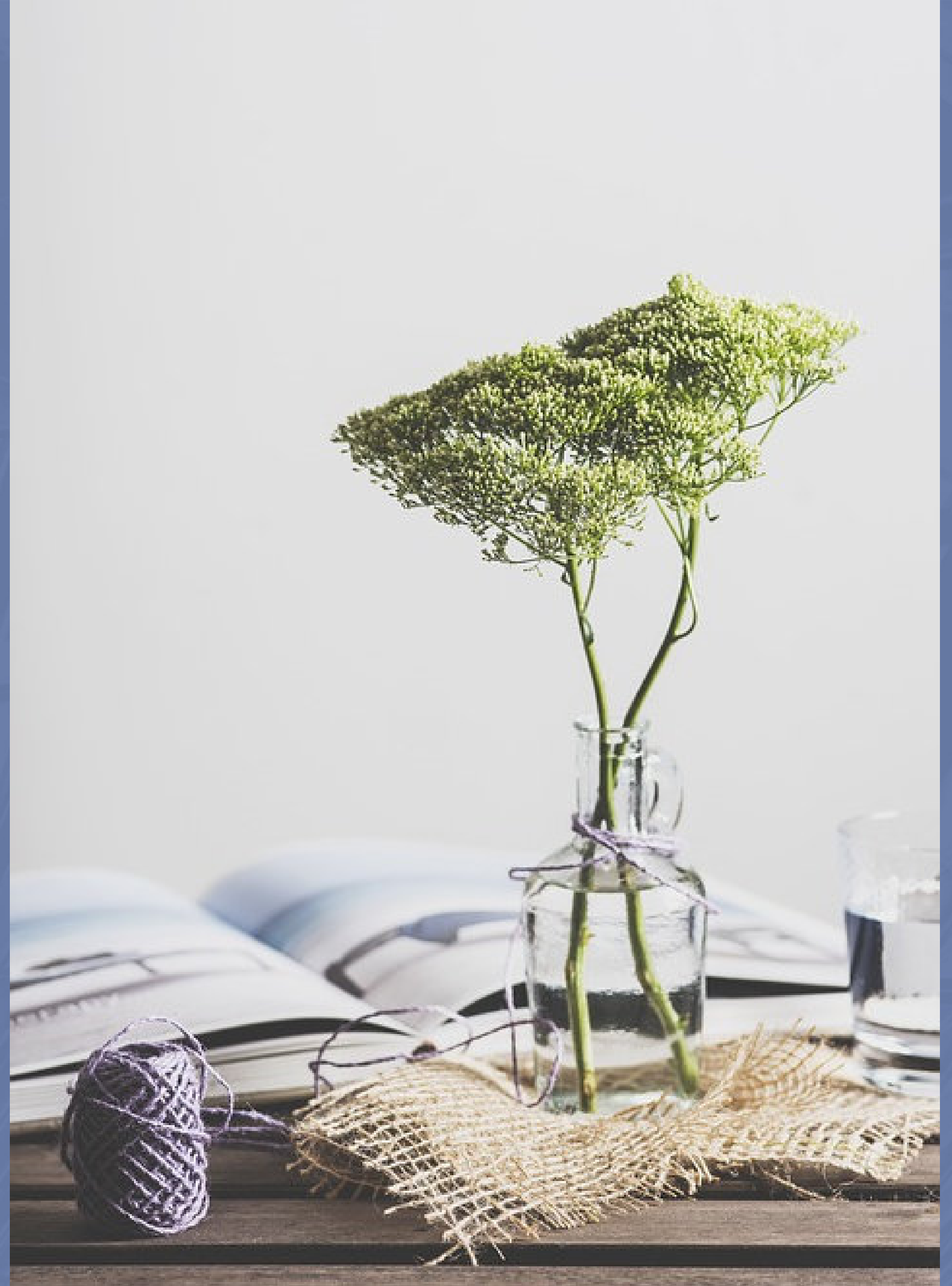


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## Report on Sustainable Development of Kazpost JSC for 2017



