TOWARDS THE SUSTAINABLE LOGISTICS

Kazakhstan Temir Zholy
National Company
Joint-Stock Company

2016 Sustainability REPORT

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Address to Stakeholders
Chairman of the Board of Directors

Dear Shareholders, Partners, Investors and Readers of the Annual Report!

KTZ NC JSC presents to your attention the first Sustainable Development Report of KTZ NC JSC prepared in accordance with international standards and practices according to the GRI Sustainability Reporting Guidelines.

The purpose of this report is to inform all stakeholders about all aspects of the activities of KTZ NC JSC sustainable development: economic, social and environmental. KTZ NC JSC is the largest holding company in Kazakhstan, whose activities have a significant impact on all aspects of the socio-economic development of the country and the region as a whole.

The company develops transport and logistics infrastructure, successfully promotes the export of transport services to the global market, develops high-speed passenger traffic and modern railway machinery, modernizes the rolling stock and domestic fleet, introduces new technologies in the organization of transportation, creating conditions for the development of the economy and society by creating new ones workplaces, expansion of transportation geography and reduction of transport costs for domestic export products, orders in related sectors of the economy (construction, industry, services, etc.) and transport support for the development of new industrial facilities in the regions of the republic.

The active work of the company to develop transcontinental transport in the direction of China-Europe has a positive impact on the reduction of environmental impacts on the environment in international trade, as estimated by the International Union of Railways, railway transport has the lowest level of CO2 emissions - about 300 kg per 1 tonne transported goods.

KTZ NC JSC pays special attention to its employees, providing a social package defined by the collective agreement, and developing a corporate system of continuous training.

Since 2010, the Company has been implementing a project to organize the operation of medical trains that provide highly qualified medical care in the most remote areas of the country.

Following the postulate of maximum compliance with the expectations of its stakeholders, KTZ NC JSC solves a wide range of tasks in accordance with the principles of sustainable development.

Turning to the readers of this Report, I would like to urge all interested parties to actively participate and contribute to the promotion of the principles of sustainable development.

Only the consolidation of efforts can ensure a balanced and harmonious development for the benefit of the economy, society and the country as a whole! G4-1

First Deputy Prime Minister of the Republic of Kazakhstan.

Chairperson of the Board of Directors of KTZ NC JSC
A. Mamin

Address to the Report Readers
The President

Dear Report Reader,

KTZ NC JSC is the transport and logistics operation of the international scale, providing development of infrastructure and services of all modes of transport.

The Company is the largest employer and taxpayers of Kazakhstan.

Carrying out various activities KTZ NC JSC has significant direct and indirect impact on development of the national economy.

Despite unfavorable conditions of the world commodity markets, slowing-down of development rates of the cross-border countries and change of geopolitical situation in the region the Company fulfilled all its obligations in 2016.

The cargo turnover in freight railway transportations in the year 2016 remained at the level of the year 2015 and constituted 188,2 billion t-km. But at the same time growth of grain, ferrous metals, construction freights and fertilizes export transportations has increased. In transit transportations non-ferrous metal ores and chemical freight transportation has increased. The Company maintained the double growth of transit transportations in the strategic direction PRC-EU and provided 50-percent level of return load from Europe to PRC. In 2016 The Company continued to extend the geography of its routes and introduce new transportation services.

In passenger transportations in the year 2016 growth of transportation volume is provided at the level of 6% with respect to the year 2015. In this connection passenger turnover in the high-speed trains Tulpar – Talgo has increased by 1,032 million pass-km or by more than 1,8 times. Introduction of new routes, improvement of service level, application of dynamic pricing system and realization of different systems of tickets discounting has influenced the situation.

The passenger trains were launched on the new railway lines "Zhezkazgan – Saksaulskaya" and "Shalkar – Beineu". In this direction new suburban electric trains were launched, and the passenger cars fleet, was updated, including with Tulpar – Talgo cars of new modification.

Within the frameworks of the state program "Nurly Zhol" and the Nation Plan "100 Steps" realization the Company has completed construction of the dry port and infrastructure on the territory of SEA "Khorgos – Vostochniye Vorota", new launch facilities of Kuryk port and railway line "Almaty – Shu" have been put into operation, the traffic was opened on Kazakhstan section of transcontinental highway "Western Europe – Western China".

Being the systemic and flagman company KTZ NC JSC is aware of and assumes the responsibility for the stable development.

In compliance with the best practices of corporate social responsibility, KTZ NC JSC implemented many events aimed at sustainable development of the Company and the Company's stakeholders in 2016, such as:

- commissioning a railway station in Lissakovsk;
- determination of the Procedure for Paratransit Services at Railway Stations;
- servicing more than thirteen thousand residents of remote stations and junctions with medical trains;
- providing social jobs for more than 600 disabled people;
- allocating twenty educational grants for the Main industrial program at KTZ NC JSC;
- sending new trains from Astana to Karaganda and Kokshetay;
- launching the new train route Zhezkazgan – Saxaulsk – Kyzylorda.

In order to structure information on the activities of KTZ NC JSC in the field of sustainable development and to properly inform our stakeholders, the management of KTZ NC JSC decided to prepare this Report.

The 2016 Sustainability Report of Kazakhstan Temir Zholy National Company JSC prepared in accordance with the G4 Sustainability Reporting Guidelines is presented to the Reader. This Report is the first sustainability report prepared in accordance with international standards and practices.

KTZ NC JSC plans to prepare this Report on an annual basis with further implementation of external data assurance procedures for the information provided in the Report.

In addition, KTZ NC JSC is currently doing regular works on updating the Sustainable Development Policy and identifying key initiatives and plans for sustainable development. These events fully correspond to the Reference Model of Sustainable Development of our sole shareholder – Samruk-Kazyna JSC.

I would like to take this opportunity to wish all KTZ NC JSC's stakeholders successful engagement in the Company, and also encourage your involvement in and responsibility for sustainable development and careful attitude to the resources and wealth of our country. G4-1

President of KTZ NC JSC
K.K. Alpysbayev

About the Report

About the Report
Summary of the approaches to the Report content determination and quality assurance.

Company's Profile
Summary of the Company, industry, basic products and lines of activities.

Sustainable Development Management
Summary of corporate management principles and sustainable development management principles.

Economic Responsibility
Major material economic aspects and performance indicators presented.

Social Responsibility
Major material social aspects and performance indicators presented.

Environmental Responsibility
Major material environmental aspects and performance indicators presented.

Appendices
1. Terms and definitions
2. Compliance Table as per G4 Reporting Guidelines

This 2016 Sustainability Development Report of KTZ NC JSC (hereinafter referred to as the Report) has been prepared in accordance with the G4 Sustainability Reporting Guidelines. This Report is the first sustainability report prepared in accordance with the G4 GRI Guidelines. The Report has an annual cycle and the reporting period equal to a calendar year. In order to understand the trends in the KTZ NC JSC (hereinafter also referred to as the Company) activities, where possible, the Report covers a three-year period of analysis of the performance indicators of KTZ NC JSC. G4-28–G4-30

The Report is intended for all stakeholders and is available on the Company's corporate website (www.railways.kz).

Stakeholder Engagement

The key difference between this Report and any previous reports is the first serious attempt to engage stakeholders in the process of preparing the text of the Report. The Company understands that the first practice of engaging stakeholders in this process cannot but have areas for improvement. The Company has identified the following areas for improving its stakeholder engagement in the preparation of the Sustainability Report:

1. Stakeholder engagement regarding the preparation of the Sustainability Report should be permanent, and an active stage of stakeholder engagement should be sufficient not only for questioning, but also for direct meetings, round tables, etc.
2. In some cases, stakeholders need motivation to participate in the process of determining the opinions on material aspects and other sustainability reporting issues. G4-25

At the time of preparation of the Report, the Company identified the following stakeholder groups: G4-24

Figure 1. Stakeholder map

The results of the internal survey in the Company showed that the most significant stakeholders for the Company are the following:

Stakeholders	Stakeholders' impact on the Company	Company's impact on stakeholders	Total points (final score)
Management	40	38	78
Employees	34	41	75
Subsidiaries	34	37	71
Customers	34	36	70

The Company interviewed the most important stakeholders on the materiality of aspects and disclosed subjects in the Report. In addition to the most significant stakeholders, the consultants encouraged sending the questionnaires additionally to the following representatives of the stakeholder groups of the Company:

— Samruk-Kazyna National Welfare Fund JSC (hereinafter referred to as Samruk-Kazyna JSC);
— Chairperson and all Members of the Company's Board of Directors;
— Chairperson and all Members of the Company's Management Board;
— trade union organization's manager;
— manager of the public association representing the interests of the Company's service customers; and
— key investors and/or creditors.

The results of the stakeholder survey allowed the Company to make a more objective picture of the materiality of the aspects and disclosed subjects in the Report. G4-26. G4-27

Materiality and Aspect Boundaries

Materiality of the aspects has been determined by the Company with respect to the following criteria:

1) materiality of impact on the Company (on aspects);
2) impact (of aspects) on stakeholders.

The criteria for materiality of the aspects were determined based on the results of the questionnaire survey of the representatives of the stakeholder groups engaged. The questionnaire provided the possibility of evaluating each aspect by two abovementioned criteria, each of which could be assessed using a 10-point scale. Material aspects were those aspects that scored more than 18 points in the sum of their values by two criteria. G4-18

Figure 2. The Matrix of Material Aspects

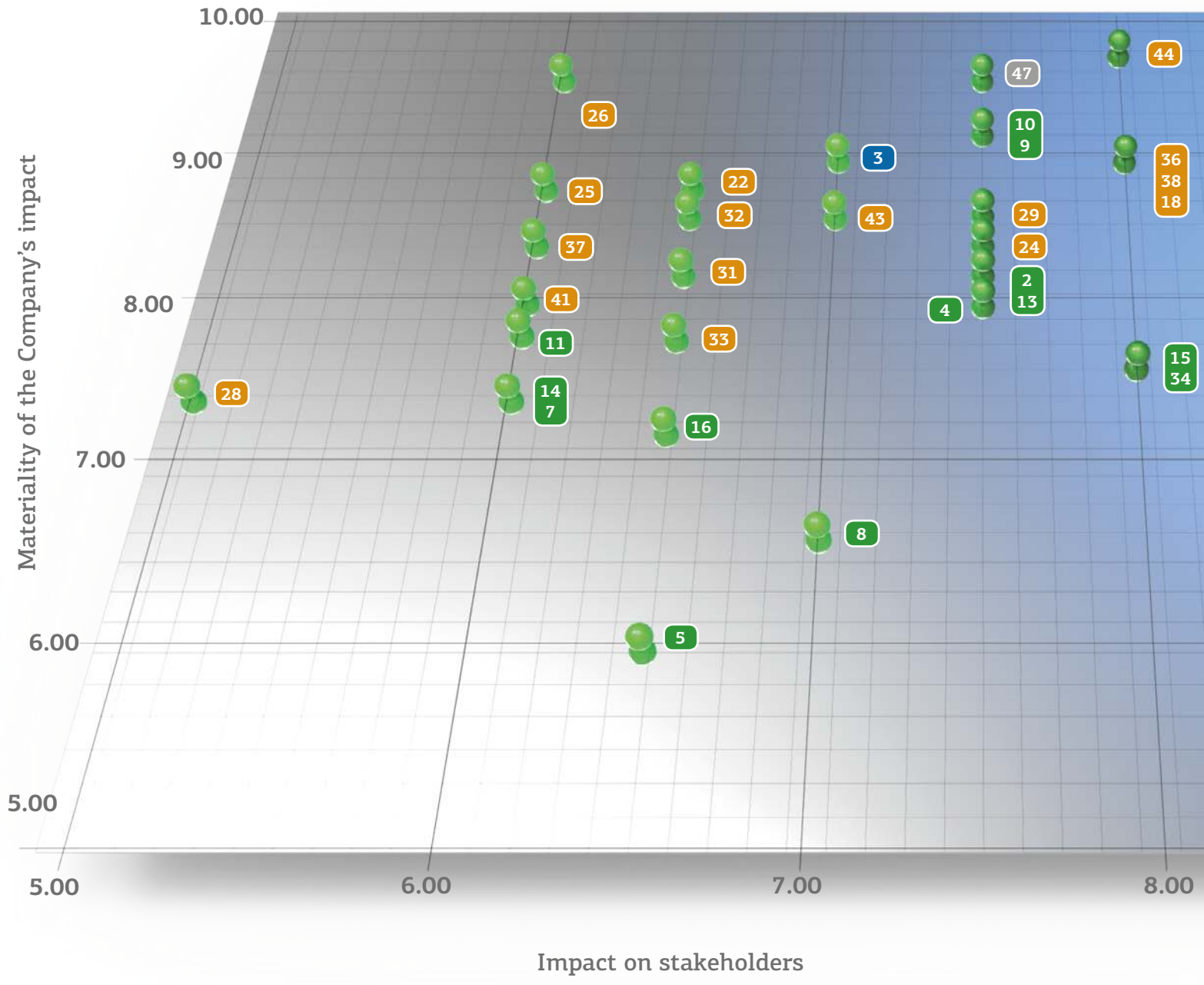
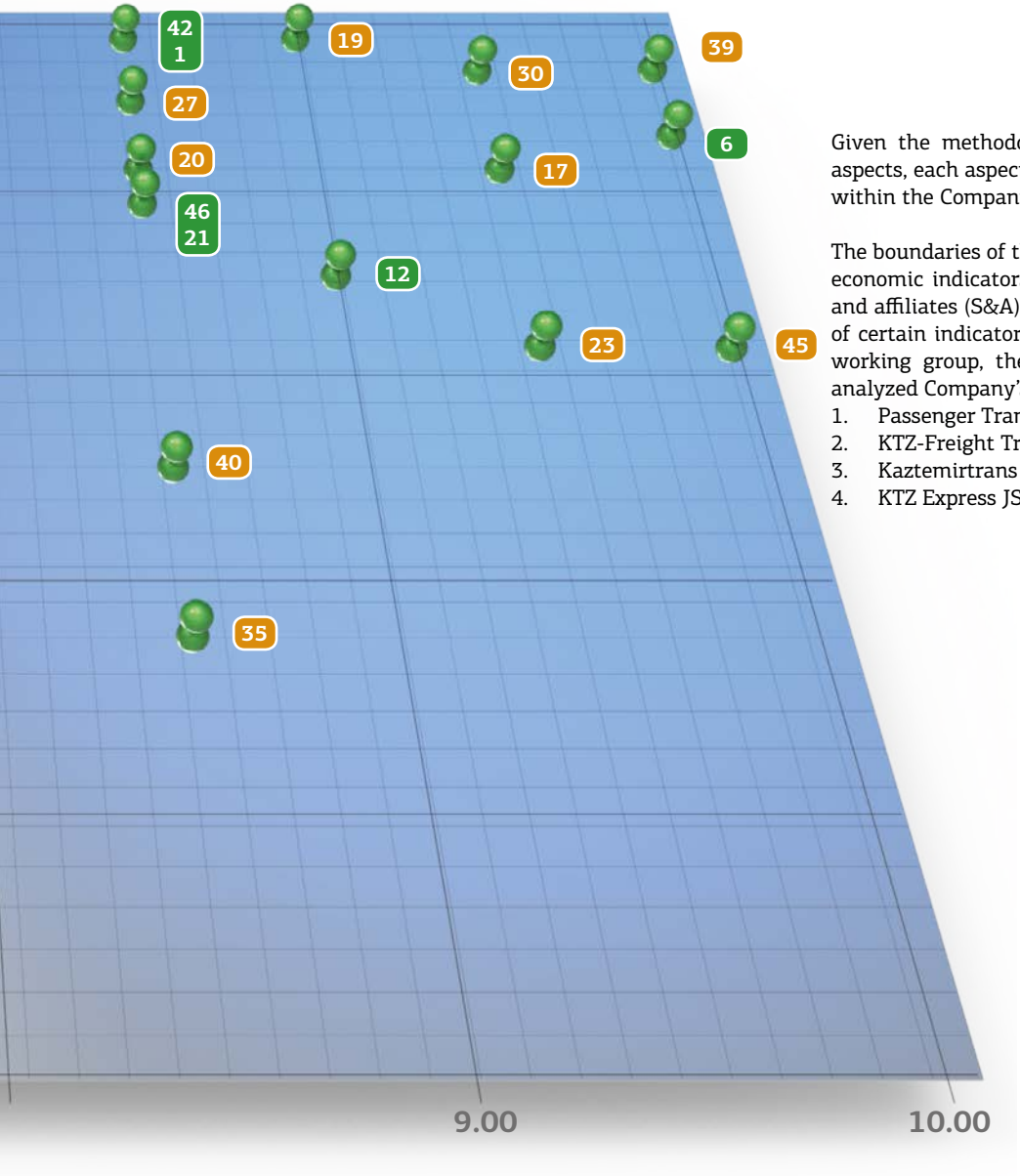


