Arlan Wagons LLP

Financial statements

for the year ended 31 December 2017
prepared in accordance with IFRSs

Almaty 2018

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INDEPENDENT AUDITORS' REPORT

To the owner of Arlan Wagons LLP

Opinion

We have audited the accompanying financial statements of Arlan Wagons LLP (hereinafter – "the Company"), which comprise the statement of financial position as at 31 December 2017, and the statement of total comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

We have determined that there are no key audit matters to communicate in our report.

Emphasis of Matters

Without qualifying our opinion, we draw attention to note 3 of the financial statements, which discloses that in 2017, three buyers (2016: one) represent 99% of revenues (2016: 95%). Dependence on this customer is significant, and the potential negative consequences in case of its loss might be material.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements, continued

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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.

Approve

Serik Kozhikenov
Certified auditor
Audit partner
Audit certificate №0000557 dated 24 December 2003
Chief Executive
Moore Stephens Kazakhstan LLP
17 April 2018

Vasily Nikitin
Audit partner

General license No. 16015633 for audit activity issued 11 October 2016 by Ministry of Finance of the Republic of Kazakhstan

Arlan Wagons LLP
Statement of total comprehensive income
for the year ended 31 December 2017

KZT'000	Note	2017	2016
Revenues	3	285,667	142,757
Cost of sales	4	(69,259)	(73,159)
Gross profit		**216,408**	**69,598**
General and administrative expenses	5	(30,852)	(29,137)
Gain on disposal of property, plant and equipment		–	8,482
Impairment of property, plant and equipment		–	(18,107)
Operating profit		**185,556**	**30,836**
Finance costs	6	(142,573)	(108,581)
Foreign exchange gain		1,018	14,239
Profit (loss) before tax		**44,001**	**(63,506)**
Income tax (expense) recovery	7(a)	(9,448)	12,424
Profit (loss) for the year		**34,553**	**(51,082)**
Other comprehensive income (items that will never be reclassified to the income statement):			
Revaluation of property, plant and equipment, net of income tax		–	51,831
Total comprehensive income		**34,553**	**749**

These financial statements have been approved for issue on 17 April 2018 and signed on behalf of the Company's management by:

Dmitry Anchutkin
Director
Arlan Wagons LLP

ARLAN WAGONS

The notes on pages 6 to 19 are an integral part of these consolidated financial statements

KZT'000	Note	2017	2016
Assets			
Non-current assets			
Property, plant and equipment	8	1,239,011	1,301,755
VAT recoverable	9	34,238	45,637
		1,273,249	1,347,392
Current assets			
VAT recoverable	9	36,924	57,868
Corporate income tax prepaid		–	33
Advances paid and other current assets	10	8,279	2,960
Trade and other receivables	11	39,064	14,105
Cash at bank		49,191	11,551
		133,458	86,517
Total assets		**1,406,707**	**1,433,909**
Equity			
Charter capital	12(a)	298,782	160,000
Additional paid-in capital	12(b)	29,200	29,200
Revaluation reserve of property, plant and equipment	12(c)	147,388	151,756
Accumulated losses		(14,340)	(53,261)
		461,030	287,695
Non-current liabilities			
Deferred tax liability	7(b)	40,546	32,551
Borrowings	13	542,257	539,433
Finance lease liabilities	14	196,069	320,846
		778,872	892,830
Current liabilities			
Borrowings	13	36,752	41,764
Finance lease liabilities	14	125,035	106,816
Income tax payable		1,420	–
Trade and other payables	15	3,598	104,804
		166,805	253,384
Total liabilities		945,677	1,146,214
Total equity and liabilities		**1,406,707**	**1,433,909**

The notes on pages 6 to 19 are an integral part of these consolidated financial statements

