

Agreed

by decision of the Management Board
of JSC «NC «KTZ»
on August 28, 2015, №02/31

Approved

by decision of the Board of Directors
of JSC «NC «KTZ»
on _____, 2018, №_____

Kazakhstan Temir Zholy
National Company
Joint-Stock Company



2017 Sustainability Report

Table of Contents

2-3

ADDRESSES

Address to the Report Readers

6-11

12-16

17-21



ABOUT THE REPORT

Stakeholder Engagement	06

Materiality and Aspect Boundaries	07

Disclosure Level and Assurance	11

ABOUT THE COMPANY

History	12

The Company’s Geography and Market Presence	12

Staff Size	13

Supply Chain	13

Implementation of the Company’s Transformation Program	14

Participation in External Initiatives	16

SUSTAINABILITY MANAGEMENT

Governance	17

The Board of Directors	17

The Committees at the Board of Directors	18

The Management Board	18

Organizational Structure	19

Governance Code	19

The Policies of Sustainability and Stakeholder Engagement	20

Ethics and Integrity	21



23-24



ECONOMIC
PERFORMANCE

Direct Economic Value Generated and Distributed	23
Share of Local Suppliers	24
Indirect Economic Impacts	24



28-38



SOCIAL
RESPONSIBILITY

Staff	28
Caring for Pensioners	31
Caring for the Future Generation	31
Caring for Young Employees	32
Caring for Disabled People	33
Training	34
Occupational Health and Medical Support	34
Occupational Health and Safety	36
Traffic Safety движения	38



43-44



ENVIRONMENTAL
RESPONSIBILITY

Environmental Management System	43
Environmental Emissions	43
Consumption of Resources	44



48-53

APPENDICES

Glossary	48
Index of the GRI G4 General Standard Disclosures contained in the Report	50
Index of the GRI G4 Specific Standard Disclosures contained in the Report	53

Address to the Report Readers

The President



Dear Report Reader,

NC KTZ 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 taxpayer of Kazakhstan.

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

In 2017, the growth of economic activity in Kazakhstan's partner states of and in the country itself made it possible to overcome the negative trend of the decline in the volume of transportation by rail, which lasted during 2014-2016.

The transportation of coal, iron ore, scrap, construction materials, oil products, fertilizers, grain and grocery products has grown.

A significant event of the year was the involvement of the global shipping company COSCO and the port of Lianyungang in the development of Dry Port in Khorgos.

At the same time, in 2017 we expanded the geography and means of supply, including in refrigerated container trains.

Containerization of transportation allowed to expand the geography of export supplies and optimize the transport component by accelerating the turnover of container trains. The Company also launched regular direct routes of grain shuttles on the Kazakhstani railway, as well as for export.

In 2017, the Company successfully coped with the tasks set by the state on development of infrastructure.

Within the framework of the implementation of the state program "Nurly Zhol" and the "100 concrete steps" of the National Plan, construction of a new facilities was completed and they were put into operation.

Thus, at the end of October 2017, a second track on the Almaty-Shu railroad with a length of 113.7 km was opened. The launch of the second track increased the capacity of the railway section by 4 times, which allowed to increase the speed and frequency of cruising of high-speed passenger "Tulpar-Talgo" trains between the northern and southern regions of the country.

In December 2017, the head of state launched an automobile pier in the port of Kuryk with a capacity of 2 million tons per year and a transport and logistics center in Shymkent.

Before the international exhibition EXPO-2017 in Astana, the company built and put into operation a passenger terminal of the airport with an area of 47 thousand square meters and the railway station "Nurly Zhol" in Astana, corresponding to the best world standards.

During the EXPO-2017 passenger transportation is organized at a high level, and security is ensured at transport and logistics facilities.

Being a backbone and flagship company, NC KTZ JSC realizes and takes responsibility in the issues of sustainable development.

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

This report has been prepared in order to structure the information on the activities of NC KTZ JSC in the field of sustainable development, and to properly inform our stakeholders. 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.