Table 1. The List of Material Aspects G4-19

#	Sustainability aspects	GRI indicators
39	Compliance	G4-SO8
6	Energy	G4-EN3 – EN7
30	Security practices	G4-HR7
19	Occupational health and safety	G4-LA5 – LA8
17	Employment	G4-LA1 – LA3
1	Economic performance	G4-EC1 – EC4
42	Customer health and safety	G4-PR1 – PR2
36	Anti-corruption	G4-SO3 – SO5
45	Customer privacy	G4-PR8
27	Freedom of association and collective bargaining	G4-HR4



Given the methodology for determining the materiality of the aspects, each aspect defined as a material one was important both within the Company and outside the Company.

The boundaries of the aspects were determined based on the main economic indicators and the scale of the Company's subsidiaries and affiliates (S&A), and also taking into account the applicability of certain indicators. Following the discussions of the Company's working group, the four of them were identified as the main analyzed Company's S&A:

1. Passenger Transportation JSC;
2. KTZ-Freight Transportation JSC;
3. Kaztemirtrans JSC;
4. KTZ Express JSC. G4-17

Table 2. The Table of Aspect Materiality and Boundaries *G4-20, G4-21*

#	Sustainability aspects	Materiality (+/-)	Aspect coverage	Stakeholder coverage
1.	Economic performance	+	Group*	Shareholders, investors
2.	Market presence	–	–	–
3.	Indirect economic impacts	–	–	–
4.	Procurement practices	–	–	–
5.	Use of materials	–	–	–
6.	Energy	+	Group*	State authorities, suppliers, local communities,
7.	Water	–	–	–
8.	Biodiversity	–	–	–
9.	Emissions	–	–	–
10.	Effluents and wastes	–	–	–
11.	Products and services	–	–	–
12.	Environmental compliance	–	–	–
13.	Transport	–	–	–
14.	Total environmental protection expenditures and investments	–	–	–
15.	Supplier environmental assessment	–	–	–
16.	Environmental grievance mechanisms	–	–	–
17.	Employment	+	Group*	Employees, trade unions
18.	Labor/Management Relations	–	–	–
19.	Occupational health and safety	+	Group*	Employees, trade unions
20.	Training and education	–	–	–
21.	Diversity and equal opportunity	–	–	–
22.	Equal remuneration for men and women	–	–	–
23.	Supplier assessment for labor practices	–	–	–
24.	Labor practices grievance mechanisms	–	–	–
25.	Investment	–	–	–
26.	Non-discrimination	–	–	–
27.	Freedom of association and collective bargaining	+	Group*	Employees, trade unions

#	Sustainability aspects	Materiality (+/-)	Aspect coverage	Stakeholder coverage
28.	Incidents of child labor	–	–	–
29.	Forced or compulsory labor risk	–	–	–
30.	Safety practices	+	Group*	Management, Shareholders
31.	Indigenous rights	–	–	–
32.	Human rights assessment	–	–	–
33.	Supplier human rights assessment	–	–	–
34.	Human rights grievance mechanisms	–	–	–
35.	Local communities	–	–	–
36.	Anti-corruption	+	Group*	Management, shareholders, employee, partners, state authorities
37.	Public policy	–	–	–
38.	Anti-competitive behavior	–	–	–
39.	Compliance	+	Group*	State authorities
40.	Supplier assessment for impacts on society	–	–	–
41.	Grievance mechanisms for impacts on society	–	–	–
42.	Customer health and safety	+	Group*	Customers, local communities
43.	Product and service labeling	–	–	–
44.	Marketing communications	–	–	–
45.	Customer privacy	+	Group*	Customers, local communities
46.	Compliance of products and services	–	–	–
47.	Sectorial supplement on transportation and logistics	–	–	–

* *Group includes information concerning KTZ NC JSC and following S&A:*

1) Passenger Transportation JSC;

2) KTZ-Freight Transportation JSC;

3) Kaztemirtrans JSC;

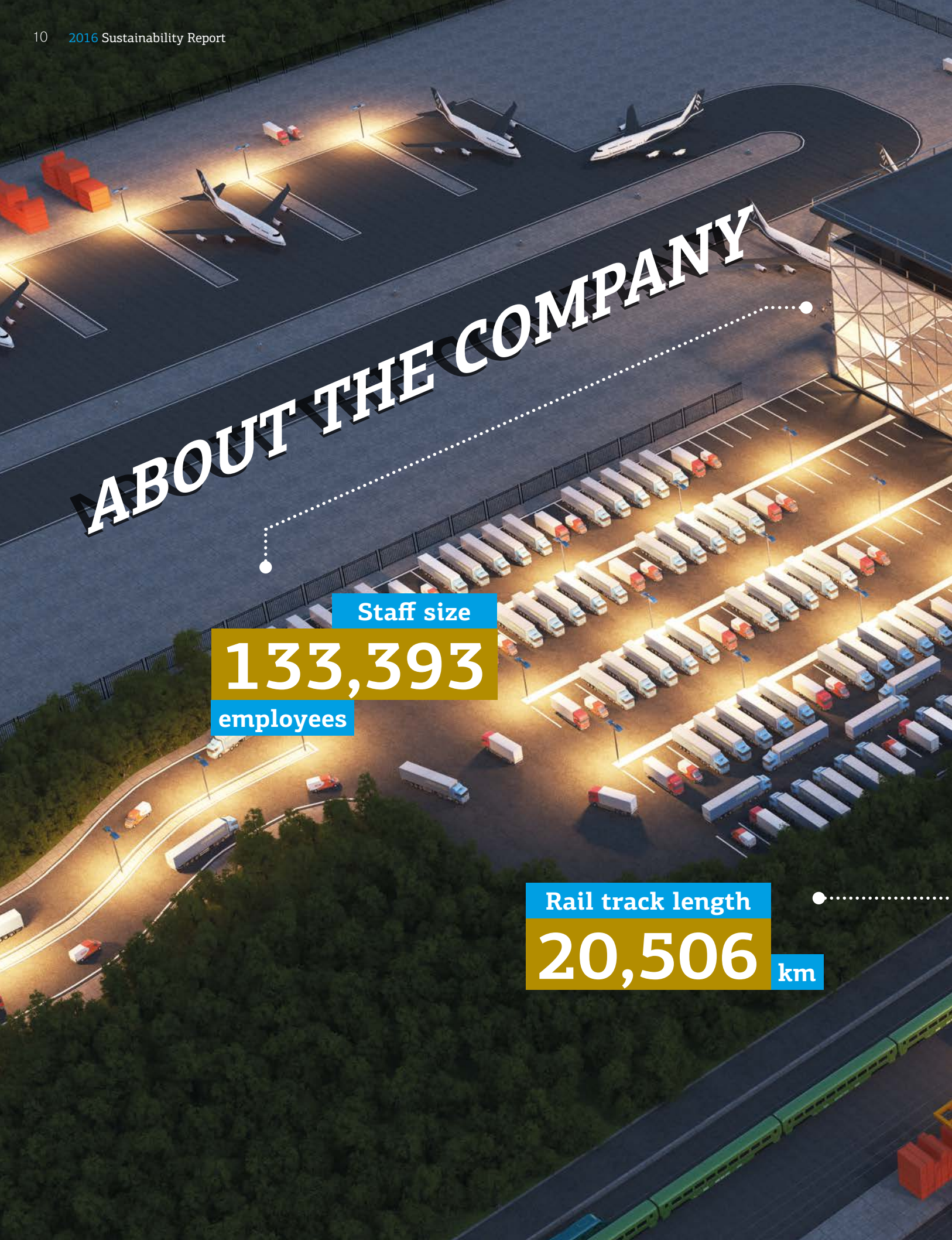
4) KTZ Express JSC.

Due to the fact that this Report is the first report prepared in accordance with the GRI G4 Guidelines, the Report does not contain any reformulation of the indicators published in previous reports or changes in the aspect boundaries and coverage. G4-22, G4-23

Disclosure Level and Assurance

This 2016 Sustainability Report of KTZ NC JSC has been prepared in accordance with the GRI G4 Guidance – Core option. G4-32

This Report did not pass the procedure of external assurance. In the future, the Company plans to introduce a regular (annual) practice of assurance of the Report or its individual aspects. G4-33



ABOUT THE COMPANY

Staff size

133,393

employees

Rail track length

20,506 **km**

Passengers transported

20,348K

people

Cargo transported

244,201.6K

tons

History

KTZ NC JSC (hereinafter referred to as the Company) was established by Order of the Government of the Republic of Kazakhstan on March 15, 2002 No. 310 "On establishing of Kazakhstan Temir Zholy NC Closed Joint-Stock Company". On May 13, 2002 according to Law of the Republic of Kazakhstan "On Joint-Stock Companies" name of the Company was changed from Kazakhstan Temir Zholy NC Closed Joint-Stock Company to Kazakhstan Temir Zholy NC Joint-Stock Company. G4-3

KTZ NC JSC currently has a holding structure based on functional integrity and manageability of the railway industry in the transportation process. The sole shareholder of KTZ NC JSC is Samruk-Kazyna JSC. G4-7

Today KTZ NC JSC is the multi-level vertically-integrated transportation and logistical holding, combining logistical and transportation companies, owners of terminal and trunk infrastructure of all transport modes.

The Company's Geography and Market Presence

KTZ NC JSC's headquarters is located at 6 Kunayev Street, Astana, Kazakhstan. G4-5

The Company has the following representative offices outside the Republic of Kazakhstan:

1. Representative office in PRC's Xinjiang Uygur Autonomous Region, Urumqi;
2. Representative office in PRC and Southeast Asian countries, Beijing;
3. Representative office in Central Asian Region, Tashkent;
4. Representative office in Turkmenistan, Ashgabat;
5. Representative office in Baltic and Western European countries, Riga;
6. Representative office in the Russian Federation, Moscow;
7. Representative office in European CIS countries, Minsk. G4-6

The Company, its subsidiaries and affiliates provide railway and sea transportation, renders services of transport and logistics hubs, as well as the sea port, airport and road infrastructure. G4-4

In the Company's strategic segment of transcontinental container shipments from Europe to China the Company reached 105K containers in 2016, which is twice the level of 2015. In 2016, the Company continued expanding the geography of routes and introducing new transportation services. As a part of the development of the new multi-modal transport product Rail-Air, as an alternative to the existing logistics chain Sea-Air from Southeast Asia via Dubai to Europe, transportation to Amsterdam, Istanbul and Moscow through Kazakhstan were organized in 2016. G4-8

Staff Size

The Company is the largest employer in Kazakhstan: about 0.8% of the population of the Republic of Kazakhstan is employed by organizations of the group of KTZ NC JSC. At the end of 2016, the Company's headcount was 133,393 employees. G4-10

Diagram 1. The Staff Structure by Age

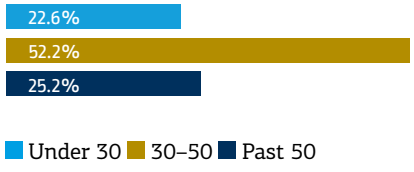
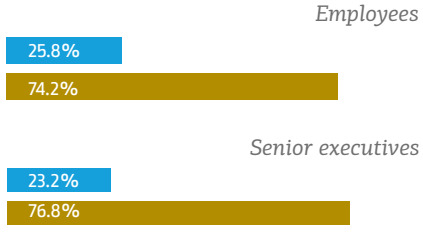
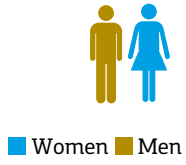


Diagram 2. The Staff Structure by Gender





KTZ NC JSC' LOGISTIC INFRASTRUCTURE:

Current operating infrastructure:

1) The trade and logistics center of Astana;
2) The trade and logistics center of Shymkent;
3) The trade and logistics center of Lianyungang (China)
4) The ferry complex in the port of Kuryk;
5) Aktau sea northern terminal;
6) SEZ «Khorgos - Eastern Gate».

Infrastructure, which will be put into operation in 2017-2020:

1) The trade and logistics center of Aktobe;
2) The trade and logistics center of Aktau;
3) The trade and logistics center of Ust-Kamenogorsk;
4) The trade and logistics center of Dushanbe (Tajikistan);
5) The trade and logistics center of Bander Abbas (Iran);
6) The trade and logistics center of Mundra (India);
7) The trade and logistics center of Istanbul (Turkey);
8) The trade and logistics center in Klaipeda (Lithuania).

Supply Chain

In its procurement activities KTZ NC JSC follows the Procurement Management Policies of Samruk-Kazyna JSC and the Rules for Procurement of Goods, Works and Services by Samruk-Kazyna JSC and entities with fifty or more percent of voting shares (interests) directly or indirectly owned by Samruk-Kazyna JSC as a property or under trust. G4-12

The Procurement Policies and Rules determine the following principles of procurement management:

- cost-saving principle (good value for money);
- transparency principle;
- principle of good faith;
- principle of supplier relation development;
- just-in-time principle;
- principle of improvement of processes of procurement activities; and
- buying-to-minimum principle.