KZT'000	Note	2017	2016
Cash flow from operating activities:			
Profit (loss) before tax		44,001	(63,506)
Adjustments:			
Depreciation	8	62,744	36,124
Gain on disposal of property, plant and equipment		–	(8,482)
Impairment of property, plant and equipment		–	18,107
Finance costs	6	142,573	108,581
Unrealised foreign exchange gain		(1,018)	(14,234)
Operating cash flows before changes in working capital		248,300	76,590
(Decrease) increase in VAT receivable		32,343	(49,869)
Increase in prepayments and other current assets		(99,707)	(650)
Increase in trade and other receivables		(27,654)	(3,035)
(Decrease) increase in trade and other payables		(6,818)	81,090
Operating cash flows before interest and income tax paid		146,464	104,126
Interest paid	13,14	(138,969)	(70,595)
Income tax paid		–	(144)
Net cash generated from operating activities		7,495	33,387
Cash flow from investing activities:			
Purchases of property, plant, equipment	8	–	(586,325)
Proceeds from sale of property, plant, equipment		–	84,375
Credits granted to employees		–	(32,930)
Credits returned by employees		2,695	23,160
Net cash generated from (used in) investing activities		2,695	(511,720)
Cash flow from financing activities:			
Contributions to charter capital	12(a)	138,782	–
Proceeds from bond issue, net of associated transaction costs	13	–	552,253
Proceeds from loans received from employees	13	–	3,275
Repayment of loans received from employees	13	(2,695)	(3,135)
Repayment of loans received from related parties	13	(2,250)	–
Repayment of finance lease liabilities	14	(106,387)	(62,607)
Net cash generated from financing activities		27,450	489,786
Net increase in cash		37,640	11,453
Effects of exchange rate changes on cash		–	(5)
Cash at the beginning of the year		11,551	103
Cash at the end of the year		**49,191**	**11,551**

Non-cash transactions

Following non-cash transactions were excluded from the statement of cash flows:

- setting off advances paid and other current assets against trade and other payables in amount of KZT 94,388 thousand (2016: nil);
- revaluation of property, plant and equipment as at 31 December 2016 in amount of KZT 46,682 thousand. In 2017, there was no a revaluation.

KZT'000	Charter capital	Additional paid-in capital	Revaluation reserve of property, plant and equipment	Accumulated losses	Total equity
At 1 January 2016	**160,000**	**29,200**	**107,274**	**(9,528)**	**286,946**
Loss for the year	–	–	–	(51,082)	(51,082)
Revaluation of property, plant and equipment, net of income tax	–	–	51,831	–	51,831
Total comprehensive income	–	–	51,831	(51,082)	749
Amortisation of revaluation reserve	–	–	(7,349)	7,349	–
At 31 December 2016	**160,000**	**29,200**	**151,756**	**(53,261)**	**287,695**
Profit for the year	–	–	–	34,553	34,553
Total comprehensive income	–	–	–	34,553	34,553
Contribution to charter capital	138,782	–	–	–	138,782
Amortisation of revaluation reserve	–	–	(4,368)	4,368	–
At 31 December 2017	**298,782**	**29,200**	**147,388**	**(14,340)**	**461,030**

1. General information

(a) Organisation and operation

Arlan Wagons LLP (hereinafter – "the Company") was established on 18 October 2004 in accordance with legislation of Kazakhstan. Date of the last reregistration is 4 April 2016.

The Company specialises in leasing freight wagons to its customers and rendering forwarding services.

The Company's registered office and principal place of business is 105 Nauryzbay Batyr str. 17, Almaty, 050004, Kazakhstan.

Information about the owner is in the note 12(a). Information about related party transactions is in the note 18.

As at 31 December 2017, the Company had 6 employees (2016: 5 employees).

(b) Kazakhstan business environment

The Company's operations are primarily located in Kazakhstan. Consequently, the Company is exposed to country risk being the economic, political and social risks inherent in doing business in Kazakhstan. These risks include matters arising from the policies of the government, economic conditions, imposition or changes to taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights.

The financial statements include the management's estimates of Kazakhstan economic conditions and their impact on the results and financial position of the Company. Actual economic conditions can differ from those estimates.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter – "IFRSs") as issued by the International Accounting Standards Board (hereinafter – "IASB") and interpretations issued by the International Financial Reporting Interpretations Committee (hereinafter – "IFRIC") of the IASB.

(b) Going concern

These financial statements have been prepared on a going concern basis.

As at 31 December 2017, the Company's accumulated losses reduced to KZT 14,340 thousand, profit for the year ended 31 December 2017, amounted to KZT 34,553 thousand and operating cash flows amounted to KZT 7,495 thousand.

The management believes the Company's profitability and stable positive cash flows from operating activity are sufficient to meet the Company's anticipated cash flow requirements. After making appropriate enquiries, the management have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the financial statements.

(c) Basis of accounting

The financial statements have been prepared on a historical cost basis, except for property, plant and equipment that have been measured at revalued amounts in accordance with IAS 16 "Property, plant and equipment" (see note 8).