# ОГЛАВЛЕНИЕ

- 1. MANAGEMENT STATEMENT .....3
- 2. MISSION, VISION .....5
  - Mission .....5
  - Vision .....5
  - Ambilons .....5
  - Goals and Objecives .....6
- 3. HUMAN RIGHTS .....7
- 4. ANTI-CORRUPTION .....9
- 5. ENVIRONMENTAL PROTECTION .....10
  - Energy .....11
- 6. LABOR RELATIONS .....12
  - Social stability .....12
  - Collecive-contractual relalons .....13
  - Equal opportuniles .....13
  - Security .....14
- 7. ECONOMIC INDICATORS .....15
  - Activities .....16
- 8. INTERNATIONAL COOPERATION .....17
- 9. PHILATELY .....18
- 10. CORPORATE GOVERNANCE .....19
  - Corporate governance ralng .....19
  - Managment structure .....19



# 1 MANAGEMENT STATEMENT



Chairman of the Board Saken Sarsenov

Awareness of responsibility to future generations, understanding the importance of the influence of today's decisions on the environment, social relations and the future economy are at the core of the principles of sustainable development.

To date, more than a dozen companies, including non-governmental organizations in Kazakhstan, have joined the UN Global Compact initiative to integrate sustainable development principles in day-to-day operations to achieve UN Sustainable development goals. Kazpost has also joined the initiative in 2017. It is our first year and we are glad to present our inaugural Sustainability report for the year 2017. Fair partnerships, respect to clients and stakeholders, and honesty in every communication - these are the principles we choose to follow.

Mail is an important element of every country's economy, ensuring its integration with the external communities. Postal operators ensure more even development and integration within the regions of the country. Improving the quality and reliability of our postal and financial services, expanding the range of services through omnichannel strategy, assisting in the employment, improving the social, economic and environmental development of the regions - these are the goals we see as the basis for further sustainable development of the Company.



In 2017, we have joined the Women's Empowerment Principles (WEP). With more than 20 thousand employees of which 76% are women, we fully support the policy of gender equality and non-discrimination. Equal treatment of men and women is not only the right step, but also a serious need for business.

Our company is a great force of 23,000 mailmen, operators and other staff that communicate daily to the whole of Kazakhstan. Together we can solve important tasks, support key national initiatives, contribute to the development and prosperity of the Kazakh society. Every year we deliver textbooks at the beginning of the academic year, and arrange various charitable events. As a broker for the national IPO program Company provided infrastructure to give a real chance for Kazakh citizens to become shareholders of the country's leading assets. The opening of supermarket of parcels, the expansion of the network of post offices, the introduction of parcel tracking had a significant impact on the growth of e-commerce in the country.

We hope that transition of more than 200 new vehicles of our fleet to natural gas can help reduce our carbon footprint. We also use drones for remote areas and test mobile eco-friendly post offices that are solar powered to decrease the use of automobiles and make our contribution to a better environment. Simple solutions also include providing all our postmen with bicycles in areas where we don't have established offices.

The principles of the Global Compact include the protection of the interests of the society and human rights. In recent years, our company has paid special attention to establishing an open dialogue with customers and all interested parties. The company has a hotline; management conducts regular meetings with business representatives to better understand their requirements. As a part of responsible HR practices, we fully comply with regulation for child, minority and forced labor and prevention of labor abuse cases.

We put our efforts to every client so that they can recommend us to their circle of contacts. And we believe that sustainable development is really working when its principles are clear to every employee and at every level. To support active implementation, we regularly hold seminars, working group meetings and other knowledge sharing activities.

Kazpost has big plans for the future as we have approved the new Strategy till 2027. In our Strategy, we focus on the promise of affordability of our services, connectivity within and outside the country and supporting industries such as e-commerce by providing and maintaining infrastructure. We see ourselves as an ecosystem for e-commerce and a platform for banks and financial institutions in rural areas.. We know that we have all the prerequisites for achieving high results in sustainable development. Kazpost will concentrate its efforts in such areas of development as: digitalization and high-tech, superior quality of services, development of mutual trust in relations with the clients and suppliers. We have started with increasing salaries for operational staff for 15%. We believe that fair remuneration is a part of sustainable business, a road to more healthy communities and broader opportunities for our employees. At the same time, universal postal services remain at the same tariff level to provide people with opportunity to connect and exchange mail.