All information concerning procurement made by KTZ NC JSC is published on the Company's corporate website www.railways.kz and the

specialized procurement portal www.tender.sk.kz and available to all potential suppliers. The electronic procurement system improved the effectiveness of procurement process significantly and made it more transparent. G4-12

Diagram 3. Total procurement volume, billion KZT

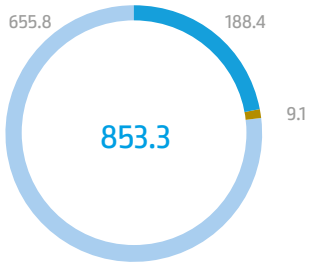


Diagram 4. Total amount of procurement performed, billion KZT

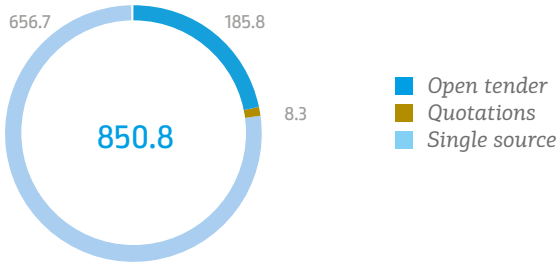


Table 3. Procurement Volume in 2016

Description	Amount, billion KZT	
	Business units	Subsidiaries
Total procurement volume	**853.3**	
Open tender	31.8	156.6
Quotations	3	6.1
Single source	201.8	454
Total amount of procurement performed	**850.8**	
Open tender	30	155.8
Quotations	2.2	6.1
Single source	202.5	454.2
Total amount of contracts signed	**850.8**	
Open tender	30	155.8
Quotations	2.2	6.1
Single source	202.5	454.2

Implementation of the Company's Transformation Program

In 2015 and 2016, KTZ NC JSC's Development Strategy was updated, process model was formed, key strategic operating performances were approved, KPI tree and new IT architecture were developed.

The Company revised its operating model and the role of the administrative apparatus, whose new structure was approved on April 21, 2016, within the Business Transformation Program of KTZ NC JSC. In particular, the management levels were optimized by eliminating the positions of managing directors, the strategic role of human resources (HR) was enhanced, and more attention was paid to occupational safety and health (HSE) and information technology (IT) issues.

All projects of the Program are structured in the Project Portfolio approved on December 13, 2016 by the Council for the Business Modernization and Transformation of KTZ NC JSC Group of Companies. G4-9

Thus, the priority projects include:
- Implementation of a New Model of Maintenance and Repair Management (M&R);
- Integrated Planning System;
- Implementation of a New Model of Marketing and Sales;
- Procurement Management by Categories;
- Implementation of a New Model of Occupational Safety Management; and
- Implementation of Basic Enterprise Management Processes.

An important result of 2016 is the transition to the target organizational structure.

The team of the KTZ NC JSC Transformation Program, with the participation of consultants, carried out work, which resulted in the beginning of the Company's restructuring in April 2016.

In July 2016, KTZ-Freight Transportation JSC was established, which is a freight railway carrier of the Republic of Kazakhstan. In order to perform the railway transport operations in a proper way, the functions and personnel of some branch offices of KTZ NC JSC were assigned to KTZ-Freight Transportation JSC. This allowed us to optimize a number of subsidiaries and structures throughout the network.

The container fleet operator Kaztransservice JSC was taken over by the multimodal transport and logistics company KTZ Express JSC.

In order to implement the meritocracy principles and as a part of implementation of an updated operational business model, integration of target business processes, the Company has been implementing Job Matching project, i.e. assessment of employee's compliance with the position held.

The Job Matching project has been implemented step by step, downward by management levels, starting from CEO-1 level positions.

The Council for the Business Modernization and Transformation of KTZ NC JSC Group of Companies approved a target competence model and is working on development of the draft job descriptions for the Company's positions at CEO-1 level.

In November 2016, the pilot project of the Establishment of a Multipurpose Service Center in Astana was launched. The project organizational perimeter includes branch offices located in Astana; accounting records, tax accounting and staff records were functionally covered. The establishment of the multipurpose service center is aimed at eliminating common duplicated auxiliary business processes by withdrawing from a certain branch office and concentrating in a single center, which will enable branch managers to be released of managing functions that are not directly related to the production process.

Further the project will be replicated in the Company's branch offices through the establishment of 12 regional centers at the locations of the regional branches, with possible extension in the future.

As a part of optimization of the corporate portfolio and implementation of the Comprehensive Plan for Privatization on 2016–2020, 11 assets totaling 24 billion KZT were disposed in 2016, which is also the best indicator among Samruk-Kazyna JSC Group of Companies. G4-13

Participation in External Initiatives

In its activities, KTZ NC JSC follows the sustainability principles. This also applies to decisions on risk and/or incident management. In cases where there is a threat of serious or irreversible damage, the lack of full scientific certainty is not used as a reason for postponed taking cost-effective measures to prevent environmental degradation. Thus, Principle No. 15 of the 1992 United Nations Declaration on Environment and Development (Precautionary Principle). G4-14

In 2011 KTZ NC JSC joined the UN Global Treaty and supports the ten principles of the UN Global Treaty in the field of human rights observance, labor relations, environmental protection and anticorruption efforts. G4-15

For the purpose of efficient stakeholder engagement, KTZ NC JSC supports various initiatives and participates in different unions and associations, such as:

1. Association of National Freight Forwarders of the Republic of Kazakhstan.
2. Kazakhstan Industry Trade Union of Railway, Road, Air and Water Transport Workers Public Association.
3. KAZLOGISTICS Union of Transport and Logistics Organizations and Associations. G4-16

The KTZ NC JSC Corporate Governance target indicators for 2018–2022

Corporate governance rating[1]

A 2022

BBB 2021

BBB 2020

BB 2019

BB 2018

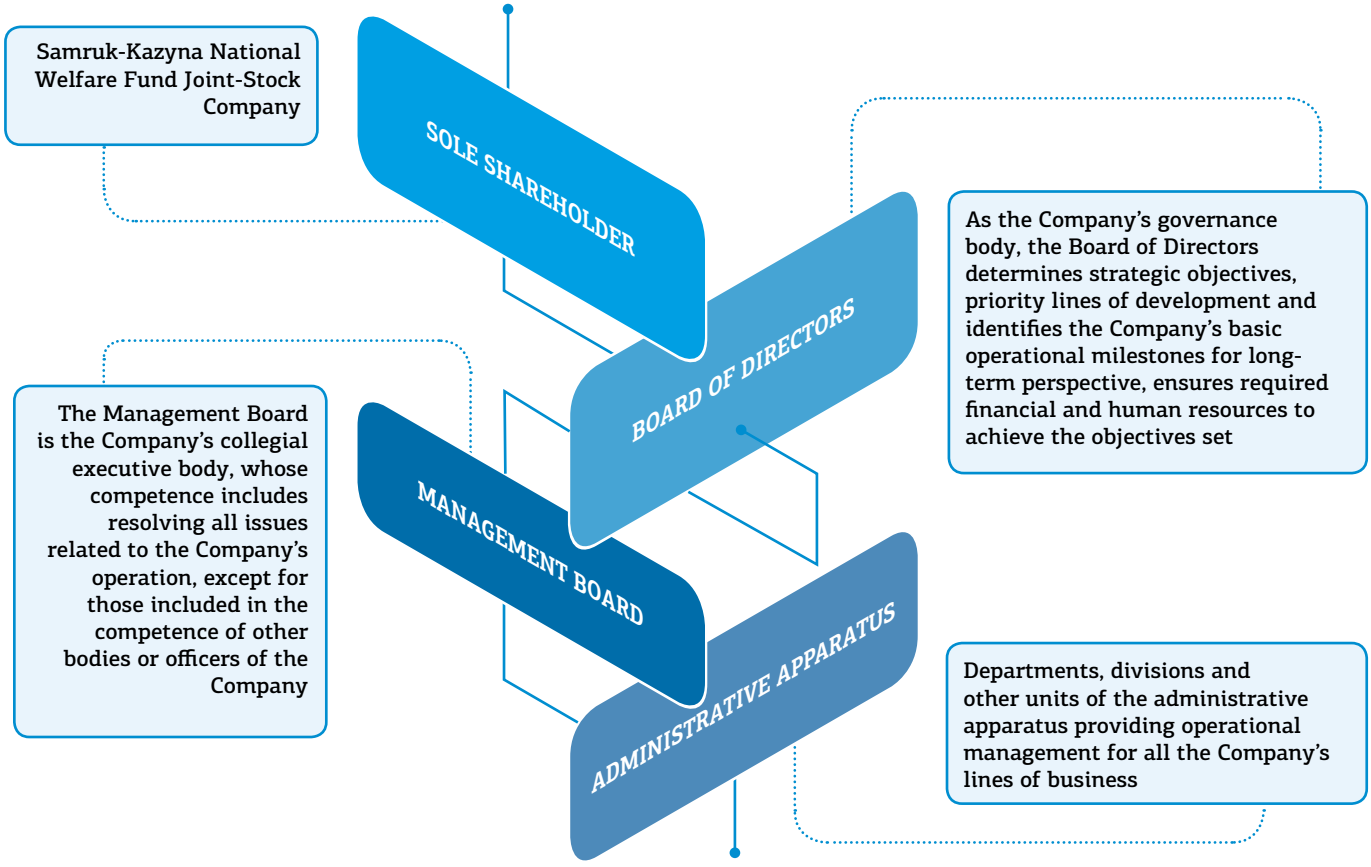
[1] *The rating is calculated on the basis of the Methodology on assessment of Corporate Governance in legal entities, more than fifty percent of voting shares of which are directly or indirectly owned by Samruk-Kazyna JSC approved by the decision of the Fund Board dated September 26, 2016, Minutes No. 35/16.*

SUSTAINABILITY MANAGEMENT

Sustainability Management

Governance

Figure 3. Governance Structure



The Board of Directors

The structure of the Board of Directors ensures fair and unbiased representing of the Sole Shareholder's interests. A number of members of the Board of Directors is determined by the Sole Shareholder. The Board of Directors of KTZ NC JSC consists of eight members with four independent members among them.

The Board of Directors is liable for efficient management and proper control over the Company's operation to the Sole Shareholder.

In 2016, the Board of Directors of KTZ NC JSC held 12 meetings, of which 10 attendee meetings and 2 absentee meetings. G4-34

The Committees at the Board of Directors

There are currently four committees at the Board of Directors of KTZ NC JSC established in order to improve the performance of the Board of Directors and enhance the structure of the governance, which are advisory and consultative bodies of the Board of Directors (Resolution of the Board of Directors dated August 8, 2016, Minutes No. 8).

Independent Directors are the Chairpersons of the Committees of the Board of Directors.

There are four committees at the Board of Directors, established and operating at the Company:

- Audit Committee;
- Strategic Planning and Innovation Committee;
- HR and Remuneration Committee; and
- Safety and Environment Committee.

In 2016, the committees of the Board of Directors of KTZ NC JSC held 28 meetings.

The competence of the Safety and Environment Committee includes considering the sustainability issues that implies the Committee's general coordinating function in sustainability issues.

The HR and Remuneration Committee also considers sustainability issues to some extent (HR issues).

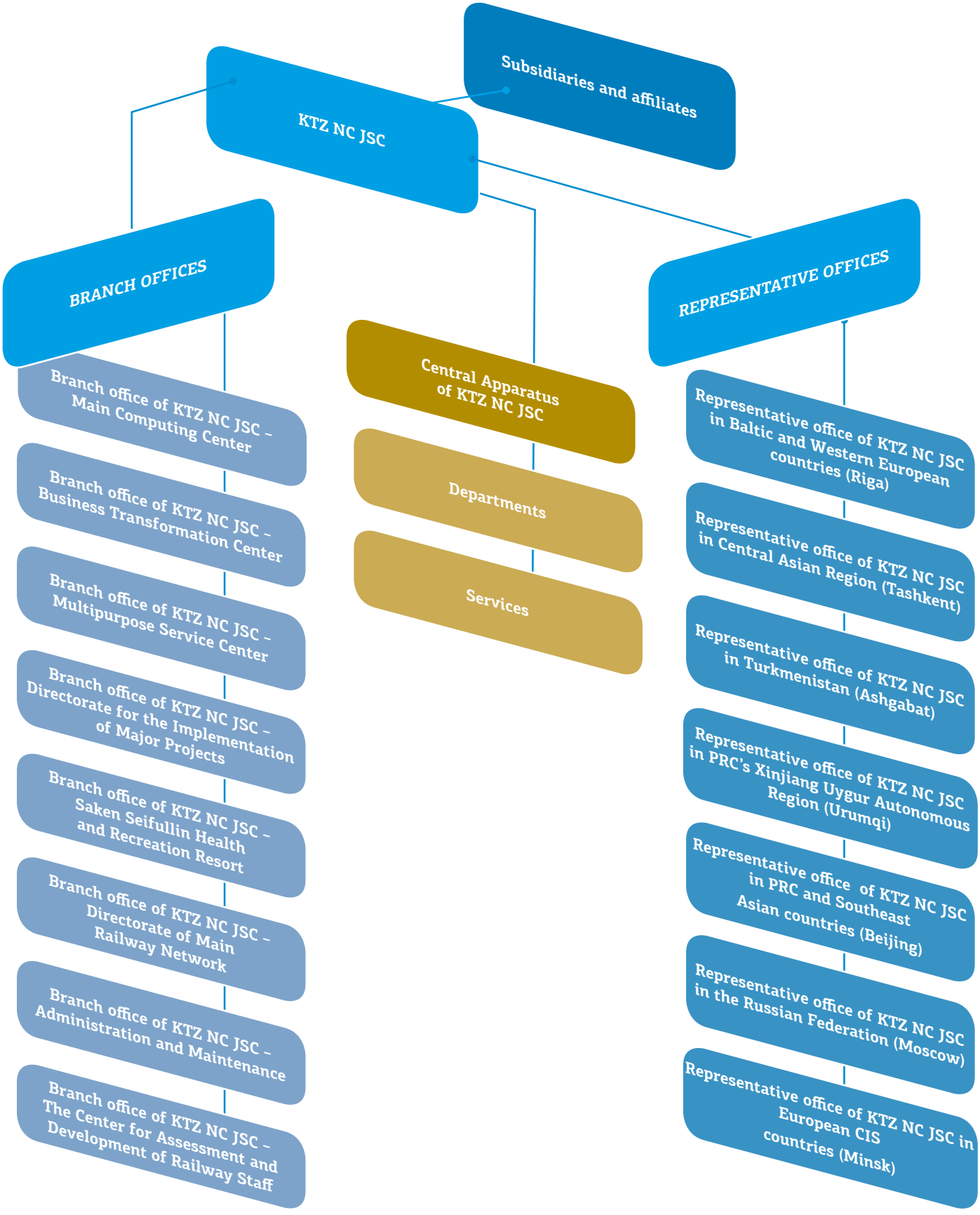
The Management Board

Major objectives of the Management Board are developing proposals related to the Society's business strategy, implementing the Society's financial and administration policies, developing solutions with respect to essential issues of the Society's current administrative activities and coordinating the operation of the Society's units, improving the efficiency of the control system and risk monitoring system, ensuring the Sole Shareholder's rights and legal interests.