(d) Functional and presentation currency

The national currency of the Republic of Kazakhstan is the Kazakhstan tenge (hereinafter – "tenge" or "KZT"), which is the functional currency of the Company and the currency in which these financial statements are presented. All financial information presented in tenge has been rounded to the nearest thousand (hereinafter – "KZT'000" or "KZT thousand").

(e) Adoption of standards and interpretations

In preparing the financial statements, the Company did not apply new standards. The Company has not early adopted any standards, interpretations or amendments that were issued but are not yet effective.

2. Basis of preparation, continued

(f) New standards and interpretations not yet adopted

A number of new standards and interpretations have not yet entered into force, and their requirements are not considered when preparing the financial statements:

- IFRS 9 "Financial Instruments". The final version of this standard was issued in 2014 with an effective date of 1 January 2018. The Company has performed an overall impact assessment of IFRS 9. All the Company's financial assets and liabilities will continue to be measured on the same bases as currently under IAS 39. The Company decided to apply the simplified approach to recognise lifetime expected credit loss ("ECL") for its trade receivables. Although the management is currently assessing the extent of this impact, it anticipates that the application of the ECL model of IFRS 9 will result in earlier recognition of credit losses. However, it is not practicable to provide a reasonable estimate of that effect until the detailed review, that is in progress, has been completed.
- IFRS 15 "Revenue from Contracts with Customers". The standard was issued in 2014 with an effective date of 1 January 2018. In April 2016, the IASB issued "Clarification to IFRS "Revenue from Contracts with Customers" with an effective date of 1 January 2018. The Company has reviewed its major sales contracts and concluded that the new standard would not have a material impact on the financial position or performance of the Company. The new disclosure requirements will be included in the Company's 2018 financial statements.
- IFRS 16 "Leases". The standard was issued in January 2016 with an effective date of 1 January 2019. The standard specifies how an entity will recognise, measure, present and disclose leases for lessees. The new standard's approach to lessor accounting substantially unchanged. Based on the nature of the Company's activities, the adoption of the standard is not expected to have a material impact on the financial position or performance of the Company.
- IFRS 17 "Insurance Contracts". The standard was issued in May 2017 with an IASB effective date of 1 January 2021. IFRS 17 will replace IFRS 4 "Insurance Contracts" and applies to all types of insurance contracts (regardless of the type of entities that issue them), as well as to certain guarantees and financial instruments with discretionary participation features. This standard is not expected to have an impact on the financial position or performance of the Company.
- IFRIC 22 "Foreign currency transactions and advance considerations". The interpretation was issued in December 2016 and effective from 1 January 2018. The interpretation clarified the accounting for the receipt or payment of advance consideration in a foreign currency and is not expected to have a significant impact on the Company's financial statements.
- IFRIC 23 "Uncertainty over Income Tax Treatments": issued in June 2017 and effective from 1 January 2019. The interpretation provides additional guidance in the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. This interpretation is not expected to have an impact on the financial position or performance of the Company.
- Improvements to IFRSs: There are a number of amendments to certain standards following the 2015-2017 annual improvements project. These changes are not expected to have an impact on the Company's financial statements.

(g) Use of estimates and judgments

The Company's management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRSs. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments made by the management for preparation of these financial statements is described in the following notes:

- Note 7 – Income tax. The management made estimates in relation to the level of taxes payable which may then be audited by the tax authorities and timing of realisation of temporary differences;
- Note 8 – Property, plant and equipment. Estimates were made in measurement of the fair value and in relation to the useful lives of assets;
- Note 16 – Financial risk management objectives and policies. Fair value analysis is based on estimated future cash flows and discount rates;
- Note 17 – Commitments and contingencies. These require the management to make estimates as to amounts payable and to determine the likelihood of cash outflows in the future.

(h) Comparative information

Where a change in the presentation format of the financial statements has been made during the year, comparative figures have been restated accordingly, to conform with the new presentation format.

3. Revenue

KZT'000	2017	2016
Leasing freight wagons	282,452	139,212
Rental of premise	3,215	3,502
Other	–	43
	285,667	**142,757**

In 2017, three buyers (2016: one) represent 99% of revenues (2016: 95%). Dependence on this customers is significant, and the potential negative consequences in case of its loss might be material.