Kazpost understands that in a new era of global connectivity it is not enough to reduce its own footprint to be considered a sustainable company. We will increase our efforts to ensure positive influence on communities and regions in all aspects of sustainable development. We already have high local supplier rate in total procurement volume. The next step would be promoting the same Sustainable development values within our suppliers and partners. In the next Sustainability and Annual reports, we plan to communicate what we have achieved in a year.



## 2 MISSION, VISION

### Mission

Encourage the development of a modern digital society on the basis of an effective ecosystem giving customers the opportunity to quickly and reliably receive postal, logistics and financial and agency services.

### Vision

The leader in providing a complex of high-quality postal, logistics, financial and digital services.

### Ambitions

Kazpost aims to enter the top 20 postal companies according to the version of the Universal Postal Union.

The updated strategy of the Company contains initiatives aimed at improving the results of Kazpost by the criteria of the rating of the Universal Postal Union. The "Operational Excellence" initiative will increase the reliability of the Company's work. Initiatives to develop the ecosystem for e-commerce and to promote transit should improve the coverage and relevance of the services provided. Support for relevance will also be achieved through a set of initiatives for digital transformation. Organizational transformation will increase the adaptability of Kazpost.

The peculiarity of Kazpost as a national postal operator is its role as one of the components of the nationwide infrastructure. For this reason, Kazpost is important to meet the expectations of the state and at the level of strategy and its operating activities.

In this regard, it should be noted the role of Kazpost in the implementation of the 65th step "Integration of Kazakhstan into international transport and communication flows. Launch of the project on the creation of a multimodal transport corridor The Eurasian transcontinental corridor of the state program "The Plan of the Nation - 100 concrete steps". The updated strategy of Kazpost will contribute to the implementation of this step. In particular, the promotion of the transit of mail is one of the initiatives of the updated strategy.

Participation in multimodal transportation is provided for by initiatives to develop a complex of logistics services.

# Goals and Objectives

**The implementation of the Mission and Visions of Kazpost will be achieved through the achievement of five strategic goals:**

1. Maximization of shareholder value;
2. Development of an e-commerce ecosystem for the growth of the Kazakhstan market;
3. Digitalization of business;
4. Transition to the service model and outsourcing;
5. *Adherence to the principles of sustainable development.*





# 3 HUMAN RIGHTS

Company strictly observes the rights of workers in the field of labor relations established by the law, promotes the prevention of any forms of discrimination, forced labor and the use of child labor, promotes the professional and personal development of its employees.

On an ongoing basis, the Company ensures the observance of equal rights and opportunities for candidates for employment and employees in the implementation of labor rights and freedoms in all aspects of the work: in hiring, evaluating, promoting, remunerating and training, regardless of gender, race, nationality, language, origin, property and official position, age, place of residence, attitude to religion, political beliefs, membership or non-belonging to public associations.

When applying for employment, the Company does not allow discrimination on any grounds. Selection and promotion of employees are carried out on the basis of professional abilities, knowledge and skills in accordance with the Rules for the selection, selection and reception of the Company's personnel.

The company excludes the use of child labor, as well as forced and compulsory labor. The Company adheres to the principles of observance of human rights norms, including in the field of non-discrimination on any grounds - racial, national, social, religious and other.

Reception of employees is carried out on the basis of transparent competitive procedures in accordance with the Rules of selection, selection and reception of personnel in Kazpost JSC approved by the decision of the Company's Management Board. On the Company's website, announcements on holding contests for vacant positions with the specification of the qualification requirements are posted on a regular basis. All employees in the conclusion of employment contracts are familiarized with working conditions, guarantees, benefits and compensation payments, the rights and duties of employees, the rights and obligations of the employer.







To ensure the protection of the rights of individual citizens, an abbreviated working week of no more than 36 hours is established in accordance with labor legislation.