38 meetings of the Management Board of KTZ NC JSC were held for 2016, including 35 attendee meetings and 3 absentee meetings. Business units and subsidiaries of KTZ NC JSC submitted 412 issues for consideration of the Management Board of KTZ NC JSC. G4-34

Organizational Structure

Figure 4. Organizational Structure of KTZ NC JSC



Governance Code

In order to improve the Company's governance system, the Sole Shareholder – Management Board of Samruk-Kazyna JSC (Minutes No. 22/15) approved the Governance Code (hereinafter – The Code) on May 27, 2015.

The Code's objectives are to improve the Company's governance, ensure governance transparency, and confirm the Company's commitment to observe the standards of proper governance. The Code consists of two parts: major principles and annotations – rules and explanations to implement the major principles.

For more details about the Company's governance, please refer to the Company's Annual Report for 2016. G4-34

The Policies of Sustainability and Stakeholder Engagement

According to the Governance Code of KTZ NC JSC, sustainability is one of the key principles of the Company's Governance. The Company strives for growing long-term value ensuring its sustainability and keeping balance of interests of stakeholders. The Company ensures agreement of its economic, environmental and social purposes for sustainability in long-term perspective that include, but not limited to the growth of long-term value for shareholders and investors. The Company's sustainability consists of three components: economic, environmental and social. G4-34

The Company ensures promotion of sustainability principles along the entire group.

Stakeholder engagement is determined by the Company's local documents.

The Company's major form of stakeholder engagement is participation of the Company's representatives in their activities in accordance with the established procedure. A specialized plan of stakeholder engagement is under development. G4-34

As a part of the Corporate Ideology and Business Philosophy, the Company undertook a series of obligations to:

- **The Sole Shareholder**
  Protect the Sole Shareholder's property, take measures aimed at maximizing the value of the authorized stock capital and ensuring competitive rate of return for this industry.

- **Clients**
  Earn and keep trust of clients, offer services for profitable prices, with excellent safety, quality and maintenance based on the continuous improvement of business processes and governance systems.

- **Employees**
  - Respect employees' rights, provide them with decent and safe working conditions as well as competitive remuneration conditions and conditions of social benefits with respect to the industrial specifics.
  - Assist in professional development of our employees, assist in implementing their potential and displaying their creative initiative.
  - Prevent injuries and deterioration of health of employees and other stakeholders, who can face danger related with activities performed by the Company.

- **Business partners**
  Strive for mutually beneficial cooperation with contractors, suppliers, partners in joint ventures. Assist in application of common principles of the Company's business or similar principles in cooperation. Opportunity of efficient application of such principles is an essential factor to make a decision or continue partner relations.

- **Society**
  Perform activities with respect to the principles of corporate social responsibility; observe applicable laws and standards; support human rights; comply with the environmental requirements and prevent environmental pollution. G4-34

Ethics and Integrity

The Code of Business Ethics was developed and approved at the Company in order to form and maintain ethical standards. G4-56

The purpose of the Code is to develop and improve corporate culture, assist in efficient interaction between the Company's officers/employees and stakeholders based on application of business conduct practices.

The key corporate values, which are the basis for the Company's activities, are as follows: honesty, integrity, respect to people, team spirit and trust.

In order to ensure observance of the Code of Business Ethics, the regular monitoring and testing knowledge of the Code provisions are introduced to practice.

Violations of the provisions of the Code of Business Ethics by employees of KTZ NC JSC are communicated as follows:

- by courier, via mailing department;
- via e-mail: temirzhol@railways.kz;
- via mailboxes installed at the lobby of B block near the Pass and Registration Office;
- by hotline.

The hotline used to communicate major violations at the Company is administered by the independent international consulting company Deloitte supported by Samruk-Kazyna JSC, which makes this took independent and more efficient. As a part of the hotline, e-mail sk.hotline@deloitte.kz and web portal www.sk.deloitte-hotline.com are available. G4-56

KTZ NC JSC actively conducts undertakings aiming at minimization of fraud and corruption risks. So, KTZ NC JSC has developed, approved and consistently implements the Plan of Measure of J KTZ NC JSC for 2015–2017 on Realization of Anticorruption Strategy of the Republic of Kazakhstan. Within the frameworks of the mentioned Plan fulfillment KTZ NC JSC in 2016 performed the work for quality improvement of freight and passenger transportations, automation of the processes connected with control of fuel and energy resources spending. G4-DMA

In order to improve the efficiency of anticorruption efforts the Company has the Policy on Protection of Persons, Who Reported on the Fact of the Corruption Offence or otherwise Assisting in Anticorruption Efforts of KTZ NC JSC. G4-SO4

In 2016 no facts of corruption offences have been established within the Company. G4-SO5

The Company has not provided any special training on corruption or fraud risks assessment, and direct assessment of such risks in the year 2016. In this connection the Internal Audit Department in accordance with the International Professional Standards on Internal Audit regularly makes corruption and fraud risks assessment within the frameworks of the audit tasks. G4-SO3

The vaster and more hazardous for the Company fraud risks are identified using Methodical Recommendations on Fraud Detection and Prevention in KTZ NC JSC and its subsidiaries. G4-SO4

The aggregate of the mentioned measures allows to decrease significantly the probable risks of corruption and fraud in the Company.

For resolution of any corporate conflicts the Board of Directors of KTZ NC JSC has appointed the corporate ombudsman.

The contacts of the Corporate Ombudsman:
Beibit Gazizovich Zhusupov, telephone number: +7 (7172) 60–40–31

ECONOMIC PERFORMANCE

Cost of the Company's assets

as of December 31, 2016

3,035

billion KZT

The Company's gross revenue

for 2016

85.6

billion KZT

The Company's net profit

for 2016

41

billion KZT

Economic Performance

Key Performance Indicators G4-DMA

Diagram 5. EBITDA, million KZT

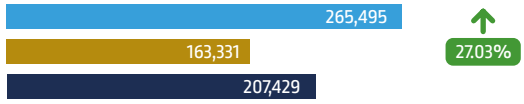


Diagram 6. Income (total), billion KZT

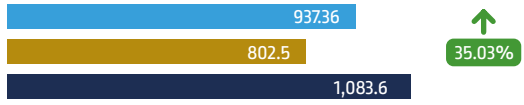


Diagram 7. Cost of sales, million KZT

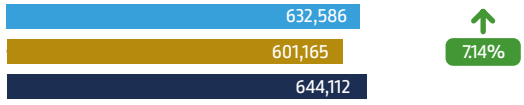


Diagram 8. Operational profit, million KZT

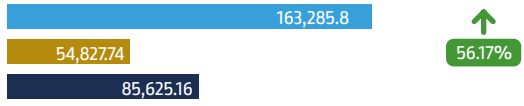


Diagram 9. Net profit per year, billion KZT

Diagram 10. Cash and cash equivalent at the year end, thousand KZT

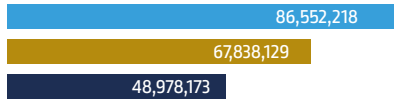
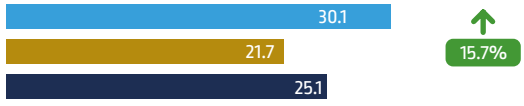


Diagram 11. EBITDA margin, %



2014 2015 2016 Variation 2015–2016

Direct Economic Value Generated and Distributed

Table 4. Direct Economic Value Generated and Distributed, million KZT G4-EC1

Item	2014	2015	2016	Variation 2015–2016, %
Total revenue, million KZT	**882,423.73**	**753,757.97**	**825,311.61**	**9.49**
Cargo transportation, million KZT	743,243.13	629,049.74	688,204.34	8.60
Passenger transportation, million KZT	77,386.36	71,787.39	80,133.55	10.42
Subsidies, million KZT	24,637.81	21,721.71	22,528.83	3.58
Other, million KZT	37,156.43	31,199.13	34,444.88	10.40
Operating costs, million KZT	877,954.0	1,251,574.39	1,042,188.23	–16.73
Salary and other payments, million KZT	264,158.86	248,841.13	261,024.51	4.90
Taxes, million KZT	22,034.41	23,923.21	25,809.77	7.89
Adjusted EBITDA, million KZT	265,494.92	163,331.45	207,428.94	27.00
Net profit, million KZT	30,397.46	–460,875.53	40,979.58	–

Table 5. Expenses for Current Operations, million KZT

Description	2015	2016	Variation, 2015–2016, %
Remuneration of labor, million KZT	224,144.96	235,152.35	4.68
Social expenditures, million KZT	24,696.17	25,872.16	4.55
Materials, million KZT	40,653.22	46,935.76	13.39
Fuel, million KZT	66,254.67	72,385.36	8.47
Energy, million KZT	40,916.99	40,227.15	–1.71
Services, million KZT	117,257.42	129,988.10	9.79
Asset depreciation, million KZT	105,084.98	113,850.37	7.70
Other expenses, million KZT	55,973.07	49,443.95	–13.21
Taxes, million KZT	23,923.21	25,809.77	7.31
Total expenses, million KZT	**698,904.69**	**739,664.96**	**–5.51**

Share of Local Suppliers

Table 6. Share of Local Content in Procurement of Goods, Works and Services, % G4-DMA, G4-EC9

Description	2014	2015	2016	Variation 2015–2016, %
Share of local content in procurement of goods, works and services, %	71.00	72.00	75.00	4.23

Indirect Economic Impacts

KTZ NC JSC takes an active part in funding various social events. Many of such events have direct or indirect economic impact on local communities and on the regions of presence in general. G4-DMA, G4-EC7

Table 7. Total Amounts Allocated for Social Economic Development of the Regions of Presence, Thousand KZT

Description	2014	2015	2016	Variation 2015–2016, %
Expenses for sponsor support and charity support, thousand KZT	3,758,595.00	521,180.00	1,796.00	–
Expenses for healthy lifestyle and sports development, thousand KZT	182,800.00	61,370.00	61,370.00	0.00
Expenses for vocational education and further training, thousand KZT	455,558.00	253,380.00	212,611.00	–19.18
Expenses for healthcare, thousand KZT	1,114,190.00	1,012,169.00	941,624.00	–7.49
Expenses for conducting festive events and cultural mass events, thousand KZT	1,581,485.00	751,107.00	810,630.00	7.34
Total expenses, thousand KZT	**7,092,628.00**	**2,599,206.00**	**2,028,031.00**	**–28.16**

In 2016, the Company experienced many events contributing to the development of the presence regions. G4-EC8

11.12.2015

During the nationwide teleconference The New Industrialization of Kazakhstan. The 2015 Results with the participation of the Head of State, the diesel engine plant was launched in Astana. The first enterprise in the field of engine building in Kazakhstan was built within the framework of public industrial innovative development and implementation of the railway engineering program. The plant will assemble, overhaul, maintain 12-cylinder diesel engines for locomotives of the Evolution series. Thus, the level of localization of production of domestic locomotives will increase from 32% to 53%.

18.01.2016

The building of a new railway station in Lisakovsk was built and transferred to the trust management of KTZ NC JSC's subsidiary – Vokzal-Service JSC. The residents of Lisakovsk asked the Company's management to build a railway station. The Company considered the opportunity of allocating funds for the design and construction of this facility. Construction and installation works were completed in June 2015. The building has a total area of 108.4 square meters with a waiting room, ticket offices, a baby care room, the ramps for disabled people. The railway station of the 1st type can serve 50 people per day.

15.03.2016

On March 15, 2016, an official ceremony of launching a passenger train along Zhezkazgan – Saxaulsk – Kyzylorda route was held at Zhezkazgan Station. According to Zhezkazgan akim (mayor) Batyrlan Akhmetov, this route, which covers more than 40 settlements, is a socially significant project within the framework of the Nurly Zhol program.

05.05.2016

New houses for railway workers were put into operation at Dostyk border station. There are 10 two-storey buildings with a total area of more than 13,000 square meters. Comfortable houses were built according to a modern design. All 136 apartments have three rooms and an area of more than 95 square meters each, with convenient layouts. New housing is provided to station employees, employees of track maintenance department, signaling and communications department, energy supply department, operating carload depots and other business units of the Company. Dostyk Station is a key cross-border railway crossing from Kazakhstan to China with a population of more than ten thousand people, most of which are railway workers.

05.07.2016

On July 5, 2016 the residents of distant stations, such as Shalkar and Tassay officially met new passenger train No. 377/378 Almaty – Mangyshlak, which left Almaty 2 Station on July 3. The Almaty – Mangyshlak train started running through the new railway site Shalkar – Beineu. The new route made it possible to cut the distance of the most distant railroad in the country by 14% or 471 km. The new route covers more than 20 settlements of Aktobe and Mangystau Regions, where previously there was no railway communication. Travel time of passengers is reduced by 9 hours. Due to the reduced distance of the route, the cost reduced by 11.46% for compartment cars, and 11.32% for couchette cars.

22.11.2016

On November 22, 2016, KTZ NC JSC hosted the grand opening of the Multi-Purpose Service Center (MPSC). The main goal of the MPSC is to improve operational efficiency by integrating business processes of accounting, tax and staff records, optimizing the costs of routine operations, enhancing the role of accountant and HR manager in decision-making, thereby maintaining a high level of business activity and contributing to further business development. As a result of the analytical work carried out as well as on the basis of certain criteria, 12 regional centers will be established at the initial stage of the introduction of the MPSC concept.

06.12.2016

On December 6, 2016 during the Day of Industrialization, the Head of the State put into operation the facilities of the first start-up complex of the Kuryk Port in the mode of the National Teleconference Bridge. The ferry complex of the Kuryk Port is an important link in the transport and logistics system of the Trans-Caspian International Transport Route.

During the teleconference bridge, the trains with the first passenger train of Tulpar – Talgo were launched along the new Almaty – Shu railway line and loading of the cars to the ferry started.

15.12.2016

On December 15, 2016, on the eve of Independence Day, two new highly comfortable electric trains were officially launched along the route Astana – Karaganda and Astana – Kokshetau. The trains fully comply with the global standards of suburban communication and have certificates of conformity with the Technical Regulations of the Customs Union. The new cars are equipped with soft chairs, a crash system of passive safety, a Wi-Fi-based information and entertainment portal, which provides passengers with the opportunity to view general information, as well as entertainment materials, such as films and video games. The train is also equipped with a video surveillance system for salons and platforms with data recording, displays with Creeping Lines to communicate information concerning the details of the trip in Kazakh, Russian and English.

Compliance

KTZ NC JSC takes all necessary measures to provide compliance with the current legislation and assumed obligations. The Company has not detected any cases of violation of the legislation and regulatory requirements in the year 2016, except for penalty sanctions imposed on it for ecological disturbances to the amount of 11,9 million tenge. G4-SO8

in 2016 KTZ NC JSC received no complaints relevant to the consumers' personal privacy violation and loss of any consumers' data. G4-PR8

KTZ NC JSC is the largest employer in the Republic of Kazakhstan. The number of Company's employees is close to 1% of the whole country's population. At the same time, KTZ NC JSC is one of the most geographically widely represented employers in the country. These circumstances impose great social obligations, which are performed by Company with great honor.