4. Cost of sales

KZT'000	2017	2016
Depreciation	62,744	36,124
Repair and maintenance	4,848	35,690
Insurance	568	1,345
Other	1,099	–
	69,259	**73,159**

5. General and administrative expenses

KZT'000	2017	2016
Personnel costs	17,233	14,510
Rental expense	5,095	5,095
Audit and professional services	2,449	2,724
Office expense	1,869	3,963
Bank charges	1,071	393
Insurance	25	1,058
Other	3,110	1,394
	30,852	**29,137**

6. Finance costs

KZT'000	2017	2016
Interest on bonds	82,128	36,819
Interest on finance lease	56,603	70,343
Unwinding of transaction costs	3,842	1,419
	142,573	**108,581**

7. Income tax

(a) Income tax expense (recovery)

The major components of income tax expense (recovery) are as follows:

KZT'000	2017	2016
Current income tax	1,453	–
Origination and reversal of temporary differences	7,995	(12,424)
Income tax expense (recovery)	**9,448**	**(12,424)**

7. Income tax, continued

A reconciliation of income tax expense (recovery) applicable to accounting profit (loss) before tax at the statutory rate to income tax expense at the effective tax rate is as follows:

KZT'000	2017	2016
Profit (loss) before tax	44,001	(63,506)
Income tax rate	20.0%	20.0%
At statutory income tax rate	8,800	(12,701)
Tax effect of non-deductible items	648	277
Income tax expense (recovery)	**9,448**	**(12,424)**
Effective income tax rate	21.5%	19.6%

(b) Deferred tax assets and liabilities

The amounts of deferred tax assets (liabilities) are as follows:

KZT'000	2017	2016
Losses carried forward	–	6,917
Property, plant and equipment	(38,581)	(36,588)
Borrowings	(2,485)	(3,492)
Finance lease obligations	–	344
Employee related accruals	492	268
Taxes payable	28	–
Deferred tax liability, net	**(40,546)**	**(32,551)**

Movement of deferred tax liability is as follows:

KZT'000	2017	2016
At 1 January	32,551	32,017
Charged to other comprehensive income	–	12,958
Charged (credited) to income statement	7,995	(12,424)
At 31 December	**40,546**	**32,551**

8. Property, plant and equipment

KZT'000	2017	2016
Cost		
At 1 January	1,301,755	780,765
Additions	–	586,325
Disposals	–	(75,893)
Revaluation	–	10,558
At 31 December	**1,301,755**	**1,301,755**
Accumulated depreciation		
At 1 January	–	–
Depreciation charge	62,744	36,124
Revaluation	–	(36,124)
At 31 December	**62,744**	**–**
Net book value		
At 31 December	**1,239,011**	**1,301,755**
Historical cost		
At 31 December	**1,066,950**	**1,120,981**

Property, plant and equipment comprises cistern wagons, hopper wagons and gondola wagons.

8. Property, plant and equipment, continued

Revaluation

The Company reviews the carrying amount of property, plant and equipment at regular basis in order to avoid significant differences from its fair value. A revaluation is performed in case of significant differences, but at least once in 3-5 years. As at 31 December 2017, the Company did not revalue property, plant and equipment. The Company monitors fair values and believes that there is not significant difference with carrying amount of its assets.

Collateral

As at 31 December 2017, wagons with a carrying amount of KZT 184,650 thousand (2016: KZT 192,679 thousand) have been pledged to secure borrowings of the Company (see note 14). The Company is not allowed to sell these assets or to pledge them as security for other borrowings.

9. VAT recoverable

VAT recoverable comprises largely VAT related to leased assets (see note 14). In accordance with the expected terms of recovery, the VAT is split to non-current and current portion.

In the statement of financial position VAT recoverable is presented as following:

KZT'000	2017	2016
Non-current	34,238	45,637
Current	36,924	57,868
	71,162	**103,505**

10. Advanced paid and other current assets

KZT'000	2017	2016
Advances paid	3,951	2,762
Other assets	4,328	198
	8,279	**2,960**

11. Trade and other receivables

KZT'000	2017	2016
Trade receivables	30,689	3,035
Credits granted to employees	8,375	11,070
	39,064	**14,105**

12. Equity

(a) Charter capital

As at 31 December 2017 and 2016, the sole owner of the Company was Kompaniya Amphora LLC (hereinafter – the "Parent"). Owners of the Parent are physical persons Mr Askar Nurtayev and Ms Zhanar Nurtayeva with shares of 95% and 5%, correspondingly. The ultimate controlling party of the Company at the date of approval of the financial statements was Mr Askar Nurtayev.