A shorter working week of no more than 24 hours per week for workers aged 14 to 16 years is established: for pupils of educational organizations combining, during the academic year, studies with work at the age of 14-16 years - 2.5 hours per day; at the age of 16 - 18 years - 3.5 hours per day.

In this case, the collective agreement provides for additional days for annual leave for employees:

- employed in hard work, work with harmful and dangerous working conditions;
- Persons with disabilities of the first and second groups with a duration of 15 (fifteen) calendar days.

There is also a list of professions and positions for which annual paid vacations are established that exceed the number of days of leave specified in the Labor Code of the Republic of Kazakhstan.



## 4 ANTI-CORRUPTION

Corruption is the unlawful use of official (office) powers and related opportunities for the purpose of obtaining or extracting in-person or through intermediaries property (non-property) benefits and benefits for themselves or third parties, as well as bribing these individuals by providing benefits and benefits. In other words, corruption is abuse of power to gain personal gain.

Anti-corruption is one of the most important issues in the organization of the Company's activities. The main factor in the fight against corruption is the adoption of concrete steps aimed at reducing corruption manifestations in the Company. Clearly aware of the importance of combating corruption, the Company approved a new Anti-Corruption Policy.

The Board of Directors of the Company closely follows the measures taken, reviews reports on countering corruption and fraud. Based on the results of consideration, he gives specific instructions to the Management Board of the Company.

Such areas of the Company's activities as procurement procedures, execution of contractual relations, recruitment, transfer (transfer), forgery of official documents are the corruption sensible areas. On an ongoing basis, monitoring of the implementation of the risk assessment related to corruption is conducted for all regional branches, departments, and managers.

All employees of the Company are trained in policies and methods of combating corruption. In the regional branches, work is carried out to prevent corruption with business partners in informing about the Company's policies and methods of combating corruption.

In 2017, one fact of a corruption crime was registered. The perpetrators are punished by a court decision. During the reporting period, there were no confirmed cases of termination of contracts with business partners due to violations related to corruption.



## 5 ENVIRONMENTAL PROTECTION

The Company's environmental activities are carried out in accordance with the Environmental Code of the Republic of Kazakhstan and other regulatory legal acts in the field of environmental protection, as well as the Company's Policy in the field of labor protection, safety and environmental protection.

Preventing unauthorized and over-standard emissions into the atmosphere, continuous improvement of the management system in the field of environmental protection are the main lines of the Company's environmental policy.

The company is constantly working to improve the effectiveness of environmental impact management. Successfully implemented a set of measures to save energy and improve energy efficiency, work is being carried out to increase environmental responsibility, compliance with the requirements of the legislation of the Republic of Kazakhstan, industry and corporate standards and norms.

According to the results of 2017, actual emissions from stationary sources of pollution in the amount of 835 tons were recorded. For facilities with potential sources of pollutant emissions into the atmosphere, emission standards are set in the environment within the framework of permits for emissions into the environment.

The Company's branches carried out significant work on sanitary cleaning, ennobling the territories of branches and post offices in the regions.

A "green" mobile branch in the village of Boralday in the Almaty region with an autonomous power supply was put into operation. The Company also purchased bicycles and drones. These activities are in line with the environmental aspects of the Company's sustainable development principles.



## Energy

The Plan of measures on energy saving and energy efficiency improvement of the Company for 2017-2020 was developed and approved.

Within the framework of the above-mentioned Plan, modernization of the lighting system with the use of LED lighting equipment, the installation of thermostatic controllers for radiators, the insulation of attic floors, the installation of an automatic heat flow control system, the replacement, the insulation of windows, the repair of facades, the replacement and thermal insulation of elevator units, the washing of radiators of heating systems , replacement and insulation of pipelines of distribution systems and others.

In 2017, at the facilities of the Pavlodar and Karaganda Oblast Companies, work was done on the hydrochemical cleaning of the heating system (boiler equipment, heating radiators, heat and elevator units) with technical reagents, which makes it possible to save fuel consumption for heating.