Implementation of reporting in the field of sustainable development is one of the areas within the framework of improving the management system in accordance with the Code of Corporate Governance of the Joint Stock Company "National Welfare Fund" Samruk-Kazyna ".

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**

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 2017 Sustainability Development Report of KTZ NC JSC (hereinafter referred to as the Report) has been prepared in accordance with the G4 Sustainability Reporting Guidelines. The Report has an annual cycle and the reporting period equal to a calendar year. The Report covers a three-year period of analysis of the performance indicators (if its applicable) of KTZ NC JSC that will help to understand the trends in the Company's activities

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 Company has identified the following areas for improving its stakeholder engagement while preparing the text of the 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:

- ☐ Members of the Management Board of the Sole Shareholder – Samruk-Kazyna National Welfare Fund JSC (hereinafter referred to as Samruk-Kazyna JSC);
- ☐ Chairman and all Members of the Company’s Board of Directors;
- ☐ Chairman 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;
- ☐ 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 No. 1. The Matrix of Material Aspects

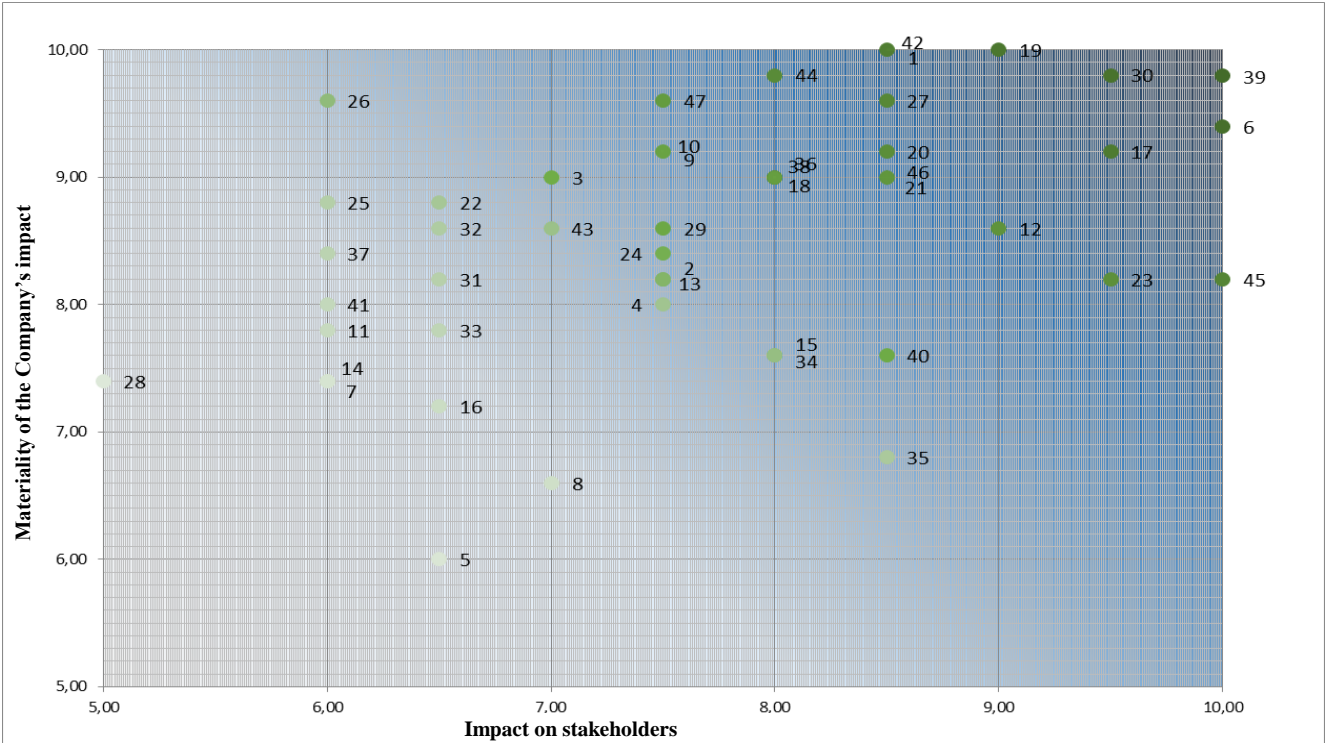


Table 1. The List of Material Aspects G4-19

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 No. 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
28	Incidents of child labor	—	—	—
29	Forced or compulsory labor risk	—	—	—
30	Safety practices	+	Group*	Management, Shareholders

№	Sustainability aspects	Materiality (+/-)	Aspect coverage	Stakeholder coverage
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.

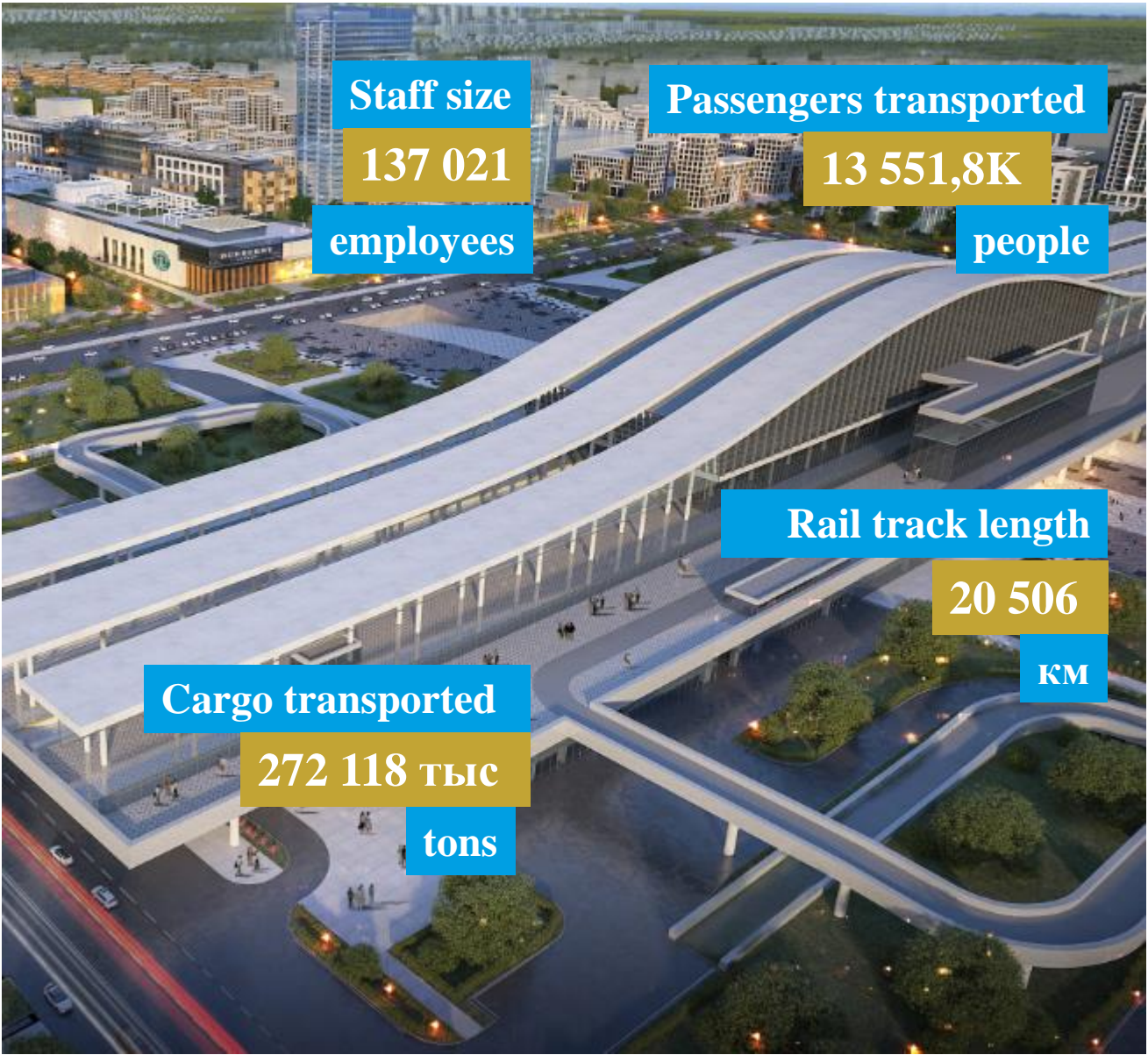
Due to the fact that this Report is the first report prepared in accordance with the GRI G4 Guidelines, the Report does not contain any reformulation of the indicators published in previous reports or changes in the aspect boundaries and coverage.. [G4-22](#), [G4-233](#)