In accordance with the decisions of the Parent as of 26 January 2017 and 4 July 2017, charter capital of the Company was increased by KZT 33,000 thousand and KZT 107,000 thousand, correspondingly. The charter capital increase was fully paid except for the amount of KZT 1,218 thousand.

(b) Additional paid-in capital

Additional paid-in capital comprises fair value of the guarantee provided by a former owner upon signing the finance lease agreement (see note 14). The amount is recognised net of income tax.

12. Equity, continued

(c) Revaluation reserve of property, plant and equipment

The revaluation reserve includes the amount of revaluation of property, plant and equipment (see note 8) net of income tax.

(d) Dividends

In accordance with the legislation of Kazakhstan, the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's financial statements prepared in accordance with IFRSs or income for the period if there is an accumulated loss brought forward. A distribution cannot be made if this would result in negative equity or the Company's insolvency.

As at 31 December 2017, the Company had accumulated loss, including the income for the current year, of KZT 14,340 thousand (2016: KZT 53,261 thousand). In 2017 and 2017, the Company did not declare dividend.

13. Borrowings

KZT'000	2017	2016
Bonds (principal)	542,257	539,433
Total non-current borrowings	542,257	539,433
Bonds (interest)	36,752	36,819
Loans received from employees	–	2,695
Loans received from related parties	–	2,250
Total current borrowings	36,752	41,764
Total borrowings	**579,009**	**581,197**

Movement in borrowings

Movement in borrowings is presented as follows:

KZT'000	2017	2016
At 1 January	581,197	4,805
Proceeds from loans received from employees	–	3,275
Repayment of loans received from employees	(2,695)	(3,135)
Repayment of loans received from related parties	(2,250)	–
Proceeds from bonds issue	–	570,000
Transaction costs associated with bonds issue	–	(17,747)
Unwinding of transaction costs	3,842	1,419
Interest accrued	82,128	36,819
interest paid	(82,195)	–
Net exchange adjustment	(1,018)	(14,239)
At 31 December	**579,009**	**581,197**

Bonds

On 22 July 2016, the Company issued on the Kazakhstan Stock Exchange indexed coupon bonds with face value of KZT 1,000 for the total amount of KZT 570,000 thousand. The bonds accrue interest at 15% per annum payable and mature in July 2020. The bonds are indexed to US dollar exchange rate and do not provide for early repayment.

Transaction costs associated with issuing the bonds amounted to KZT 17,747 thousand and has been netted off against the borrowing, so the effective interest rate totalled 16.08% per annum.

The bonds are not unsecured and non-convertible.

The Company used proceeds from bonds issuing for the purchase of wagons intended for further leasing.

14. Finance lease liabilities

In March 2015, the Company purchased property, plant and equipment on the basis of lease contract for a term of 5 years. Ownership rights will be passed to the Company after repayment of lease liabilities. Interest on the lease amounted to 15%.

Collateral information is presented in the note 8.

Finance lease liabilities are payable as follows:

	Minimum payments		Present value of payments	
KZT'000	**2017**	**2016**	**2017**	**2016**
During a year	163,419	163,161	125,035	106,816
Between one and five years	217,548	380,709	196,069	320,846
	380,967	543,870	321,104	427,662
Less: amounts representing finance charges	(59,863)	(116,208)	–	–
Present value of minimum lease payments	**321,104**	**427,662**	**321,104**	**427,662**

Movement of finance lease liabilities and their presentation in the statement of financial position is as follows:

KZT'000	**2017**	**2016**
At 1 January	427,662	490,521
Tranches paid	(106,387)	(62,607)
Interest accrued	56,603	70,343
interest paid	(56,774)	(70,595)
At 31 December	**321,104**	**427,662**
Non-current	196,069	320,846
Current	125,035	106,816
	321,104	**427,662**

15. Trade and other payables

KZT'000	**2017**	**2016**
Employee benefit liability	2,457	1,304
Trade payables	477	28,055
Financial instruments within trade and other payables	2,934	29,359
Advances received	–	75,445
Other taxes payable	664	–
	3,598	**104,804**

Advances received and other taxes payable are not considered as financial instruments, so for the purpose of disclosure of financial risk management objectives and policies trade and other payables are amounted KZT 2,934 thousand (2016: KZT 29,359 thousand).