As a fuel for heating industrial and administrative premises in the autumn-winter period, the Company uses coal, diesel fuel and gas. Below is information on the amount of energy consumption.





# 6 LABOR RELATIONS

## Social stability

One of the main requirements for ensuring sustainable development of the Company are issues of social responsibility. Each year, the Company is assigned a so-called social stability rating, reflecting indicators that characterize various categories of social status, mood, socio-demographic and professional-job structure of the Company.

The rating of social stability is a strategic social indicator of the Company's efficiency. The results of the rating survey allow us to compare the social indicators of the production companies of Samruk-Kazyna JSC annually. In accordance with the indicators obtained according to the results of the rating, a social stability map of the companies of the Fund group is formed.

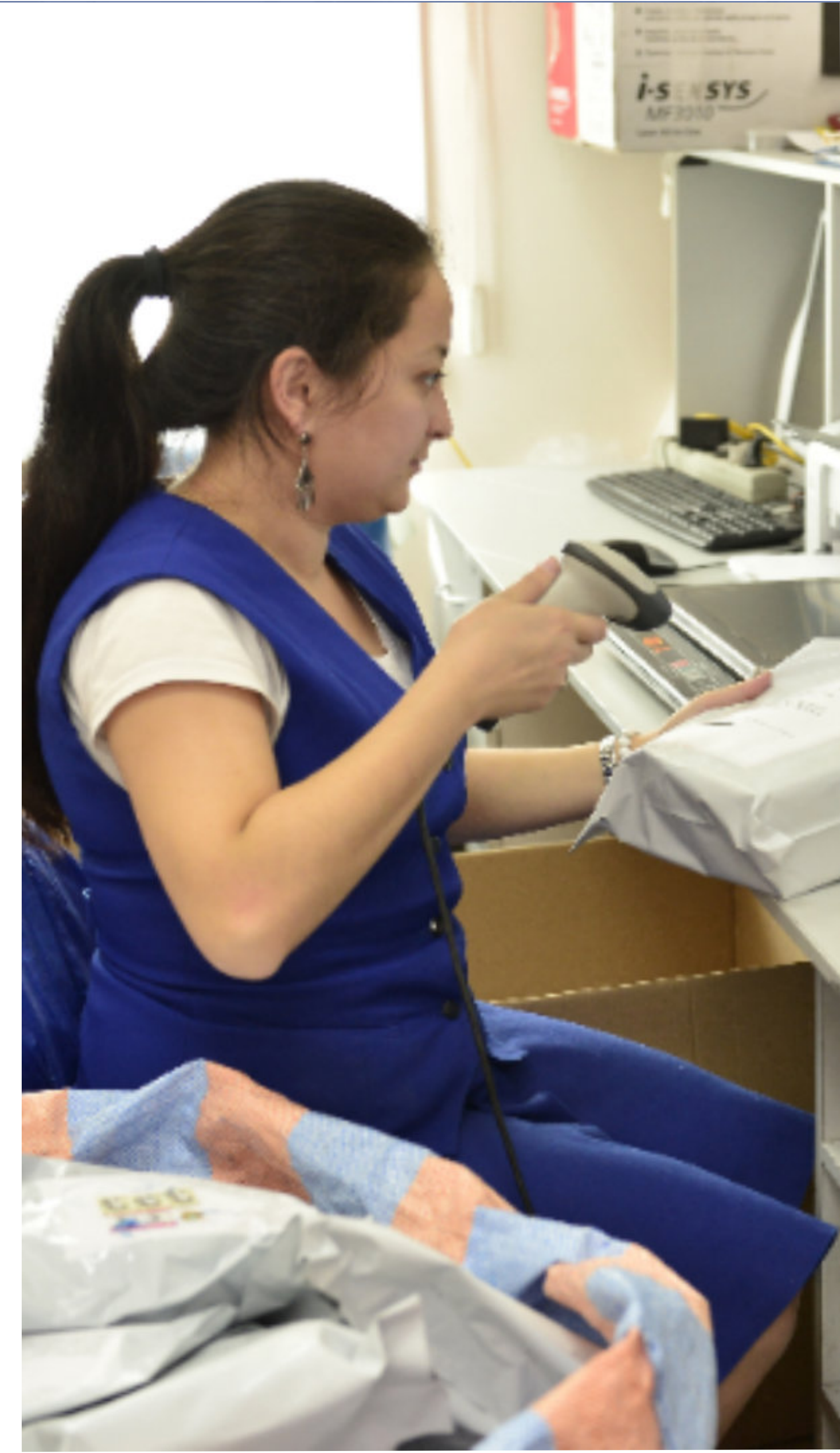
According to the results of independent research conducted by the corporate foundation "Social Partnership Center", the social stability rating of the Company for 2017 was 70% (above the average), the level of involvement of the administrative and managerial personnel of the Company for 2017 is 51% (zone of stability).