Disclosure Level and Assurance

This 2017 Sustainability Report of KTZ NC JSC has been prepared in accordance with the Basic Version GRI G4 Guidance . **G4-32**

Current 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



History

The “National Company “Kazakhstan Temir Zholy” joint-stock company (hereinafter - the Company) was established in accordance with the Resolution of the Government of the Republic of Kazakhstan dated March 15, 2002 No. 310" On the establishment of the closed joint-stock company "National Company" Kazakhstan Temir Zholy ".

According to the Law of the Republic of Kazakhstan "On Joint-Stock Companies" dated by May 13, 2003, the name of the Company was changed: “Closed Joint Stock Company “National Company “Kazakhstan Temir Zholy” for Joint Stock Company “National Company “Kazakhstan Temir Zholy”.

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 National Welfare Fund 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 and its S&A provides railway and sea transportation, renders services of transport and logistics hubs, as well as the sea port, airport and road infrastructure.

G4-4

The Company's Geography and Market Presence

KTZ NC JSC's headquarters is located at 6 Konayev 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 Central Asian Region, Tashkent.
3. Representative office in Turkmenistan, Ashgabat.
4. Representative office in Baltic and Western European countries, Riga **G4-6**

total, the volume of container traffic amounted to 348 thousand TEU, which is 42% more than in 2016. At the same time, the reverse loading from Europe in the direction of China is ensured at the level of 60%.

In 2017, the Company expanded the geography and modes of supply, including in refrigerated container trains. Containerization of transportation allowed to expand the geography of export supplies and optimize the transport component by accelerating the turnover of container trains. The Company also launched regular direct routes of grain shuttles on the Kazakhstani railway, as well as for export.

G4-8

In 2017, the volume of traffic only towards the PRC-EU almost 200 times higher than in 2011 and amounted to 201 thousand containers. In

Staff Size

The Company is the largest employer in Kazakhstan: about 0.8% of the population of the Republic of Kazakhstan is employed by enterprises of the group of KTZ NC JSC. At the end of 2017, the Company’s headcount was 137,021 employees. .

G4-10

Diagram 1. The Staff Structure by Age

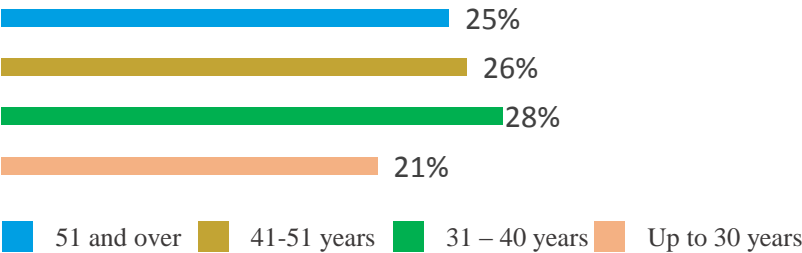
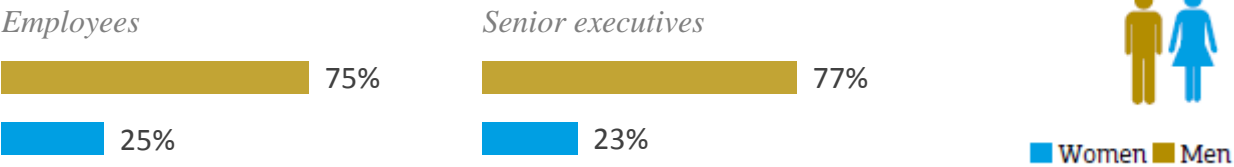