16. Financial risk management objectives and policies

(a) Overview

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

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

The management of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

16. Financial risk management objectives and policies, continued

The management oversees compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

(b) Categories and fair values of financial assets and financial liabilities

Categories of financial assets and financial liabilities

Financial assets and liabilities of the Company by categories are as follows:

KZT'000	Note	2017	2016
Loans and receivables:			
Trade and other receivables	11	39,064	14,105
Cash at bank		49,191	11,551
		88,255	**25,656**
Financial liabilities measured at amortised cost:			
Borrowings	13	579,009	581,197
Finance lease liabilities	14	321,104	427,662
Trade and other payables	15	3,598	104,804
		903,711	**1,113,663**

Fair values

The fair values of each category of financial asset and liability, is not materially different from their carrying values as presented.

(c) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This risk arises mainly from the Company's loans receivable from employees and trade receivables within trade and other receivables, and cash.

The carrying value of financial assets represents the maximum credit risk exposure. The maximum exposure to credit risk at 31 December was:

KZT'000	2017	2016
Trade and other receivables	39,064	14,105
Cash at bank	49,191	11,551
	88,255	**25,656**

Trade and other receivables

Loans receivable

The Company's loans receivable are represented by receivables from employees. In making decision to provide such loans, the Company performs an analysis to ensure that the overall credit exposure on these loans does not exceed the distributable reserves of the Company.

Trade receivables

The Company's exposure to credit risk is influenced by the individual characteristics of each customer. These trade receivables relate to customers that make payment in instalments. The Company regularly monitors its exposure to bad debts in order to minimise this exposure.

Cash

Credit risk related to cash is monitored by the management in accordance with the policies of the Company. Cash within the established limits are held with the most reliable banks of Kazakhstan that are rated not lower than BB. The purpose of this policy is to reduce concentration of credit risk and minimise possible financial loss due to banks' failure to meet their contractual obligations.

16. Financial risk management objectives and policies, continued

(d) Liquidity risk

The Company manages liquidity risk by monitoring forecast cash flows and ensuring continuity of funding and flexibility through the use of issuing bonds and purchases on credit.

Maturity of financial liabilities

The table below provides an analysis of the Company's financial liabilities to be settled on the gross basis by relevant maturity groups from the balance sheet date to the contractual settlement date:

KZT'000	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Total
2017				
Borrowings	41,606	41,607	684,435	767,648
Finance lease liabilities	40,790	122,629	217,548	380,967
Trade and other payables	2,934	–	–	2,934
	85,330	**164,236**	**901,983**	**1,151,549**
2016				
Borrowings	41,682	46,627	805,854	894,163
Finance lease liabilities	40,790	122,371	380,709	543,870
Trade and other payables	29,359	–	–	29,359
	111,831	**168,998**	**1,186,563**	**1,467,392**

Borrowings and finance lease liabilities include expected future interest payments based on interest rates effective on the balance sheet date.

(e) Price risk

In accordance with IFRS 7, the impact of prices for goods (services) has been determined based on the balances of financial assets and liabilities as at 31 December 2017. This sensitivity does not represent profit or loss impact that would be expected from a movement in prices for goods (services) over the course of a period of time. In addition, the analysis assumes that all other variables remain constant. A 10% increase (decrease) in prices for goods (services) after the year end would not have an impact on profit (loss) after tax (2016: nil).

(f) Interest rate risk

The Company is not exposed to interest rate risk as at the reporting dates there are no financial instruments with variable interest rates.

(g) Currency risk

As disclosed in note 13, the Company's bonds are indexed to US dollar exchange rate.

A 10% weakening of tenge against the following currencies as at 31 December would have increased total loss by KZT 46,321 thousand (2016: KZT 46,100 thousand). This analysis assumes that all other variables remain constant.

(h) Capital management

The Company's policy is aimed to maintain an optimal capital structure to keep confidence from market, investors and creditors and ensuring future development. The Company's overall policy remains unchanged from 2016.

17. Commitments and contingencies

(a) Kazakhstan's taxation contingencies

Inherent uncertainties in interpreting tax legislation

The Company is subject to uncertainties relating to the determination of its tax liabilities. Kazakhstan tax legislation and practice are in a state of continuous development and, therefore, are subject to varying interpretations and changes which may be applied retrospectively.