Since the first measurement of the Rating, the company has been able to improve working conditions, internal communications, reputation in the eyes of its personnel and other factors important for workers, respectively - to improve their performance. The latter find their direct reflection in the Rating, which has been acting as an effective feedback tool for 5 years now.

Confidence and satisfaction with the work of the union is growing. The activity of trade unions is improving: the trade union has become more efficient and the number of employees who are satisfied with their work is growing. The policy pursued in the Company contributes to the growth and strengthening of the authority of management. Workers began to trust managers more, rely on their decisions, and also believe in fairness of appointments to posts. This circumstance may indicate an increase in the transparency of processes in the company.

Despite the existing problems and a number of issues requiring attention, including low salaries, the social well-being of the Company's employees is highly valued by the employees themselves. In general, the Company maintains a stable situation in the teams.

The involvement of workers in the manufacturing sector is 61%, and the administrative and managerial sector - 51%. The involvement of production personnel in 2017 increased by 16 points in comparison with the previous year. The issues of communication and relationships are assessed positively by the majority of employees. However, there are a number of issues that require attention, including: feedback on the results of work performed.





## Collective-contractual relations

More than 90% of the Company's employees are in the trade union. The Company has a Collective Agreement that provides additional social guarantees to employees in terms of labor remuneration, material assistance, labor protection, etc.

The collective agreement provides for types of monetary compensation, social benefits for employees of the Company. In order to ensure the indexation of payments, the amount of social payments is set with reference to the monthly calculated index.

Within the framework of the collective agreement, there are stipulated the issue of lump sum payments for various social reasons for the consideration of a commission with the participation of the trade union, these funds are allocated monthly.

The company provides various benefits for its employees. This type of payments is regulated in accordance with the legislation of the Republic of Kazakhstan and internal documents of the Company.

## Equal opportunities

The company adheres to the principle of providing equal opportunities and a unified approach to its employees. The idea of this provision is in the Code of Business Ethics, which is mandatory for compliance by all employees.

As an employer with the most extensive network throughout the country, in every corner of the country, the Company sees this cultural diversity as a factor of its success. Therefore, the Company promotes the development of understanding and respect for other cultures and ways of life, and we are actively involved in the integration of workers from different regions of the country.

Various social programs can serve as examples. The approach to employees does not depend on their gender, we do not make a difference in the remuneration of women and men. The Company employs new employees on the basis of their experience, knowledge, qualifications.

In the senior management at the age of 30-50 years, men - 3, women - 1. In the executive staff of the Company (executive directors), non-members of the Board of men under the age of 30 years - 1, women - 2; men from 30 to 50 years - 4, women - 2.

To workers with severe physical disabilities and limited physical abilities a special attitude is manifested. These workers are classified as workers in a difficult life situation.



## Security

Compliance with the requirements of the legislation of the Republic of Kazakhstan, winning the confidence of customers, ensuring the confidentiality, accessibility and integrity of the Company's information assets are the basic principles of the security management system, including information.

According to the adopted procedures, appropriate measures are taken in time for any violations.

For each specific fact of the offense, the special employees of the service conduct analytical work aimed at identifying motives, establish a cause-effect relationship, and send letters to the structural units of the Company with proposals for their elimination.