SOCIAL RESPONSIBILITY

Social Responsibility

KTZ NC JSC is the largest employer in the Republic of Kazakhstan. The number of employees of the Company is close to 1% of the population of the whole country. At the same time, KTZ NC JSC is one of the most geographically widely presented employers in the country. These circumstances impose great social obligations on the Company, and the Company is proud of fulfilling such obligations. G4-DMA

Staff

Due to the fact that many works on the railways cannot be called physically easy works, most employees of the Company are men. G4-LA1

Diagram 12. Key Indicators with Respect to Staff

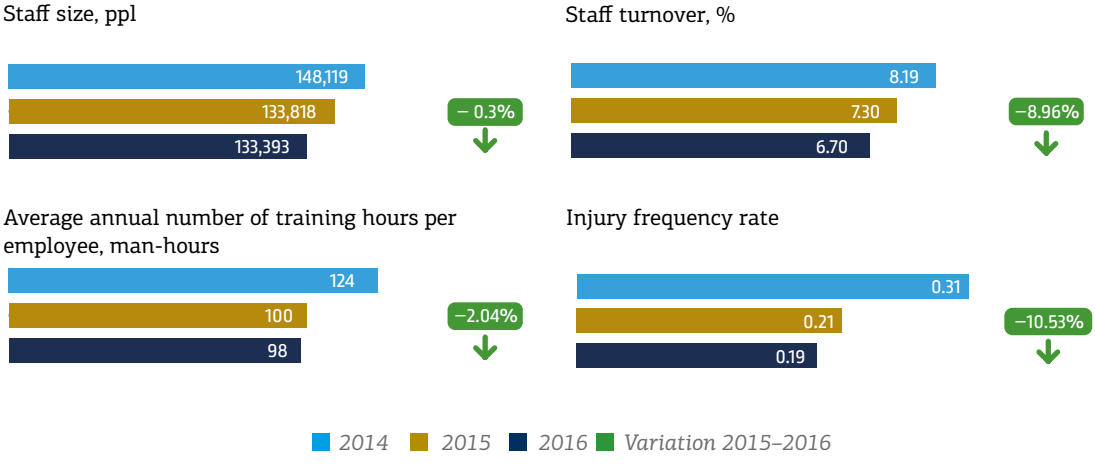
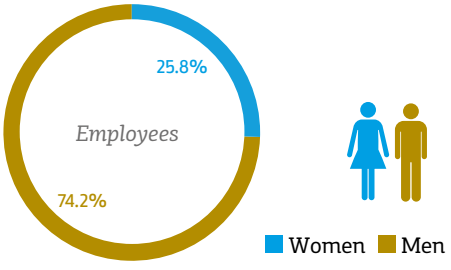


Diagram 13. The staff structure by gender, %



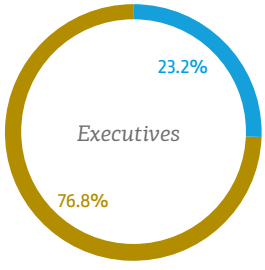


Diagram 14. The Staff Structure by Age, %

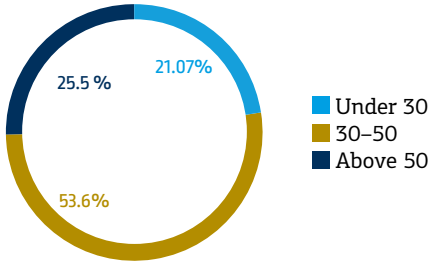
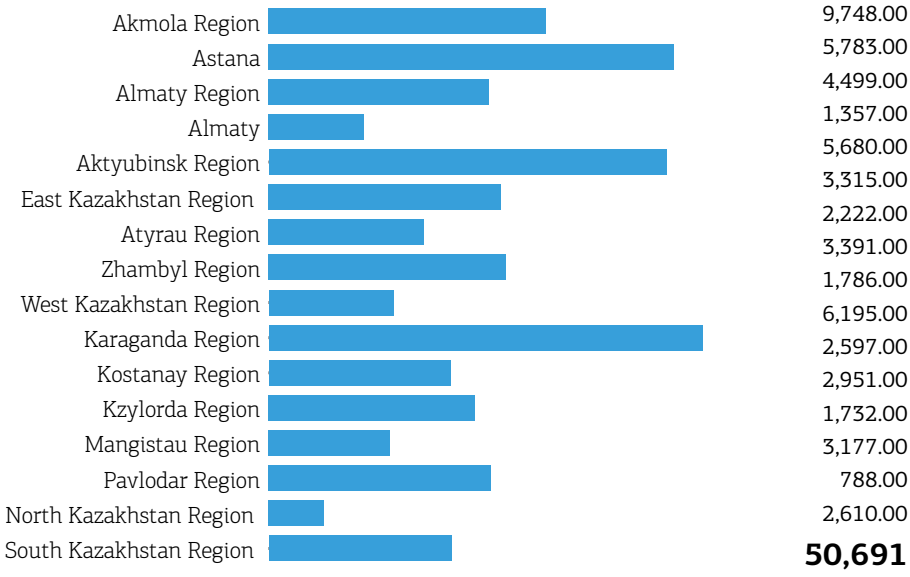


Diagram 15. The Total Number of Employees of KTZ NC JSC by the Regions of Kazakhstan



KTZ NC JSC has one of the strongest and most active trade unions in the country. Most Company's employees are covered with the collective agreement. G4-11

Table 8. Share of Employees covered with Collective Bargaining Agreements for 2016

Description	Value
Total number of employees at year end, ppl	133,393.00
Total number of employees covered with collective bargaining agreements, ppl	132,541.00
Share of total number of employees covered with collective bargaining agreements, %	99.36

The Company's collective agreement was made for 2015–2017 and provides for the Company's constructive obligations to:

- comply with the standards in social labor relations;
- provide financial aid and social guarantees to the Company's employees, retirees, disabled people and people suffering from occupational injuries or diseases at the Company;
- provide a set of social guarantees to young employees, employees' families, including summer vacation and health improvement for children of the Company's employees;
- handle occupational health issues; and
- assist comprehensive vocational development and training of the staff;

The Company's employment benefits provided for by the Collective Agreement was recognized as the best along the group of companies by the Non-governmental Organization "Railway, Automobile, Air and Water Transport Workers Industrial Trade Union of Kazakhstan".

The Company's employees in accordance with the current Legislation of the Republic of Kazakhstan may establish trade union organizations and join them at their own option, no any preliminary permit is required for this. G4-HR4

For the reporting year the Company has not detected any divisions or subsidiaries thereof, where the right for freedom of associations and collective negotiations could be violated or subject to any material risks. G4-HR4

Despite the huge total number of employees and responsible work, the Company has a very low turnover rate. G4-LA1

Diagram 16. The Staff Turnover by Gender

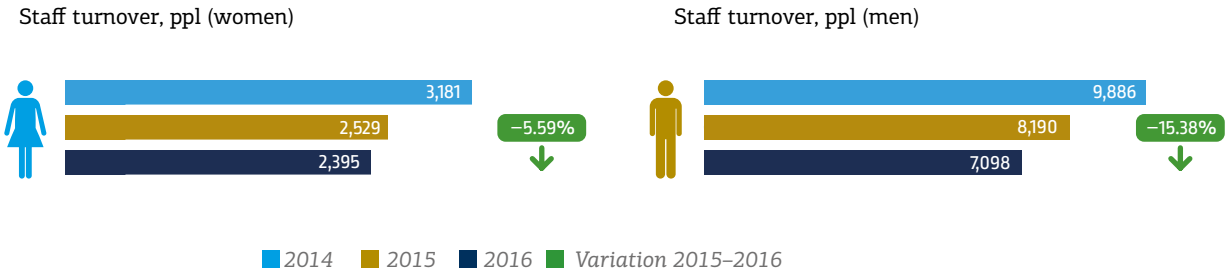
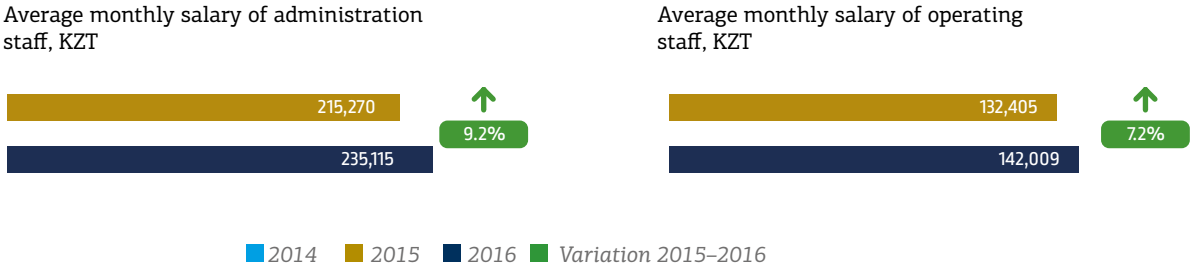


Diagram 17. Total amount of staff costs, including taxes, deductions and reserves for unused leaves, KZT million

Diagram 18. Average Salary, KZT



Despite the fact that since 2015 Samruk-Kazyna Trust Corporate Fund has been implementing the unified policy for provision of charity support of Samruk-Kazyna JSC and member entities of Samruk-Kazyna JSC, the Company remains a major sponsor. G4-EC8

Table 9. Sponsor Support and Charity Support

Description	2014	2015	2016
Sponsor support and charity support, million KZT	3,758,595.00	521,180.00	1,796.00

Sponsorship and charity activities of the Company and the Company's Sole Shareholder are aimed at reviving spiritual and national values, supporting culture, science and education, promoting scientific and technical progress, promoting healthy lifestyles, providing assistance to vulnerable groups, poor citizens and supporting sports.

Caring for Pensioners

There are more than 30,000 retirees recorded at KTZ NC JSC; with subsidiaries taken into account this value exceeds 40,000 people.

The Company has established the Central Council of Railroading Veterans of KTZ NC JSC consisting of about 48 thousand persons, also regional Councils of Railroading Veterans function.

The main areas of operation of the Councils of Railway Veterans are as follows:

- visiting sick and single pensioners at home and at hospitals;
- training of pensioners and introduction of modern means of communication to pensioners;
- conducting creative conferences on the development of succession of generations;
- arranging collection of memoirs and biographies of pensioners for the book titled We Remember the Dead and the Living;
- congratulating those celebrating the 70th, 80th, 90th and 100th anniversaries;
- consulting, advisory and practical assistance to the Company's pensioners; and
- providing assistance in arranging funerals. An important document for social support for retirees is the Collective Agreement for 2015–2017 between KTZ NC JSC and its staff.

The main components of the social benefits for retirees of KTZ NC JSC are as follows:

- annual free fares;
- sanatorium and health improvement;
- a one-off allowance for retirees who retired by age from the railway transport organization;
- payment for prosthetic dentistry;
- financial aid for burial;
- a one-off material assistance to those celebrating the 70th, 80th, 90th and 100th anniversaries;
- material aid by the decision of the commission for consideration of social and domestic issues; and
- financial assistance for the holidays, such as The Transport Workers Day, The Victory Day.

KTZ NC JSC is the only national company and industry in general, which has an advisory body consisting of the most experienced veterans of the industry – the Advisory Board – the guardians of the traditions of the railway industry, which are a worthy role model, especially for young people working for the Company. G4-EC3

Caring for the Future Generation

KTZ NC JSC believes it is important to care for the future generation, who can make a significant contribution to the development of the Company, the industry and the Republic of Kazakhstan.

KTZ NC JSC arranges events for children on an annual basis aimed at improving the image of the railway industry employee among the younger generation (the undertakings are arranged for more than 170,000 children aged up to 17 years old).

One of such undertakings is the Doors Open Day, the thematic performances in the structural divisions of J KTZ NC JSC within the framework of the Children's Day celebration.

There are various contests with the participation of children of employees, such as a children's drawing contest Balaussa Bolashak, a contest of poems and stories The Golden Pen, a pre-New Year's contest A Child's Smile of Kazakhstan Temir Zholy.

KTZ NC JSC annually arranges New Year's events with gifts.

Paying special attention to children development and health-improvement during school holidays period KTZ NC JSC annually provides about 10,000 aged from 7 up to 14 with the vouchers to the children health-improvement centers of the Republic of Kazakhstan, simultaneously providing insurance of the children's life against accidents.

Caring for Young Employees

KTZ NC JSC employs more than 48,000 young employees aged under 35.

The work with young people in the Company is based on the Youth Policy Program for 2016–2021, which consists of a set of programs aimed at improving occupational skills, raising the corporate spirit, developing a system for attracting young people, effectively adapting and consolidating them into the Company, involving young people in solving corporate problems, developing international youth cooperation, spiritual, moral and patriotic education, and promoting the values of healthy lifestyle and sports among young people. G4-LA10

The goal of the Program is to promote the strategic development of Kazakhstan Temir Zholy National Company Joint-Stock Company by providing the required number of young employees with the required occupational skills and corporate competencies that share the corporate values of the Company and are involved in solving corporate tasks.

The Company established an advisory body – the Council of Youth Affairs under the President of the Company in order to solve urgent issues and coordinate the activities of youth policy participants. The Council's tasks are to set priorities for the formation and implementation of integrated policies for young employees, analyze the effectiveness of implementing the youth policies, develop recommendations for improvement of such policies, and discuss other important issues relating to young employees at the Company. The regional representatives of the Council currently perform active work in all regions of the country and at the Company's subsidiaries.

The Youth Wing Council Zhas Otan was established, which is a consultative and advisory body of the primary party organization of KTZ NC JSC of the People's Democratic Party Nur Otan for youth policy issues.

Within the framework of the Youth Policy Program KTZh NC JSC implements following projects:

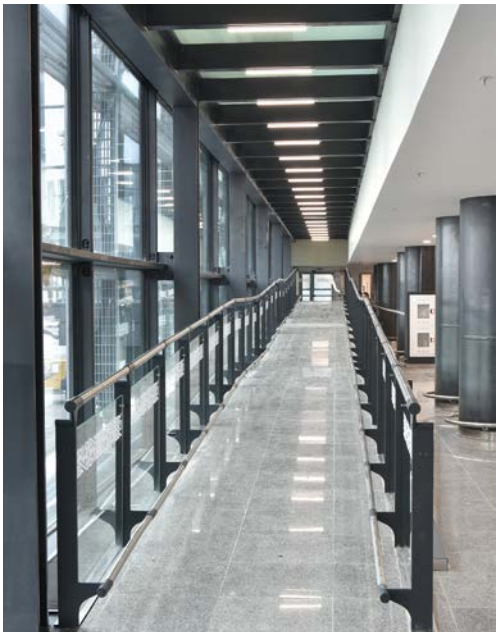
- Project Management;
- Future Managers;
- Sen Bolmassan, Kim? Corporate Camp;
- a stand-up club.

Each youth project develops, acquires new qualities and opens up new opportunities for young people.

Successful implementation of the Youth Policy Program allows active involvement of the young employees in realization of different directions of the Company's Strategy. According to the results of the youth projects realization from 2010 to 2016 the personnel rotation is implemented with respect to 709 young employees.