The management interpretations of such legislation in applying it to business transactions of the Company may be challenged by the relevant tax authorities and, as a result, the Company may be claimed for additional tax payments, including fines, penalties and interest charges that could have a material adverse effect on the Company's financial position and results of operations.

17. Commitments and contingencies, continued

Period for additional tax assessments

The tax authorities are able to raise additional tax assessments for five years after the end of the relevant tax period concerning all taxes. In certain cases, as determined by the tax legislation, the terms could be extended for three years.

Possible additional tax liabilities

The management believes that the Company is in compliance with the tax laws and any contractual terms entered into that relate to tax which affect its operations and that, consequently, no additional tax liabilities will arise. However, due to the reasons set out above, the risk remains that the relevant tax authorities may take a differing position with regard to the interpretation of contractual provisions or tax law.

The resulting effect of this matter is that additional tax liabilities may arise. However, due to the range of uncertainties described above in assessing any potential additional tax liabilities, it is not practicable for the management to estimate the financial effect in terms of the amount of additional tax liabilities, if any, together with any associated penalties and charges for which the Company may be liable.

Introduction of new Tax Code

On 25 December 2017, the Government of the Republic of Kazakhstan adopted a new Tax Code, which became effective from 1 January 2018. The new Tax Code is aimed at optimising the government's fiscal policy in line with the structural reforms proposed by the president of the Republic of Kazakhstan in November 2015.

The provisions of the new Tax Code have been analysed by the Company and are not currently expected to have a significant impact on the Company's business activity but may result in some additional administrative burden.

(b) Insurance

The insurance industry in Kazakhstan is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. Available insurance programs may not provide full coverage in the event of a major loss.

(c) Legal commitments

In the ordinary course of business, the Company is subject to legal actions and complaints. The management believes that the ultimate liability, if any, arising from such actions or complaints will not have a materially adverse effect on the financial condition or results of operations of the Company. As of 31 December 2017 the Company is not involved in any significant legal proceedings.

(d) Compliance with bond terms

The Company shall comply with the bond terms with regard to financial covenants. Non-compliance with the terms would have negative impact on the Company. As at 31 December 2017, the Company comply with the terms assumed by the investment memorandum.

18. Related party disclosures

(a) Management remuneration

Rewards received by key executives are included in personnel costs of general and administrative expenses (see note 5) amounted to KZT 8,905 thousand (2016: KZT 6,592 thousand).

(b) Transactions and balances with related parties

Related parties include the Company's management and entities under common control. Transactions and balances with related parties are summarised below.

18. Related party disclosures, continued

Borrowings

KZT'000	Companies under common control	Management	Total
2017			
Credits returned	–	2,695	2,695
Repayment of loans received	(2,250)	(2,695)	(4,945)
Credits receivable	–	8,375	8,375
2016			
Credits returned	–	23,160	23,160
Credits granted	–	(32,930)	(32,930)
Proceeds from loans received	–	3,275	3,275
Repayment of loans received	–	(3,135)	(3,135)
Credits receivable	–	11,070	11,070
Loans payable	(2,250)	(2,695)	(4,945)

Other transactions and balances with entities under common control

KZT'000	2017	2016
Sales to related parties	210,507	132,481
Purchases from related parties	14,700	580,871
Due from related parties	24,919	3,035
Due to related parties	–	85,753

(c) Terms and conditions of transaction with related parties

Prices for related party transactions are determined by the parties on an ongoing basis depending on the nature of the transaction.

19. Significant accounting policies

The following significant accounting policies have been consistently applied in the preparation of the financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange ruling rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate ruling at the date when their fair value was determined. Foreign currency differences arising on retranslation at the exchange rate on the date of the transaction as well as those from retranslation of monetary assets and liabilities at the reporting date are recognised in profit or loss.

The following exchange rates were used in preparing the financial statements:

	2017		2016	
	Year-end	Average	Year-end	Average
US Dollar	332.33	326.00	333.29	342.16
Russian rouble	5.77	5.59	5.43	5.11

(b) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

19. Significant accounting policies, continued

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain (loss) on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income (other expenses) in profit or loss.