In order to improve the quality of investigations and further prevent the risk of damage to reputation and prosecution arising from inappropriate actions or application of approaches unacceptable to the Company, special professional training is conducted.

Security Service employees are trained in human rights policies and specific procedures of Company and their compliance with the security services.





## 7 ECONOMIC INDICATORS

Kazpost, as a national postal operator, provides universal postal services. The Company renders services in the delivery of letters, parcels, fast and courier mail, postal money orders, distribution of periodicals. In addition, today new types of postal services are actively introduced, such as hybrid e-mail services, Direct Mail services and others.

Kazpost is engaged in transportation and delivery of written and parcel correspondence, important, business and urgent items, documents of various levels of confidentiality, valuable and high-value shipments throughout the country and beyond.

In the field of financial services, the Company provides services for the collection of payments, settlement and cash services for legal entities, payment of pensions and benefits, currency exchange operations, deposits, cash collection, transportation of money and valuables, brokerage services on the securities market, electronic money transfers, issue of payment cards and others.

Agency services include issuing loans to second-tier banks, accepting deposits, processing insurance policies, selling air and railway tickets. The extensive network of branches of the Company is an important tool for providing demanded services that were not previously fully available in some regions of the country due to the limited network of traditional agents such as commercial banks.





## Activities

Half of the income from core business is derived from the provision of postal services. In the sphere of postal services, the Company renders services in the delivery of letters and parcels, fast and courier mail, postal money transfers, and the distribution of periodicals. In addition, today new types of postal services are actively introduced, such as hybrid e-mail services, DirectMail services and others.

Financial and agency services form the second half of revenues from the Company's core business. In the sphere of financial services, the Company provides services such as receiving payments, settlement and cash services for legal entities, payment of pensions and benefits, currency exchange operations, deposits, collection and transportation of money and valuables, brokerage services in the securities market, electronic money transfers, issue of payment cards, as well as financial services include transfer agency activities.

Agency services include among the main products the issuance of loans of second-tier banks, the formulation of insurance policies, the sale of air and railway tickets. The extensive network of branches of the Company is an important tool for providing demanded services that were not previously fully available in some regions of the country due to the limited network of traditional agents such as commercial banks.

The past year has become a landmark for us for many reasons. We entered the final phase of active investment under the Transformation Program, and starting in 2018, we expect the effect of large investments in 2014-2017. Despite the increase in production costs, our net profit doubled and amounted to KZT 1.2 billion.

The growth of postal services became the main driver of 18% of the company's revenue growth to 49.2 billion tenge. We became more independent and integrated company, launching our own card processing, automatic sorting line and partner projects with the leaders of our industries - AliExpress and VISA. The growth in operating revenues allowed us to raise the wages of production personnel by 15% in late 2017.

The ROACE index in 2017 was 4.3% against the level of 2016 at 3.2%, due to the positive financial result, due to received state subsidies and optimization of expenses, as well as replenishment of the authorized capital.

The increase of "EBITDA margin" in comparison with the same period of 2016 by 4% is due to the overfulfillment of the plan for income from core activities by 19%. This indicator has doubled and allows you to assess the profitability of the company regardless of the impact of investment size, debt burden and taxation regime.

According to the results of work for 2017, net income amounted to KZT 1 262 679 thousand, which is 703,511 thousand tenge higher than the level of 2016 or 126% increase.



## 8 INTERNATIONAL COOPERATION

Kazpost is a member of the Universal Postal Union (UPU), the Postal Operators Association of Europe PostEurope (hereinafter referred to as PostEurope), the Regional Commonwealth in the field of Communications (hereinafter - the RCC).

Kazakhstan was elected a member of the UPU Administrative Council at the 26th World Postal Congress held in Istanbul in 2016 and Kazpost took an active part in the events held by the UPU. Representatives of JSC "Kazpost" participated in the spring and autumn sessions of the Postal Operations Council and the Administrative Council of the UPU.