Diagram 2. The Staff Structure by Gender



Supply Chain

In its procurement activities KTZ NC JSC follows the Procurement Management Policies of Samruk-Kazyna National Welfare Fund Joint-Stock Company and the Rules for Procurement of Goods, Works and Services by Samruk-Kazyna National Welfare Fund Joint-Stock Company 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

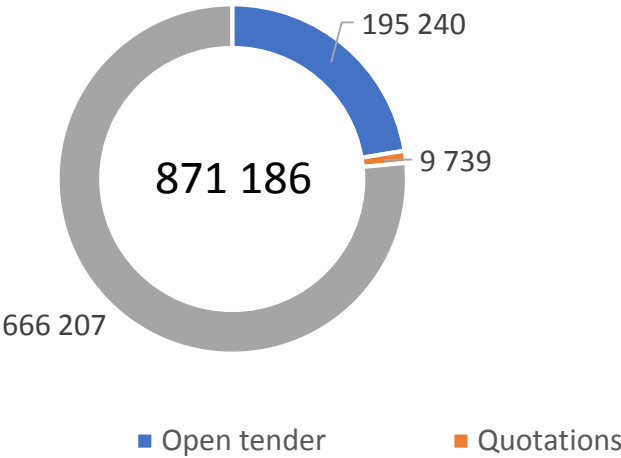


Diagram 4. Total amount of procurement performed, billion KZT

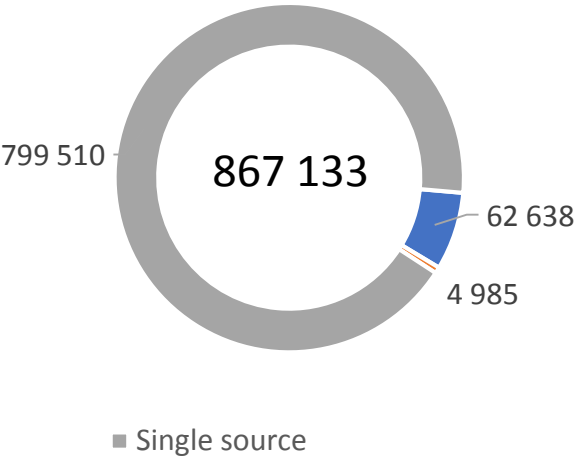


Table 3. Procurement Volume in 2017

Description	Business units	Subsidiaries
Total procurement volume	871 186	
Open tender	41 982	29 229
Quotations	2 961	1 243
Single source	104 086	116 305
Total amount of procurement performed	867 133	
Open tender	153 258	33 409
Quotations	6 778	3 742
Single source	562 121	683 205

Implementation of the Company’s Transformation Program

The Transformation program, launched in 2014, included three main areas

1) increasing the value of the company; 2) change in the structure of the portfolio and approach to the implementation of investment activities; 3) changing the distribution of powers and responsibilities in the company's management system. Over the reporting period, the sets and targets of the strategic key performance indicators of NC KTZ JSC were revised and the strategy was brought into line with the updated set of

strategic goals. Previously adopted initiatives are recognized as fulfilled.

