since the majority of the Group's receivables are from related parties, the Group believes that these liabilities will be paid on demand.

Accounts receivable from related parties include accounts receivable from KTZ Express JSC of 7,735,150 thousand tenge, which is 70% of total gross carrying accounts receivable from related parties. The allowance for this counterparty amounted to 100%.

Accounts receivable from third parties are insignificant, with the carrying amount of accounts receivable being 1,514,793 thousand tenge. The allowance amounted to 660,576 thousand tenge (Note 10).

The overdue period for receivables is generally from 0 to 90 days. The Group accrues an allowance for expected credit losses on receivables using a provision matrix based on days overdue. The Group recognises a 100% allowance for debt with a maturity of more than 365 days. The table on risk profiles of trade and other accounts receivable based on the allowance matrix is presented in Note 10.

The Group acts as the guarantor on the Parent Company's liabilities (Note 25).

For cash and cash equivalents, the Group's credit risk is linked to the default risk of credit institutions in which cash and cash equivalents are held, with the maximum risk equal to the current value of these cash and cash equivalents, and is treated as insignificant.

As at 31 December 2021, 98% of the Group's cash and cash equivalents of 6,962,505 thousand tenge were held in accounts with Halyk Bank of Kazakhstan JSC, which has a BB+/stable credit rating according to Standard & Poor's (31 December 2020: 99% amounted to 19,095,403 thousand tenge).

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As at 31 December 2021, the Group's restricted cash of 13,724,273 thousand tenge were held in accounts with HSBC France, which has an AA-/negative credit rating according to Fitch Ratings (31 December 2020: 11,490,728 thousand tenge).

Liquidity risk

The Group manages its liquidity risk by maintaining adequate reserves, bank loans, debt securities and accessible credit lines by constant monitoring potential and actual cash flows and comparing the maturity dates of financial assets and liabilities.

When necessary, the Parent Company provides financial support in the form of financial aid.

Liquidity risk tables

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

	Weighted average interest rate	3 months –					Total
		Up to 1 month	1-3 months	1 year	1-5 years	Over 5 years	
At 31 December 2021							
<i>Interest free:</i>							
Trade accounts payable		54,862,300	8,570	61,818	-	-	54,932,688
Other current liabilities		6,814,297	1,292,221	-	-	-	8,106,518
Financial guarantee liabilities*		587,090,150	-	-	-	-	587,090,150
<i>Interest-bearing:</i>							
Fixed interest rate instruments	10.74%	144,353	1,889,781	51,755,871	203,436,712	203,726,448	460,953,165
		648,911,100	3,190,572	51,817,689	203,436,712	203,726,448	1,111,082,521
At 31 December 2020							
<i>Interest free:</i>							
Trade accounts payable		45,681,539	5,367	44,896	-	-	45,731,802
Other current liabilities		5,145,558	841,799	-	-	-	5,987,357
Financial guarantee liabilities*		579,410,270	-	-	-	-	579,410,270
<i>Interest-bearing:</i>							
Floating interest rate instruments	12.27%	-	542,700	1,615,644	5,549,669	-	7,708,013
Fixed interest rate instruments	10.92%	134,080	1,461,502	27,417,779	264,037,940	196,388,048	489,439,349
		630,371,247	2,851,368	29,078,319	269,587,609	196,388,048	1,128,276,591

* Liabilities under financial guarantees are stated at par value. KTZ-Freight Transportation LLP jointly and separately with Kaztemirtrans JSC, Passenger Transportation JSC, WagonService JSC and Suburban Transportation JSC provide an unconditional and irrevocable guarantee for timely repayment of principal and accrued interest on Eurobonds issued by the Parent Company.

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The amounts included in the table for financial guarantee contracts are the maximum amount the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. At the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The following table reflects the expected maturities of the Group's financial assets. The Group assesses allowance for expected credit losses arising from all possible cases of default over the expected life of the Group's financial assets as insignificant, except for the allowance for accounts receivable from related party KTZ Express JSC. The table was prepared based on the undiscounted contractual terms of financial assets.

	Interest rate	3 months –			Unspecified maturity*	Total
		Up to 1 month	1-3 months	1 year		
At 31 December 2021						
<i>Interest-free:</i>						
Trade and other accounts receivable		4,715,328	27,904	119,965	-	8,395,774
Other current assets		350,975	5,533	13,121	-	369,629
Cash and cash equivalents		7,105,363	-	-	-	7,105,363
<i>Interest-bearing:</i>						
Restricted cash	1.45%	-	114,458	-	14,790,798	14,905,256
Cash and cash equivalents	6.5%	14,930	-	-	-	14,930
		12,186,596	147,895	133,086	14,790,798	8,395,774
						35,654,14
At 31 December 2020						
<i>Interest-free:</i>						
Trade and other accounts receivable		4,301,507	12,717,596	36,766	-	648,479
Loan to related party		-	-	14,001,081	-	14,001,081
Other current assets		254,340	3,725	13,079	-	271,144
Cash and cash equivalents		204,706	-	-	-	204,706
<i>Interest-bearing:</i>						
Cash and cash equivalents	8.5%	19,041,417	-	-	-	19,041,417
Restricted cash	1.45%	-	-	-	12,890,637	12,890,637
		23,801,970	12,721,321	14,050,926	12,890,637	648,479
						64,113,333

* Amounts with unspecified maturities represent amounts, which we provided for expected credit losses

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Fair value is the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. As no readily available market exists for a large part of the Group's financial instruments, judgement is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument.

