

Information on current situation of JSC Astana finance and its activities in 2016, aimed to ensure fulfillment of obligations to creditors (Noteholders) of JSC Astana finance.*

Introduction

After completion of restructuring instead of cancelled obligations in the amount of 2 billion USD on 22nd May 2015 JSC Astana finance (further Company):

- paid to international creditors cash in the amount of 300 000 000 USD;
- issued Tenge Notes to internal creditors in the amount of 19 026 805 700 KZT with the due date in 2018;
- issued Dollar Recovery Notes to international creditors in the amount of 50 000 000 USD with the due date 2024.

In addition to above shown, obligations of Company to Mayors of Astana city and Atyrau city in the amount of 1.3 billion KZT and to JSC Entrepreneurship Development Fund “Damu” in the amount of 1.5 billion KZT (in accordance with repayment schedule from May 2015 to May 2020) were not restructured.

Moreover, for today Company has obligations on corporate income tax in the amount of 26 413 288 391 KZT accrued in 2015 as a result of cancellation of obligations of Company under the restructuring.

Taking into account the above and the fact that Company does not carry out business activities and does not aim to earn profit from such activities, Company recognizes its sole main purpose which is – collection of cash amount for further payments to creditors of Company.

To achieve the above targets Company's activities are carried out in two directions:

- collection activities;
- sales of Company's assets..

On collection activities

In the process of collection activities in 2016 through asset-collection work Company received 65 765 575 KZT in cash, and 242 618 000 KZT by property.

Legal proceedings on taking pledged property in each case takes certain time – from 1 to 2 years. (There is a case where Company could not take the pledged property for 5 years because of the gaps in Law of Republic of Kazakhstan “On rehabilitation and bankruptcy”).

Also, we consider it necessary to provide information on fact which has significant value for Company – cancellation of Guarantee obligations of JSC Astana Real Estate to Company regarding LLP Profit House Astana; LLP Karbonmash; LLP Kazpolimerteh and LLP Torgovy dom AN.

By Decision of Board on Civil Cases of Supreme Court of Republic of Kazakhstan dated 12 October 2016 (further Decision of SC) made during reconsideration of court decision which has entered into legal force on lawsuit of National Bank of Republic of Kazakhstan (within the interests of JSC Accumulation Pension Fund) decisions of Board of Directors of JSC Astana Real Estate on Guarantees #2 and #3 dated 9th April 2009, #4,5,6 dated 24th April 2009 in the amount of 8 billion KZT to Company issued on loan agreements signed between Company and third parties LLP Profit House Astana; LLP Karbonmash; LLP Kazpolimerteh and LLP Torgovy dom AN were recognized invalid.

As a result Company will not be able to collect 8 billion KZT.

On sales of Company's assets

During the period from 1 January to 31 December 2016 sales of real estate of Company has been carried out with deviations downward from the plans.

Direct and indirect factors and economic situation have strong influence on results of sales of Company's assets.

Indirect factors:

- deterioration of global markets and decline of oil prices;
- global sanctions against EurAsEC member and major trading partner of Republic of Kazakhstan – Russian Federation.

Direct factors:

- devaluation of KZT;
- decline of purchasing power of real estate market;
- decrease in consumer and mortgage lending;
- deterioration of financial situation, expectations and attitudes of counterparties of Company;
- existence of mass of alternative proposals;
- low liquidity and less attractiveness of property;
- impossibility of providing discount to market (estimated) value of real estate.

Forecast for 2017-2018 years shows that cash from property sales will amount 1,57 billion KZT. Projected decline of cash element from sales is primarily due to presence of prevailing illiquid and less attractive objects in property portfolio.

On formation of negative equity capital

In accordance with IFRS (IAS) 27 “Consolidated and separate financial statements” parent entity loses control when it loses the ability to manage financial and operational policy of an investee and thus obtain benefits from its activities. The loss of control can occur while changing and also while maintaining the level of absolute or relative ownership. This may occur, for example, when subsidiary organization becomes subject to control by government, judicial, administrative or regulatory authority.

So, accounting reflects investments to subsidiary organizations, over which Company for one or other reasons has lost control:

1. OJSC AF Bank, Ufa city, Republic of Bashkortostan, Russian Federation.

Due to the fact that on 17th April 2014 Central Bank of Russian Federation revoked the license of subsidiary organization of Company – OJSC AF Bank and currently bankruptcy procedure is carried out, Company has lost control over this subsidiary organization.

OJSC AF Bank is controlled by government corporation “Deposit Insurance Agency, which is bankruptcy trustee (liquidator) of OJSC AF Bank and which is also conducting electronic auctions through public offer the property of OJSC AF Bank, based on the decision of Arbitration Court of Republic of Bashkortostan dated 7th July 2014 on case # AO7-8678/2014.

According to information on the progress of bankruptcy proceedings as of 1st December 2016 carrying value of assets of OJSC AF Bank amounts 3 887 231 thousands RUB, while the size of established debt to creditors amounts 4 205 608 thousands RUB. Consequently, there is no probability of return of investment sums by Company to OJSC AF Bank in the amount of 6 618 832 569,48 KZT.

2. Maksman LTD, Moscow city, Russian Federation.

In 26th July 2013 transaction on transfer of 92% shares of Maksman LTD from LLP Profit House Astana to JSC Astana finance at a cost of 4,99 KZT per share was registered.

However, in 16th May 2016 Maksman LTD ceased its activities and was excluded from unified state register of legal entities on the basis of paragraph 2 of article 21.1 of Federal Law # 129-Ф3 dated 8th August 2001 (extract from ЕГРЮЛ № ЮЭ9965-16-8116815 dated 28th December 2016).

3. Elitstroinvest LTD, Kiev city, Ukraine.

Due to geographical distance, and also unstable political situation in Ukraine, Company has lost control over Elitstroinvest, which in addition is not carrying out any accounting and tax activities.

Considering that the Company estimates the recoverable amount from investments to OJSC AF Bank, Maksman LTD, Elitstroinvest LTD to 0 KZT, Company in accordance with IFRS (IAS) 39 has established reserves.

As a result of accrual of reserves for investments to OJSC AF Bank, Maksman LTD and Elitstroinvest LTD in the amount of 6 620 032 574,47 KZT equity capital of Company became negative.

* *This information is prepared for creditors of JSC Astana finance for information purposes and it is not recognition by JSC Astana and its authorized entities of the inability to pay debts.*