The formation of target models has been completed, a project pool has been approved, and the active phase of project implementation is currently in progress. According to the approved work plans, following the results of 2017 significant results have been achieved - both financial and qualitative. **G4-9**

Twelve regional Multifunctional Service Centers have been established at the branch of NC KTZ JSC – “Multifunctional Service Center”, currently the work is being done to integrate the entire group of companies at the regional level. Term of completion - 2020 year.

- On the introduction of asset management (MRO) processes: the effect of 9.4 billion tenge in 2017 was achieved through optimization of assets. Until 2021, the effect is expected to 14 billion tenge due to the transition to a new model of SLA service, a risk-oriented model of maintenance (repair) and asset optimization.
- On the transition to a new model of marketing and sales: the effect in 2017 is 0.3 billion tenge achieved by improving the processes of the Company's participation in tenders for transportation and logistics services. The expected effect up to 2021 is 16 billion tenge is expected due to the increase in transit and the improvement of sales processes in the domestic market.
- On categorical procurement management: the effect of KZT 0.3 billion in 2017 was achieved through the implementation of a procurement-category strategy (PCS) for aviation fuel. 17 SCSs have been developed, all are in implementation. By the end of 2021, the effect is expected to be 23.1 billion tenge.

HR processes have been revised - the transition from personnel administration to modern HR processes has been implemented, in 2017 the principles of meritocracy have been introduced (the level of CEO-1 is covered).

An effective system of industrial safety management integrated into the management of operational activities was built. Safe conditions are created for uninterrupted and high-quality provision of the economy and the population with railroad transportation, and a culture of industrial safety is enhanced.

In general, in 2017, the benefits from the implementation of Transformation projects amounted to about 10.3 billion tenge with investments of 1.5 billion. tenge.

The further focus of the Transformation Program is directed to 5 areas:

- 1) Reengineering and digitization of business processes;
- 2) Simplification of ownership structure and legal forms in NC KTZ JSC;
- 3) Conclusion of Portfolio companies on an IPO;
- 4) Transformation of people;
- 5) Implementation of change management and project approach.

As part of the Business Transformation Program of NC KTZ JSC in 2017, work was carried out to assess and grade the positions of employees of 5 branches of NC KTZ JSC according to the methodology of "Hay Group".

Over the past year, the evaluation of posts in 2 subsidiaries of NC KTZ JSC, such as Remlokomotiv JSC and Temirzholsu JSC. KTZ- Freight Transportation JSC and Kaztemirtrans JSC carried out an assessment of the positions of senior officials.

In 2017, 14 candidates passed the Job Matching procedure for the positions of the level of CEO-1, CD-1 and key positions of the CEO-2 of NC KTZ JSC, for 9 candidates individual development plans were developed.

In 2018, it is planned to carry out the Job matching procedure for the Corporate Center of NC KTZ JSC, branches and subsidiaries of NC KTZ JSC for the posts of levels CEO-2, 3, 4, 5, 6.

In 2017, NC KTZ JSC launched the SSC-2 project" Replication of the CFD to the branches of NC KTZ JSC, which resulted in the creation of 12 regional service centers for accounting and tax accounting, where 47 localities of the country are territorially involved, due to the exclusion of the number of accounting services of the branches of NC KTZ JSC. **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 NC KTZ 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