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

Cash and cash equivalents

The carrying value of cash approximates its fair value due to the short-term repayment nature of these financial instruments.

Financial assets and liabilities maturing within twelve months

For assets and liabilities maturing within twelve months the carrying value approximates fair value due to relatively short-term nature of their maturities.

Loans and debt securities

The fair value of loans is calculated by discounting the expected future cash flows for individual loans during the estimated repayment period using market rates prevailing at the end of the year for loans with similar maturities and credit rating parameters. Most of the loans are provided to the Group by related parties and foreign banks. As a result, the interest rates on these loans, although lower than the interest rates of private commercial lending institutions in the Republic of Kazakhstan, are considered as market interest rates for this category of creditors, which are publicly available information and published by the National Bank of the Republic of Kazakhstan.

Average market rates on borrowed funds were as follows:

	2021 (% per annum)	2020 (% per annum)
Tenge		
1-5 years	13.4	12.2
Over 5 years	13.4	14.1
Foreign currency		
1-5 years	5.8	6.1
Over 5 years	5.5	6.5

Fair value of financial assets and liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The fair value hierarchy of long-term loans is Level 2. As at 31 December 2021 and 2020, there were no transfers between levels of the fair value hierarchy.

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As at 31 December 2021, the fair value of financial assets and financial liabilities, excluding loans and debt securities, did not differ materially from their carrying values. The carrying and fair values of loans and debt securities as at 31 December 2021 and 2020 were as follows:

	31 December 2021		31 December 2020	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities:				
Loans	76,474,139	78,164,106	90,992,082	91,972,522
Debt securities	193,018,805	197,933,938	190,987,217	220,666,891
	269,492,944	276,098,044	281,979,299	312,639,413

Fair value hierarchy at 31 December 2021:

	Level 1	Level 2	Level 3	Total
Financial liabilities				
Financial liabilities carried at amortised cost:				
- bank loans	-	54,718,680	-	54,718,680
- loans from related parties	-	23,445,426	-	23,445,426
- bonds	-	197,933,938	-	197,933,938
Total	-	276,098,044	-	276,098,044

Fair value hierarchy at 31 December 2020:

	Level 1	Level 2	Level 3	Total
Financial liabilities				
Financial liabilities carried at amortised cost:				
- bank loans	-	68,419,665	-	68,419,665
- loans from related parties	-	23,552,857	-	23,552,857
- bonds	-	220,666,891	-	220,666,891
Total	-	312,639,413	-	312,639,413

The fair value of the financial liabilities included in Level 2 above has been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

28. RELATED PARTY TRANSACTIONS

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

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

The nature of significant related party transactions and significant balances outstanding as at 31 December 2021 and 2020 not disclosed in other notes to these consolidated financial statements is detailed below.

As at the reporting dates, accounts payable to/receivable from related parties were as follows:

		Entities of the			Total
		Parent Company	Parent Company's group	Other related parties	
Trade and other accounts receivable (Note 10)	31 December 2021	-	3,346,979	1,425	3,348,404
	31 December 2020	719,183	15,792,563	964	16,512,710
Including allowance an expected credit losses	31 December 2021	-	(7,735,150)	(48)	(7,735,198)
	31 December 2020	-	(90,089)	-	(90,089)
Short-term advances paid	31 December 2021	26,449,312	5,248	729	26,455,289
	31 December 2020	-	3,346	1,162	4,508
Loan to related party	31 December 2021	-	-	-	-
	31 December 2020	14,001,081	-	-	14,001,081
Trade accounts payable	31 December 2021	84	22,016,445	1,424,668	23,441,197
	31 December 2020	7,266,200	4,878,577	1,128,489	13,273,266
Contract liabilities (Note 18)	31 December 2021	-	9,201,692	12,145,998	21,347,690
	31 December 2020	-	10,710,633	9,488,817	20,199,450
Loans and debt securities (Note 14)	31 December 2021	193,018,805	23,178,560	-	216,197,365
	31 December 2020	190,987,217	22,572,417	-	213,559,634
Other financial liabilities	31 December 2021	144,476	-	2,946,060	3,090,536
	31 December 2020	342,943	4,080	3,883,698	4,230,721

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As at 31 December 2021, accounts receivable from related parties are represented by trade and other accounts receivable for reimbursement of payments which the Group made for KTZ-Passenger Locomotives LLP for passenger electric locomotives under an agreement for the supply of electric locomotives in the amount of 2,962,624 thousand tenge, locomotive traction services in passenger route in the amount of 334,597 thousand tenge and receivables under contracts for freight transportation services in the amount of 51,183 thousand tenge (31 December 2020: locomotive traction services in passenger route – 3,144,623 thousand tenge, receivables under contracts for freight transportation services – 13,368,087 thousand tenge).