Revaluation

After initial recognition property, plant and equipment is measured at revalued amounts being fair value at the date of revaluation less subsequent accumulated depreciation and impairment losses. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

After revaluation of an item of property, plant and equipment the amount of accumulated depreciation is deducted from the cost of an asset, and net book value is recalculated to the cost of an asset after revaluation.

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

Revaluation surplus is transferred to the retained earnings in the course of asset operation.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful life of the individual asset to its estimated residual value.

The expected remaining useful lives as follows:

- cistern wagons 32 years;
- hopper wagons 26 years;
- gondola wagons 22 years.

Useful lives and residual values of property, plant and equipment are analysed at each reporting date.

Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(c) Impairment

The carrying amounts of non-current assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. If there are indicators of impairment, an exercise is undertaken to determine whether the carrying values are in excess of their recoverable amount. Such review is undertaken on an asset-by-asset basis, except where such assets do not generate cash flows independent of other assets, in which case the review is undertaken at the cash generating unit level.

If the carrying amount of an asset or its cash-generating unit exceeds the recoverable amount, a provision is recorded to reflect the asset or cash-generating unit at the lower amount. Impairment losses are recognised in profit or loss.

Calculation of recoverable amount

The recoverable amount of assets is the greater of their value in use and fair value less costs to sell. 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 an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The Company's cash-generating units are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

19. Significant accounting policies, continued

Reversals of impairment

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(d) Trade and other receivables

Trade receivables are stated at the invoice amount (which represents fair value of receivables), net of the allowance for doubtful debts. The allowance for doubtful debts is created when there is an objective evidence that the Company will not be able to collect receivables on the basis of initial terms and conditions. The amount of allowance for doubtful debts represents difference between amount at the initial recognition and recoverable amount representing current value of the expected future cash flows discounted using the initial effective interest rate of financial instruments.

The amount of the allowance for doubtful debts is recorded in the income statement.

(e) Cash

Cash comprise cash at bank and petty cash.

(f) Borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method.

(g) Finance lease

The lease is classified as finance lease when it presumes transfer of all risks and benefits attributed to asset ownership.

Initial recognition

At the inception of lease the Company recognises finance lease in the statement of financial position within assets and liabilities at the minimum of fair value of leased property or discounted value of minimum lease payments defined at the inception of the lease. The discounting rate used in calculation of a net present value of the minimum lease payments represents interest rate presumed in the lease agreement. Any initial direct costs of the leaseholder are added to the amount recognised as an asset.

Subsequent valuation

Minimum lease payments are divided between finance costs and the decrease in finance lease liabilities. Finance costs are distributed throughout the lease period in order to get fixed periodic interest rate on the unpaid balance of liabilities. Contingent rent is recorded as expenses in the reporting period when it occurs.

(h) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue associated with the sale of goods is recognised in the income statement when all significant risks and rewards of ownership are transferred to the customer, usually when a title has passed to the customer.

Revenues are recognised net of value added tax.

(i) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur.

(j) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Deferred tax is determined using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes.

19. Significant accounting policies, continued

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

Deferred tax asset is recognised only to the extent that it is probable to receive taxable income in future, which can be utilised against this asset. Amount of deferred tax assets are reduced to the extent that it is not probable that appropriate tax savings would be used.

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

(k) Financial instruments

Recognition

The Company recognises financial assets and liabilities on its balance sheet when it becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Measurement

When financial assets and liabilities are initially recognised, they are measured at fair value being the consideration given or received plus directly attributable transaction costs. Any gain or loss at initial recognition is recognised in profit or loss, except for the loans receivable from (payable to) owners, gains or losses at initial recognition of which are recognised directly in equity. Subsequent to initial recognition, the loans receivable from owners are measured at amortised cost using the effective interest method.

In determining the estimated fair value, investments are valued at the quoted market prices of the purchase on the transaction date. In the absence of quoted prices in active market investments, fair value is determined using quoted market prices for similar instruments traded.

Derecognition

A financial asset is derecognised when the Company loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is settled.

Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (hereinafter – “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

20. Events after the balance sheet date

On 20 March 2018, the Company registered a Certificate of state registration on the issue of securities to enable the issue of indexed coupon unsecured bonds to the amount of KZT 1,000,000 thousand.

The Company has sold six gondola wagons (model 12-1704-04) to the Istkomtrans LLP for the amount of KZT 73,920 thousand.

There were no other significant events after the balance sheet date.