The Company's youth is united by zhastemir.kz network, where young employees take active part in "GalstukOFF", "KTZ Star" programs.

Caring for Disabled People



Traditionally, the Company cares for disabled people. G4-DMA, G4-SO1

In 2016, KTZ NC JSC approved the Procedure for Servicing Disabled People. The new rules are in force throughout the country. According to the new rules, the duties of the station employees include accompanying low-mobility passengers, assisting in the delivery of baggage and boarding the car. Disabled people should inform of their arrival in advance, so that the station employees on duty could meet them.

Currently there are ramps built and brought into compliance with the requirements of the ramp angles at 138 railway stations. Wheelchairs were purchased for 58 stations. Information bureaus of 16 stations are equipped with information systems for hearing-impaired people. Special restrooms will be reequipped in the station

buildings, and parking lots will be allocated for disabled people on the station squares. G4-SO1

More than 600 disabled people are currently employed in social jobs in business units and KTZ NC JSC. G4-HR3

Training

KTZ NC JSC traditionally invests large resources in staff training and development. G4-DMA, G4-LA9

Twenty educational grants under the industrial program Magistral (The Mains) and ten scholarships were received in 2016 by future specialists of the transport industry.

Special grants and scholarships of the President of KTZ NC JSC are allocated annually; the best students of colleges and universities in highly-demanded industrial majors receive such grants and scholarships.

In 2016, 18 employees of KTZ NC JSC won educational grants under the masters and doctoral programs in the majors, such as Transport Construction, Control and Automation, Transport Logistics, MBA, DBA. G4-LA9

Table 10. Expenses for Staff Training for 2016

Staff category	Number of people	Expenses for training, thousand KZT	Average expenses for training per employee, thousand KZT
Office and management staff	5,143.00	308,989.00	60.08
Operating staff	20,633.00	844,536.00	40.93
Total	**25,776.00**	**1,153,524.00**	**44.75**

Table 11. Average Annual Number of Training Hours per Employee, man-hours G4-LA9

Staff category	2014	2015	2016	Variation 2015–2016, %
Total, including:	**124.00**	**100.00**	**98.00**	**–2.00**
top management	20.00	16.00	16.00	0.00
middle management	24.00	20.00	20.00	0.00
administration staff	32.00	24.00	22.00	–8.33
operating staff	48.00	40.00	40.00	0.00

Within the frameworks of the UN Global Compact principles and 17 objectives in the sphere of stable development the Company plans to consider the possibility of security employees training in the human rights observance policies and procedures. In 2016 such training has not been provided. G4-HR7

Occupational Health and Medical Support

The health of workers and medical support for vulnerable categories of citizens is one of the most important social policy priorities pursued by KTZ NC JSC. G4-EC7

Since 2010, the Company together with the competent authority in emergency situations of the Republic of Kazakhstan has been implementing a project to run medical trains. It is an unordinary social project, since a fundamentally new type of mobile multipurpose specialized consulting and diagnostic support was for the first time offered to railway transport employees and their family members, urban and rural population of remote places of residence.

The project was mentioned in the annual Address of the Head of the State to the people of Kazakhstan in 2011, the Densaulyk train was one of the winners of the Republican competition on the corporate social responsibility Paryz in the category The Best Social Project of the Year and became the best socially responsible project in

Kazakhstan at the international festival The Choice of the Year No. 1 in Kazakhstan in 2010. G4-EC7

The arrangement of sanatorium and health improvement is an important part of the social policy of the Company, which allows for purposeful and effective prevention of diseases and rehabilitation treatment of the Company's employees.

Working conditions of railway personnel are associated with a number of adverse factors, such as significant physical, psychoemotional overload, traveling nature of work, and also a long stay in the open air.

All of the above is undoubtedly the main risk factor for the development of a number of diseases of the respiratory, cardiovascular, and digestive systems, musculoskeletal system, occupational intoxications.

Annually The Company offers sanatorium and resort health-improvement to more than 12 thousand of its employees and veterans of the branch residing in all regions of Kazakhstan at the beneficial conditions. G4-EC7

"Sanatorium-Health and Recreation Resort named after Saken Seifullin" is under supervision of KTZ NC JSC.

In order to minimize the risks of diseases and the health deterioration of its employees and retirees, KTZ NC JSC actively develops a culture of healthy lifestyle and pays much attention to physical education and sports.

Health and fitness and mass sports work at KTZ NC JSC is, first of all, aimed at performing the following tasks:

- improving health and reducing morbidity rate in the industry;
- preventing various diseases;
- maintaining high working performance of railway staff;
- enhancing the cohesion of working teams and intracorporate competitive spirit; and
- promoting a healthy lifestyle among railway workers and their families.

41 sports instructors arrange mass health and fitness work at KTZ NC JSC. They serve more than 90,000 employees of the industry from 397 railway transport entities.

Within the scope of implementation of the Healthy Life Style Program the railway transport enterprises together with sport instructors annually arrange about 180 physical training and sport activities involving nearly 20,000 railroad workers. Annually the summer and winter Republican Spartakiads (sports and athletic meetings), as well as championship competitions in individual sports among the employees of the branches and subsidiaries of KTZ NC JSC are conducted. G4-EC7

Since 2010 the Company has been a member of the International Union of Sportsmen Railroad Workers (USIC), comprising 26 states. For this time the Company has repeatedly become the prize-winner at USIC Championships in individual sports.

The Saken Seifullin Health and Recreation Resort can rightfully be ranked among the best health improvement facilities located in the Shchuchinsk-Borovoye resort area.

There are standard double rooms, junior suites and suites equipped with everything required for a good rest offered for railway personnel. There is billiards, table tennis, sauna, gym, and daily cultural events, such as tours to the resort coast of Borovoye, concert programs, sports events, to spend leisure time.

The S. Seifullin Sanatorium is specialized in the cardiovascular diseases, musculoskeletal diseases, and respiratory diseases (except for tuberculosis). Experienced and qualified medical staff of the sanatorium provides the following types of treatment:

- mud therapy (mud applications and galvanic mud, mud of the local healing lake);
- baths (coniferous, salt, Zalmanov baths, etc.);
- therapeutic saunas;
- therapeutic showers;
- hyperbaric chamber;
- hydrocolonotherapy;
- dentist's room;
- with infrared magnetolaser treatment;
- instrumental physiotherapeutic treatment (DMW, SMC), D'Arsonval, electrophoresis, magnetotherapy, UST, UHF, electrosleep, IKV;
- massage division;
- exercise therapy division;
- phytotherapy;
- ultrasound diagnostics;
- gynecologist's office; and
- halochamber – a salt mine room.

The employees' wish to lead an active life style is evidenced by the fact that only in KTZ Central Administrative Building more than 15,000 visits of the gym and 12,000 – of the swimming pool has been noted for the year. G4-EC7

Occupational Health and Safety

KTZ NC JSC pays great attention to occupational health and safety issues. The Management Board of KTZ NC JSC approved the Guidance on Occupational Health and Safety Management System at Kazakhstan Temir Zholy National Company Joint-Stock Company and its subsidiaries developed in accordance with the international requirements of OHSAS 18001:2007 Occupational Health and Safety Management Systems. Requirements, interstate GOST 12.0.230 The System of Occupational Safety Standards. Occupational Safety Management System. General Requirements ILO OSH2001, ST RK OHSAS 18001–2008 Occupational Safety and Health Management Systems. Requirements, and is the main document that regulates the occupational health and safety activities at KTZ NC JSC group of companies. G4-DMA, G4-LA6

Compliance with the principles of OHSAS 18001:2007 allowed the Company to obtain a certificate of compliance issued by SGS – the international certification body.

In accordance with the KTZ NC JSC's policies for occupational health, safety and environment and as a part of fulfillment of the Company's collective agreement, the Company worked to improve working conditions, prevent occupational injuries and occupational diseases in 2016.

5.2 billion KZT were spent on implementing measures to improve working conditions and occupational health from all sources of financing, including:

- 1.4 billion KZT – taking into account the cost of overalls, special footwear and other personal protective equipment;
- 1.6 billion KZT – for measures to improve working conditions and occupational health from all sources of financing, including medical examinations of the total costs of KTZ NC JSC in core activities.

Average expenses for the measures to improve working conditions and occupational health per employee at KTZ NC JSC amounted to 16,900 KZT (in 2015: 18,400 KZT).

The preventive works carried out at KTZ NC JSC allowed keeping the trend of reducing the general injuries and occupational fatalities in 2016.

3,637 measures aimed at improving working conditions to create safe working conditions for employees were implemented in total at KTZ NC JSC.

As required by the industrial allowance standards, the Company's employees are provided with special clothing and footwear, personal protective equipment.

In 2015–2016, operational testing of new types of personal protective equipment was arranged and conducted for lightweight and cold-protective special footwear, thermal underwear, headwear for signal operators, dermatological protective equipment.

As of the end of 2016, the Company provided 25,976 jobs; 53,272 employees or 40% of total number of KTZ NC JSC's employees are employed under hazardous working conditions. G4-LA7

As of 2016, the largest share of the total number of jobs with hazardous working conditions is

taken by jobs with the following industrial factors:
- hard work – 43.3%;
- noise – 37.2%;
- intensity of work – 9.3%;
- whole-body vibration – 0.87%;
- controlled environment – 1.87%;
- chemical factor – 2.03%;
- dustiness – 1.21%; and
- electromagnetic radiation – 4.1%.

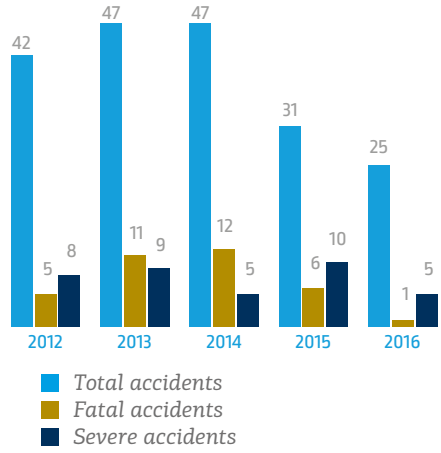
One of the main preventive measures in the occupational health and safety management system aimed at reducing the number of occupational accidents is to teach health and safety requirements to managers, specialists and workers.

The Company arranged training for responsible people and operational staff on occupational health and safety as required by the legislation and the Company's local regulations. For example, more than 2,200 people responsible for occupational health and safety were trained in occupational health and safety at the Branch Office of KTZ NC JSC Directorate of Main Railway Network in 2016.

In order to prevent accidents with outsiders, the rules for staying at the railway tracks were explained:
- 5,360 meetings were held with the interstation residents covering more than 116,000 residents;
- over 3,000 explanatory talks were held at educational institutions, schools;
- the media published more than 300 materials: 302 in newspapers, 14 on television, 22 speeches were delivered on radio.

3,644 inspections were made together with the transport police with 10,990 violations

Diagram 19. Occupational Accident Rates



detected where people crossed railroad tracks in undesignated places. They provided explanatory conversations with violators. In order to prevent accidents with outsiders, 812 guide and warning safety signs were installed, 909 signs were renovated, 108 process means to warning about the approaching trains were introduced.

The station tracks are being fenced; with the plan of 209.5 km, 142.7 km long sites were fenced (Almaty – Petropavlovsk: plan 79.9 km, 34.88 km fenced; Astana – Aktobe: plan 51.533 km, 33.96 km fenced; Almaty – Atyrau: plan 42.572 km, fenced 38.36 km; Korgassyn – Shymkent – Kyzylsay: plan 35.5 km, fenced 35.5 km).

As a result of works conducted by the Company, the rates of occupational injuries reduced significantly in 2016 vs. 2015:
- total – by 17%;
- fatal – by 17%;
- severe – by 50%. G4-LA6

Traffic Safety

All transportation process of the Company is associated with the increased level of responsibility towards the passengers and freight owners life and health, and also towards the personnel involved. Particularly because of this the Company's management pays the increased attention to the issues of traffic safety. G4-DMA, G4-PR1

For the year 2016 the enterprise of KTZ NC JSC have committed 355 cases of railway traffic safety violations *(year 2015 – 361, decrease by 6 cases)*, including 40 cases of faults in train operation and shunting service *(year 2015 – 43)*, including 12 special defects cases *(Year 2015 – 17 cases)*.

As per the Company's enterprises the situation looks as follows. In JSC "KTZ-Freight Transportations" 101 cases of traffic safety violations have been committed *(year 2015 – 105)*, including 26 defects in operation *(year 2015 – 22 defects, increase by 4 cases)*, including in traffic department – 14 defects against 8, in locomotive department – 8 defects against 6, loading work – 2 defects against 1, wagon – 2 defects against 3.

(For Reference. *Some growth of defects is noted in the traffic department (14 defects against 8), including 1 derailing (against 0), 11 derailing while shunting (against 3), 1 trailing of a point (against 1) and 1 rolling stock departure (against 0).*

In KTZ NC JSC branch "Trunk Network Directorate" 240 violations of traffic safety have been committed *(year 2015– 242)*, including 8 defects *(year 2015 – 20 defects, decrease by 12 cases)* occurred in the railroad department *(year 2015 – 15 cases)*.
(For reference. *From 8 cases – 7 – are derailing and 1 train delay for more than 1 hour. In all cases the causes of violations are railroad maintenance violations).*

In Kaztemirtrans JSC 9 violations of traffic safety are committed *(year 2015 – 8)*, including 6 defects (against 1).
(For reference. *Including 1 special defect – rolling stock derailing in the train (year 2015 – 0),5 defects on uncoupling of cars from the freight train (year 2015 – 0).*

In Passenger Transportations JSC 5 violations of traffic safety was committed *(year 2015 – 6)*, no defects.

Generally according to the results of the year 2016 traffic safety conditions in the group of companies of KTZ NC JSC is estimated as satisfactory and is located in the green area of the risk map *(according to the Methods of Assessment and Determination of Efficiency of the Undertakings in the Field of Traffic Safety in KTZ NC JSC and its Subsidiaries, approved by the Order as of 6.10.2015№ 855-ЦЗ)*.

The established **target risk indicators – the objectives in the field of traffic safety** (KRI) of KTZ NC JSC for the year 2016 **are complied with.**

The relative index of traffic safety violation – KRI–1.2 is 0.0011 violations per million ton/km gross and is located in the green area of the risk map, while the established range is 0,0015–0,0025.

The violation severity rate – KRI–1.3 towards the year 2015 **has been improved** and constitutes 0,11 against 0,12 while the established range is from 0,2 to 0,3 defects per total violations (the green area of risk map).

The defects severity ratio – KRI–1.4 has also **been improved** from 0,4 to 0,3 of specific defects per total number of defects, while the established range is 0,2–0,4 (yellow area of the risk map).