An allowance on expected credit losses of 7,735,198 thousand tenge is mainly represented by the allowance accrued on accounts receivable from a related party, KTZ Express JSC, in the total amount of 7,735,150 thousand tenge for freight transportation services.

As at 31 December 2021, short-term advances paid to related parties included advances paid under a contract with the Parent Company for railway rendering the services of the main railway network in domestic, export and import routes and for rendering other services of 26,449,312 thousand tenge and 5,977 thousand tenge, respectively (31 December 2020: short-term advances paid to related parties included advances paid for rendering other services of 4,508 thousand tenge).

The Group together with the Parent Company uses a highly liquid tool for the purpose of centralised cash management – short-term loans as a cash pooling arrangement with the possibility of early repayment at any time at the decision of the Group. During 2020 and 2021, the Group concluded agreements with the Parent Company to provide an interest-free financial aid to the for a period of one year. As at 31 December 2021, loans were early fully repaid (31 December 2020: 14,001,081 thousand tenge).

As at 31 December 2021, trade accounts payables to related parties are represented by payables on mutual settlements with Kaztemirtrans JSC under Agreements on the application of a reduction factor (0.01) to demurrage (parking, delay) charges and duty charges for storage of goods on own axes in the amount of 12,073,625 thousand tenge, payables on mutual settlements with KTZ-Passenger Locomotives LLP under the agreement on the temporary balancing fee in the amount of 4,607,238 thousand tenge, as well as other payables in the amount of 5,335,582 thousand tenge (31 December 2020: trade accounts payable included other payables in the amount of 4,878,577 thousand tenge).

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For the years ended 31 December, related party transactions were as follows:

		Entities of the			Total
		Parent Company	Parent Company's group	Other related parties	
Sale of services (Note 20)	2021	109,596,180	25,672,564	125,951,592	261,130,336
	2020	81,717,911	44,474,390	94,459,025	220,651,326
(Accrued)/recovered allowances on expected credit losses	2021	-	(7,645,061)	474	(7,644,587)
	2020	-	(89,717)	(59)	(89,786)
Acquisition of services	2021	556,053,821	75,108,711	15,704,505	646,867,037
	2020	439,150,954	17,690,619	15,510,808	472,352,381
Other income	2021	74,568	2,418	10,876	87,862
	2020	47,097	9,154	7,558	63,809
Payment of interest on loans and debt securities (Note 14)	2021	13,119,722	2,054,582	-	15,174,304
	2020	11,921,757	2,038,146	-	13,959,903
Issue of a loan to the Parent Company	2021	-	-	-	-
	2020	14,001,081	-	-	14,001,081
Repayment of a loan issued to the Parent Company	2021	14,017,095	-	-	14,017,095
	2020	-	-	-	-
Lease expenses	2021	36,970	161	593,562	630,693
	2020	22,153	627	693,729	746,509

During 2021, the Group recognised revenue from the locomotive lease services and locomotive crew services to Passenger Locomotives LLP and KTZ-Passenger Locomotives LLP in the amount of 22,232,233 thousand tenge (Note 20).

For the years ended 31 December 2021 and 2020, services of the main railway network purchased from the Parent Company amounted to 545,296,751 thousand tenge and 438,360,727 thousand tenge, respectively (Note 21).

Costs on acquisition of services for 2021 include costs on the temporary balancing fee under the agreement with Passenger Locomotives LLP and KTZ-Passenger Locomotives LLP for locomotive traction services in passenger route in the amount of 55,387,477 thousand tenge and costs under the agreement with NC KTZ JSC for the services of the main railway network in passenger route in the amount of 9,672,256 thousand tenge (Note 21).

Remuneration of key management personnel of the Group

As at 31 December 2021 and 2020, key management personnel consisted of 9 people (31 December 2020: 5 people). Due to the reorganisation of the Company into a Limited Liability Partnership, the Board of Directors was abolished in August 2020, and in June 2021 a Supervisory Board consisting of 6 people was elected. As at 31 December 2021, the Supervisory Board consisted of 5 members. The total amount of remuneration to key management personnel included in payroll in the consolidated statement of profit or loss and other comprehensive income amounted to 121,590 thousand tenge for the year ended 31 December 2021 (for the year ended 31 December 2020: 161,682 thousand tenge). Remuneration to key management personnel primarily consists of contractual salary and bonuses based on performance results.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021 (in thousands of tenge)

29. DISPOSAL OF SUBSIDIARY

In January 2021, under a trust management agreement, the Company transferred a 99% interest in the subsidiary Passenger Locomotives LLP to the Parent Company.