The key issues discussed during the sessions of the UPU Administrative Council were the reform of the Union, the preparations for the extraordinary UPU Congress scheduled for September 2018 in Addis Ababa (Ethiopia), the consideration of the Istanbul Action Plan, which identified key performance indicators and key results for all commissions UPU Administrative Council and Postal Operations Council for the cycle of 2017-2020, a report on the implementation of the strategy, which presents the initial results of the implementation of the Istanbul Universal Postal Strategy.

During the December working visit of the delegation of the Company to Kiev, an agreement was signed with the appointed operator of Ukraine on reducing the tariff for transferring transfers of cash on delivery. In addition, meetings were held with leading companies in the field of e-commerce, such as the group of companies EVO Group and Rozetka.





## 9 PHILATELY

The issue of state postal payment signs and philatelic products is one of the Company's activities and the historical function of postal operators. Post stamps, in addition to confirming the fact of payment for postal services, are issued as part of the maintenance of the cultural heritage of Kazakhstan.

**In 2017, postal stamps of the series "Commemorative and Anniversary Dates" were published and introduced into the postal circulation, devoted to the following subjects:**

350th anniversary of the birth of Kazybek bi;  
125th anniversary of the birth of Nazir Tyuryakulov;  
25th anniversary of the National Olympic Committee of the Republic of Kazakhstan;  
25 years to the first postage stamp of the Republic of Kazakhstan "Altyn sarbaz";  
25th anniversary of Kazakhstan's accession to the UN;  
25 years to the diplomatic service of the Republic of Kazakhstan;  
25 years of signing the Collective Security Treaty;  
15 years of the Collective Security Treaty Organization.

In the current year, a new series of postage stamps "Made in Kazakhstan", devoted to machine building of the Republic of Kazakhstan, was put into circulation.

By the opening of the international specialized exhibition "Astana Expo-2017" a postage stamp of the "EXPO-2017" series was issued.

Within the framework of cooperation between the Republic of Kazakhstan and the Republic of Belarus, joint issues of stamps on the theme "25 years of establishment of diplomatic relations between the Republic of Kazakhstan and the Republic of Belarus" were implemented.

Within the framework of cooperation of the Republic of Kazakhstan, the Republic of Belarus and the Russian Federation on the topic "25 years of the Interstate TV and Radio Company" Mir ".

Within the framework of cooperation between the Republic of Kazakhstan and the Republic of Poland on the topic "The Army of Anders - A Trace of Hope".

Also issued in circulation postage stamps on a commercial basis of the series "Commemorative and anniversary dates" on the themes: "20 years to the joint-stock company" KazTransOil "," 90 years from the birth of K. A. Begaliev ".





# 10 CORPORATE GOVERNANCE

The Company's activities aimed to increase long-term value, ensuring sustainable development in the long-term. The company respects the balance of stakeholders and adheres to the principles of sustainable development.

## Corporate governance rating

In 2017, an independent consultant of PwC Kazakhstan LLP completed the diagnostics of the Company's corporate governance system that was conducted for the period from July 1, 2016 to July 1, 2017. Based on the results of the diagnosis, a corporate governance rating of "B" was issued.

As a result of the review, Company identified the areas for improvement. Corporate Governance Improvement Plan is proposed, which describes the Company's elimination of non-conformances through detailed activities submitted along with recommended deadlines and responsible parties for execution. This plan is part of the Company's systemic work to improve corporate governance and sustainable development.

## Management structure

**The corporate governance system provides:**

1. Compliance with the hierarchy of the order of consideration of issues and decision-making: all issues submitted for consideration by the Board of Directors are carefully considered by the relevant Committees of the Board of Directors;
2. Clear delineation of powers and responsibilities between the Board of Directors, the Management Board, officials and employees: the competence, authority and responsibility of the bodies are defined by the Charter, the Regulations on the Board of Directors and the Management Board; By order of the Chairman, the areas of responsibility of the members of the Management Board of the Company are clearly delineated; The structural subdivisions of the Company carry out their activities on the basis of the Regulations on subdivisions; Job descriptions for each position have been developed.
3. The Board of Directors and the Management Board make decisions in a timely and high-quality manner;
4. Compliance with legislation and internal documents of the Board of Directors and the Management Board.