Benchmarking

In the total number of traffic safety violations committed in the Republic of Kazakhstan in 2016, the share of violations attributed to KTZ NC JSC constitutes 38%, or decreased in comparison with the year 2015 by 9% *(in 2015 the share of KTZ NC JSC constituted 47% of total violations number committed in the Republic of Kazakhstan).* G4-PR1

In comparison with the results of railway administrations of CIS, Baltic States and Georgia *(according to the data of the Central Council on Railway Transport (CCRT) for 9 months of 2016)*, KTZ NC JSC occupies the second line in the rating on the specific number of safety violations – 2,7 traffic safety violations per million of train-km, after Byelorussia Railway (0,96). For comparison, the same index for Russian Railways is 3,62; in Ukraine – 4,95; in Latvia – 5,8; in Moldova – 8,45; in Estonia – 12,82; in Lithuania – 13,2; in Azerbaijan – 38,3; in Georgia – 47,7 and etc.

In 2016 **the appropriate measure**s, aiming at improvement of traffic safety condition in the Company, **have been taken.**

In September 2016, the Management Board of KTZ NC JSC approved the Guidance On the Corporate Transport Safety Management System (hereinafter referred to as the CTSMS) at Kazakhstan Temir Zholy National Company Joint-Stock Company and its subsidiaries (traffic safety), which describes the corporate train traffic safety management system and defines the requirements for planning, implementation, monitoring of CTSMS and continuous improvement thereof. This document brought the Company's occupational health and train traffic safety management system close to the best international practices.

In order to provide the uniform approach to traffic safety management the work for generation of the vertical as per management levels has been fulfilled. The organizational structure of the traffic safety has been re-oriented to prevention of violations directly in the enterprise entities. Traffic safety departments have been completed with staff in the regional divisions, the corresponding specialists have been introduced to all divisions of linear level. For their work arrangement, the standard regulations on safety

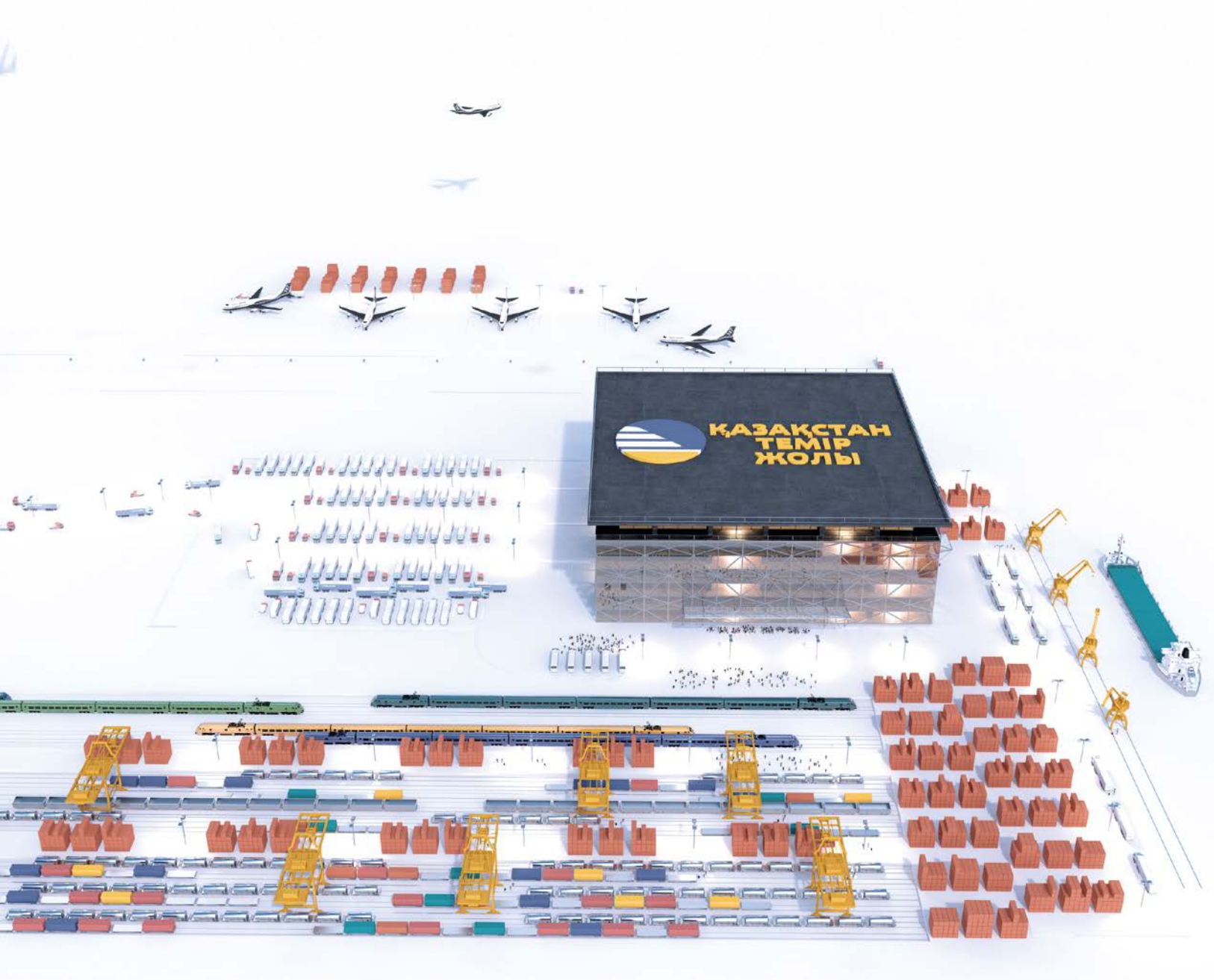
departments of the regional structures, job descriptions for the line safety specialists have been developed and submitted as appropriate. Thus, today the structure of the traffic safety departments covers the entire management vertical in all Company's enterprises, which must provide mobility, uniform approaches, coordination and control in the issues of traffic safety provision.

In 2016, about 5,000 employees of KTZ NC JSC passed training on prompt response to emergencies abnormal situations on the railway.

The training took place in stages, taking into account the class nature of the stations. Particular attention was focused on the actions of the station attendants at the departure and reception of trains, shunting operations in cases of false occupancy of switch sections, malfunctioning (failure) of all signaling and communication means, spontaneous departure of cars, and loss of brake functions of locomotives.

Technical training for locomotive crews also focuses on the issues of prompt response to emergencies and abnormal situations.

July 13, 2016 KTZ NC JSC held a conference Improving the Process of Staff Training in Accordance with Traffic Safety Requirements. A list of positions requiring continuous monitoring of the skill level was developed to reduce the impact of the human factor on the traffic safety.



Environmental costs

700

million KZT

Energy saved

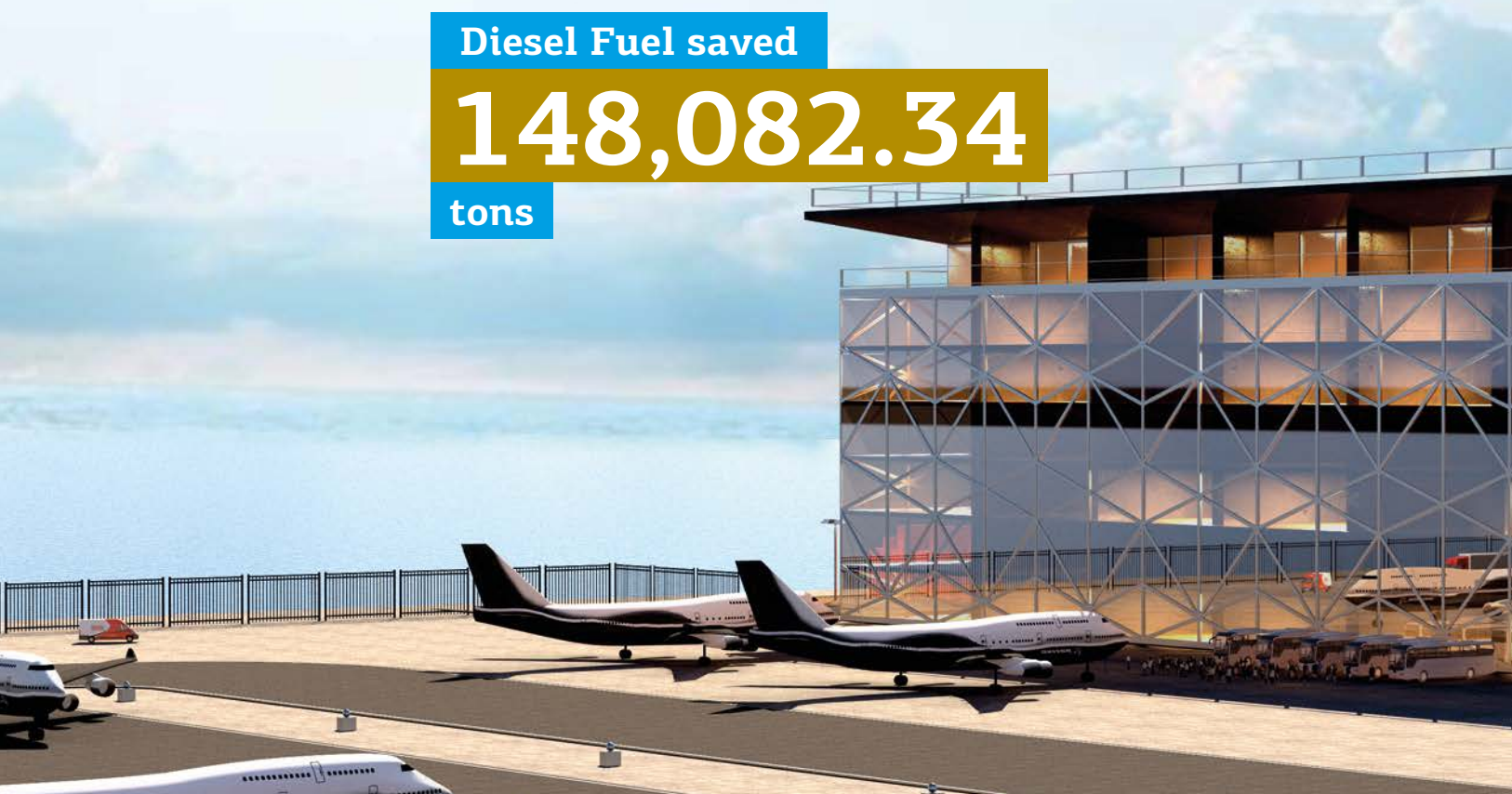
33,950.40K

kW

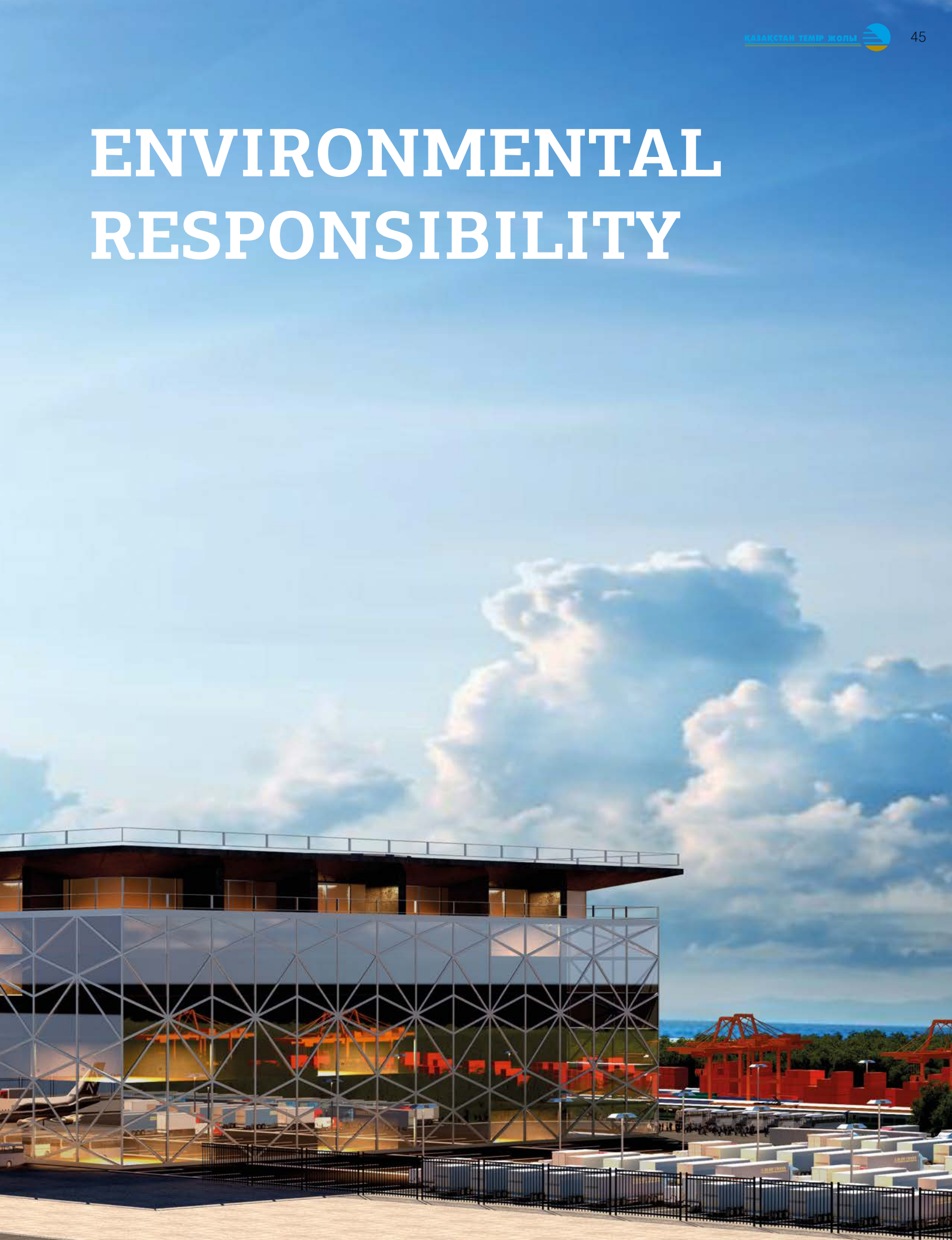
Diesel Fuel saved

148,082.34

tons



ENVIRONMENTAL RESPONSIBILITY



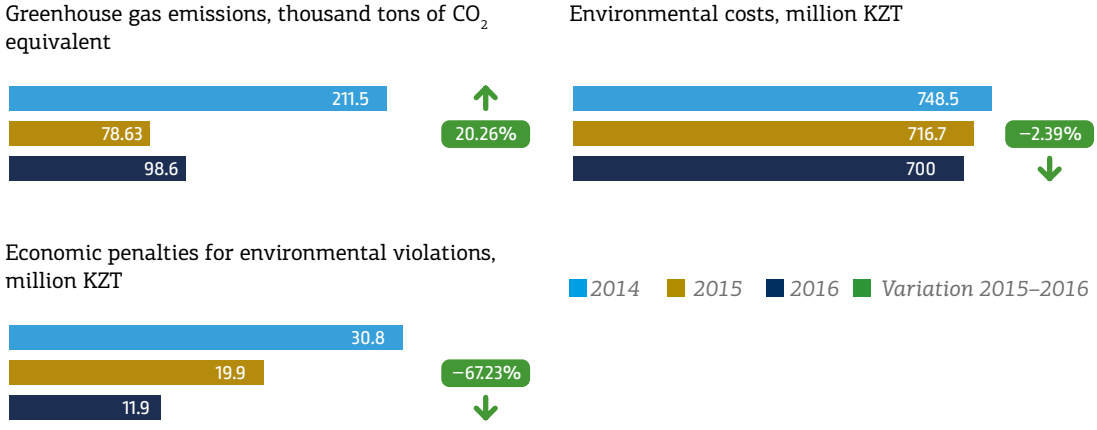
Environmental Responsibility

Environmental Management System

The Management Board of KTZ NC JSC approved the Guidance on the Environmental Management System at Kazakhstan Temir Zholy National Company Joint-Stock Company and its subsidiaries, which was developed in accordance with ISO 14001:2004 Environmental Management Systems. Requirements with Guidance for Use, ST RK ISO 14001–2006 Environmental Management Systems. Requirements with Guidance for Use, and is the main document on the environmental management system of KTZ NC JSC and its subsidiaries.