Having considered all the significant facts and circumstances arising out of the trust agreement, the Group concluded that the extensive authority given to the Parent Company, which practically allows it to manage Passenger Locomotives LLP's significant operations unilaterally, means that the Parent Company has controlled Passenger Locomotives LLP since 1 January 2021. The disposal of net liabilities was recognised through equity in retained earnings (Note 12).

The assets and liabilities of Passenger Locomotives LLP at the date of disposal are presented as follows:

	1 January 2021
ASSETS	
Intangible assets	142
Inventories	588,161
VAT recoverable	72,106
Other current assets	1,969
Cash and cash equivalents	258,307
Total assets	920,685
LIABILITIES	
Employee benefit obligations	14,018
Other non-current liabilities	300,015
Current portion of employee benefit obligation	12,011
Trade accounts payable	665,718
Contract liabilities	222
Other taxes payable and obligatory payments	8,722
Other current liabilities	7,953
Total liabilities	1,008,659
Disposed net liabilities	87,974

Due to the transfer of Passenger Locomotives LLP on 1 January 2021, there was no revenue or profit as of the date of disposal.

30. SEGMENT INFORMATION

Information is reported to the Group's Chief Executive (the Chief Operating Decision Maker) for the purposes of resource allocation and assessment of segment performance. This information is provided in the context of the types of goods sold and services provided. In determining the reportable segments, the Group did not aggregate several operating segments into one reportable segment.

In accordance with IFRS 8, the reportable segments of the Group are represented by one segment of freight transportation services. The Group estimates the performance of the freight transportation segment based on profit before tax calculated in accordance with IFRS.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021 *(in thousands of tenge)*

31. EVENTS AFTER THE REPORTING DATE

At the start of January 2022, the Republic of Kazakhstan witnessed mass protests, which turned into unrest. On 5 January, the President introduced a state of emergency across the country, which was in place until 19 January. During the mass protests internet access was restricted across the Kazakhstan, bank operations and transactions were suspended, stock and commodity exchanges were closed, and flights were cancelled.

These events did not have a significant impact on the Group's operations and internal controls. From 11 January 2021, the Group has fully ensured the stable transportation of freight and passenger trains. Freight trains, including in international transit route, followed the schedule and critical infrastructure facilities were under increased security. The situation in the Republic of Kazakhstan stabilised and was under the control of the authorities by 15 January. The government is focusing on addressing the political and socio-economic situation.

At the same time, the Shareholder approved an Action Plan, which was developed in pursuance of the assignment by the President of the Republic of Kazakhstan on the subject of reforming all areas of activity of the Shareholder and its portfolio companies (hereinafter - the "Plan"). The Plan reflects the implementation of systematic measures to change the personnel policy, the procurement system, initiatives to increase the corporate social responsibility by the Shareholder and its portfolio companies, support business, improve the processes of the compliance service, new approaches to dividend and investment policy, privatisation of assets and development of human capital. The Group has started to implement the Plan.

In February 2022, tenge depreciated significantly against major foreign currencies amid the external geopolitical situation. In order to reduce the negative impact of external factors on the Kazakhstani economy, the National Bank of the Republic of Kazakhstan ("NBK") raised the base rate from 10.25% to 13.5% per annum with a corridor of +/- 1.0 p.p., and interventions on the currency market were performed to support tenge exchange rate against foreign currencies. However, there is uncertainty exists related to the future development of the geopolitical risks and their impact on the economy of the Republic of Kazakhstan.

Management of the Group is monitoring developments in the economic, political and geopolitical situation and taking measures it considers necessary in order to support the sustainability and development of the Group's business for the foreseeable future. Meanwhile, the current changes do not have a significant impact on freight transportation in the Republic of Kazakhstan and a number of other countries, since freight rail transportation has not been suspended, including international transit route. However, the consequences of these events and related future changes may have a significant impact on the Group's operations.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021 *(in thousands of tenge)*

On 12 January 2022, under Agreement No. 2021/293-GP on reimbursement of payments for electric locomotives dated 31 December 2021, concluded between KTZ-Freight Transportation LLP and KTZ-Passenger Locomotives LLP, payments were reimbursed in the amount of 2,962,624 thousand tenge for the entire amount of the agreement (Note 10).

On 26 January 2022, pursuant to the court order dated 21 December 2021 to satisfy the claim from Oil Stream LLP, the Group paid compensation of 1,905,928 thousand tenge (Note 19).

32. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by management of the Group on 14 March 2022.