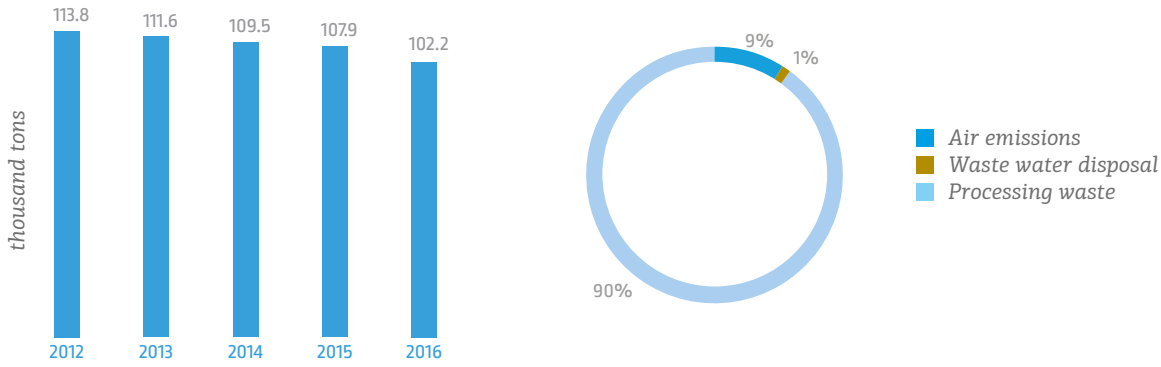
Compliance with the principles of ISO 14001: 2004 allowed the Company to obtain a certificate of compliance issued by SGS – the international certification body. G4-DMA

Diagram 20. Total Environmental Performance G4-EN15, G4-EN31



Environmental Emissions

Diagram 21. Dynamics of Environmental Emissions of KTZ NC JSC G4-EN15



Measures taken to reduce emissions

G4-EN19, LT3, LT5

1. Introducing Evolution diesel locomotives with reduced emission of pollutants will allow to reduce emission of pollutants in the air by more than 2.2 times compared to diesel locomotives of old models.
2. Purchasing new passenger cars equipped with closed-type closets will make it possible to avoid bacterial contamination of the railway tracks with fecal microflora.
3. Switching boiler houses from solid fuel to fluid fuel will make it possible to reduce the atmospheric pollution from stationary sources.

Consumption of Resources

KTZ NC JSC is a significant energy consumer; in this connection the Management Board of the Company approved the Energy Saving Program of KTZ NC JSC for the period until 2020. It defines the objective for the period from 2013 to 2020 to save 1.942 million tons of fuel equivalent (hereinafter referred to as tfe) for the amount of about 152 billion KZT. G4-EN3

Following the performance results for 2016, total consumption of fuel and energy resources (FPR) by KTZ NC JSC amounted to 1,224,400 tfe for the amount of about 105.9 billion KZT. Including 1,109,100 tfe (90.6%) for hauling operations; 115,300 tfe (9.4%) for non-hauling operations. Hauling operations required 28.4% of energy and 71.6% of diesel fuel consumed by the Company or up to 90.6% of total consumption of all types of fuel and energy resources. G4-EN3

Table 12. TPR consumed for Operating and Process (Non-Hauling) Operations

Description	2014	2015	2016	Variation 2015–2016, %
Energy, thousand kWh	388,474.10	355,708.40	308,603.80	–15.26
Coal, tons	47,942.87	43,630.24	38,961.89	–11.98
Natural gas, thousand m^3	2,685.96	2,362.33	2,282.12	–3.51
Petrol, tons	9,739.87	9,141.17	8,255.75	–10.72
Diesel fuel, tons	25,890.20	25,676.40	26,227.90	2.10
Stove fuel, tons	344.21	344.20	187.20	–83.87
TPR consumption, tfe	133,476.60	125,166.10	115,614.50	–8.26
TPR cost, million KZT (VAT incl.)	11,060.06	11,309.06	10,907.40	–3.68
TPR cost, thousand KZT/tfe	82.86	90.35	94.34	4.23

In the period from 2014 to 2016, expenses for energy resources increased in monetary terms, however, the consumption in kind decreased. This is due to the annual increase in prices for energy resources.

Table 13. TPR consumed for Hauling Operations (diesel + electric) for 2016
G4-EN5, LT2

Description	2015	2016	By 2015, %
Scope of works*, billion t*km gross	367.65	363.65	98.91
TPR consumed for hauling operations, thousand tfe	1,126.83	1,109.07	98.42
Energy intensity, kg fe/ 10K t*km gross	30.65	30.50	99.51

* *The indicator of reduction of specific consumption of fuel and energy resources per unit of product (work).*

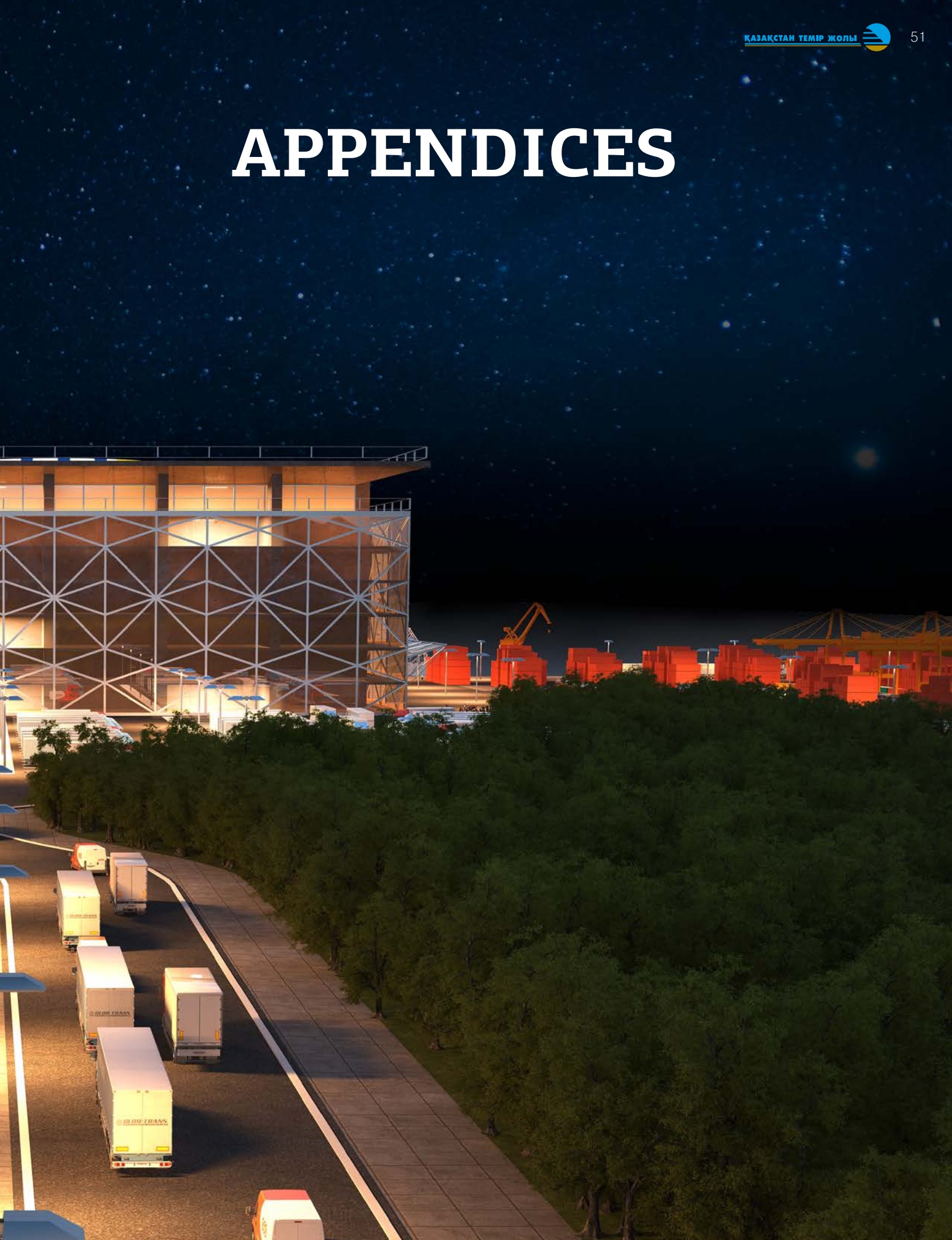
Table 14. Performance of the Energy Saving Program of KTZ NC JSC in 2014–2016 G4-EN6

Energy source type	Performance	2014	2015	2016	Variation 2015–2016, %
Energy	energy saved, thousand kW	10,257.25	19,776.35	33,950.40	71.67
	energy expenses reduced, million KZT	102.57	277.74	435.47	56.79
Diesel fuel	diesel fuel saved, tons	80,042.60	88,427.00	148,082.34	67.46
	diesel fuel expenses reduced, million KZT	9,064.13	12,027.08	17,492.52	45.44
Coal	coal saved, tons	0.00	0.00	0.00	–
	coal expenses reduced, million KZT	0.00	0.00	0.00	–
Petrol	petrol saved, tons	32.10	38.00	12.80	–66.32
	petrol expenses reduced, million KZT	3.53	4.23	1.54	–63.63
Total, million KZT		**9 170,24**	**12,309.05**	**17,929.54**	**45.66**

Table 15. Efficiency of TEE Specific Expenses per the Work Unit in 2008–2016, kg of conditional tons / 10 thousand tons km gross

2008	2009	2010	2011	2012	2013	2014	2015	2016
37.20	37.07	37.01	36.67	34.83	34.71	35.52	34.04	33.67

APPENDICES



Appendices

Glossary

Term	Unit of Measurement (if applicable)	Explanation
Freight turnover	t/km (ton-kilometer)	Freight turnover is an economic indicator of transport performance (an indicator of the volume of cargo transportation) equal to the product of the weight of cargo carried for a certain period of time at the distance of transportation. The freight turnover is measured in ton-kilometers. For example, if different vessels transported 5 million tons of cargo for a year to an average distance of 150 km, then the annual freight turnover is 5 * 150 = 750 million ton-kilometers.
Passenger turnover	pkm	Passenger turnover is an indicator of the volume of passenger transportation in passenger-kilometers; it is calculated as the product of the number of passengers per distance of transportation.
Average schedule speed	km/h	The average speed of the train along the site, taking into account the standing time at transfer stations, acceleration, deceleration and delay of the train on the running lines. In order to determine the average schedule speed, it is necessary to divide the product of the number of trains by the length of a site (km) by the sum of the duration (hours) of such trains being at this site: $V_y = \frac{\sum^{NS}}{\sum^{Nt_y}}$ where $\sum^{NS}$ is total train-kilometers at the site; $\sum^{Nt_y}$ is train-hours taking into account the standing time of trains at transfer stations. The schedule speed depends on the capacity of the site, the technical condition of the track and the rolling stock, the train schedule and dispatching regulation.
Injury frequency rate		The rate (Rf) expressing the number of occupational accidents per 1,000 employees. Calculation formula: $Rf = \frac{T * 1000}{P}$, where T is the total number of people injured for a certain period of time, whether the temporary incapacity has ended in this period or not. P is an average headcount of employees for the period of time.
Dynamic load of a loaded car	t/car	Dynamic load of a loaded car characterizes the average load of a loaded car along the entire route and is calculated by dividing the net freight turnover by the run of the loaded cars of the operating fleet.
Car turnaround	day	The time taken to complete a cycle of operations from the end of one loading to the end of the next loading or delivery in the loaded or empty state.
Average daily capacity of a car	net t-km	The number of tons per kilometer per day per car of the operating fleet. It is calculated as a quotient from the division of the net freight turnover by the operating fleet of cars assigned to a certain period of time.
Average daily run of freight cars	km	The average daily run of a car is distance in kilometers per car of the operating fleet per day.
A round trip of a freight car	km	The average distance run by the car during the turnaround time.
Loaded round trip of a freight car	km	The average distance run by the car when loaded during the turnaround time.

Term	Unit of Measurement (if applicable)	Explanation
Length of track in use	km	The length of the railway lines between the stations, without taking into account such ways as the second main, station, etc.
Main track lines	km	The sum of the lengths of all the main track lines (first, second, third, etc.).
Access tracks		Railway tracks connecting the railway station located on the main line with an industrial enterprise or other organization.
Rolling stock		Train vehicle units intended for the transportation of cargo and passengers by rail.
EBITDA		The analytical indicator equal to the amount of profit before deduction of interest expenses, taxes, wear and tear and accrued depreciation. Also known as «pre-tax profit».
EBITDA margin	%	Measure the company's profitability. It is calculated as the ratio of EBITDA and revenue.
KTZ NC JSC, Company		Kazakhstan Temir Zholy National Company Joint-Stock Company.
Report		The 2016 Sustainability Report.
S&A		Subsidiaries and affiliates.
GRI G4 Guidelines		The G4 Sustainability Reporting Guidelines.
MPSC		KTZ NC JSC's Branch Office – Multi-Purpose Service Center.
United Nations Global Compact		The UN initiative aimed at promoting corporate social responsibility and providing reports on the implementation of such policies.
Job Matching		A program of activities aimed at assessing the employee's compliance with the position held.
M&R		A set of operations to maintain the operability or serviceability of the process equipment (products, parts) in the course of technical operation, storage and transportation.
KPI		Key performance indicators.
Administrative apparatus		Administrative apparatus of KTZ NC JSC.
FPR		Fuel and energy resources.
ISO		International Organization for Standardization.
CTSMS		Corporate Transport Safety Management System.

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Element code	Group reporting elements /Aspect	Report sections/ Comments	Page	Comments
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G4–12	The organization's supply chain	Supply Chain	13	
G4–13	Any significant changes during the reporting period	Implementation of the Company's Transformation Program	15	
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Element code	Group reporting elements /Aspect	Report sections/ Comments	Page	Comments
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Element code	Group reporting elements /Aspect	Report sections/ Comments	Page	Comments
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Element code	Group reporting elements /Aspect	Report sections/ Comments	Page	Comments
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Contact Details

The Sustainability Report and all additional information concerning sustainability are available on the corporate website at www.railways.kz.

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