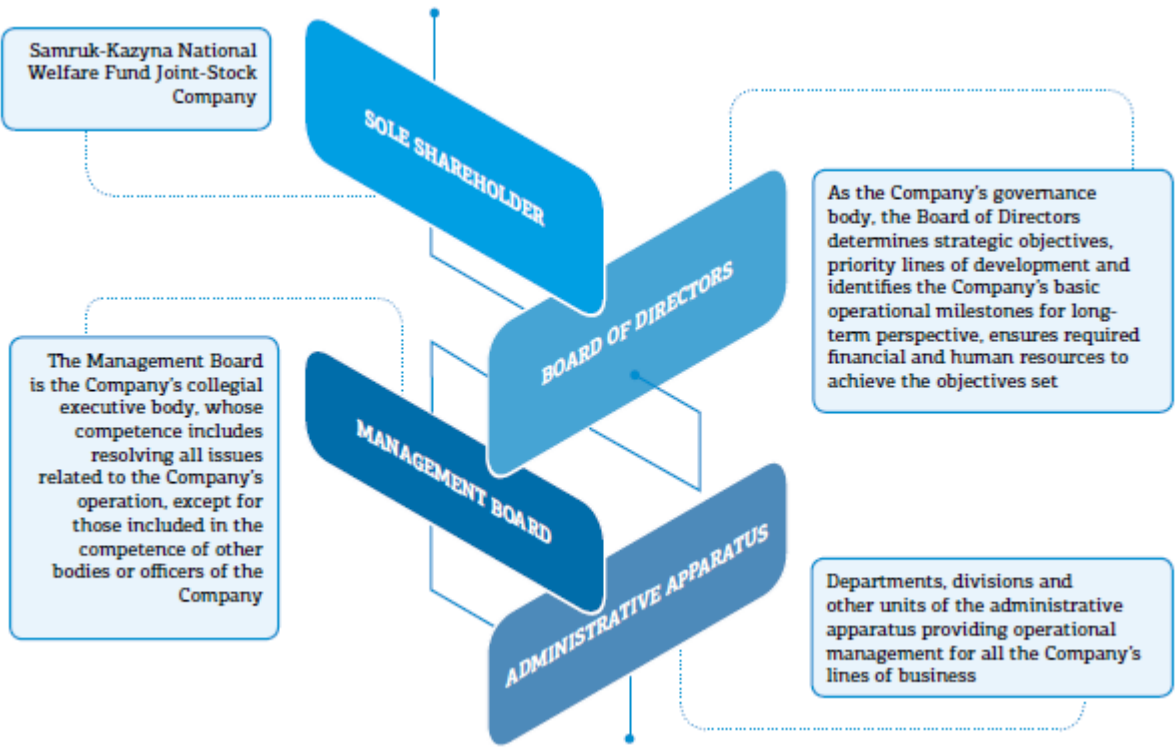
protection and anticorruption efforts. **G4-15**

For the purpose of efficient stakeholder engagement, KTZ NC JSC supports various initiatives and participates in different trade unions and associations, such as: Association of National Freight Forwarders of the Republic of Kazakhstan, "KAZLOGISTICS" Union of Transport and Logistics Organizations and Associations. **G4-16**

Sustainability Management

Governance

Figure 2. 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 2017, the Board of Directors of KTZ NC JSC held 8 attendee 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 Chairmans 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 2017, the committees of the Board of Directors of KTZ NC JSC held 31 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.

Sustainable development issues are also considered on other committees within the framework of their competence.

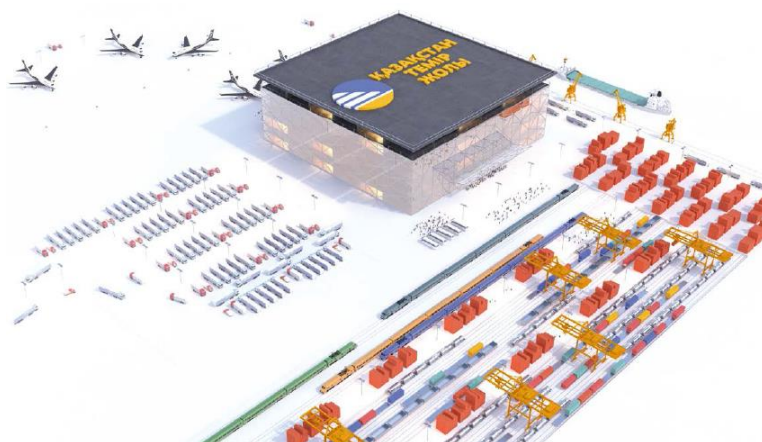
The Management Board

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,

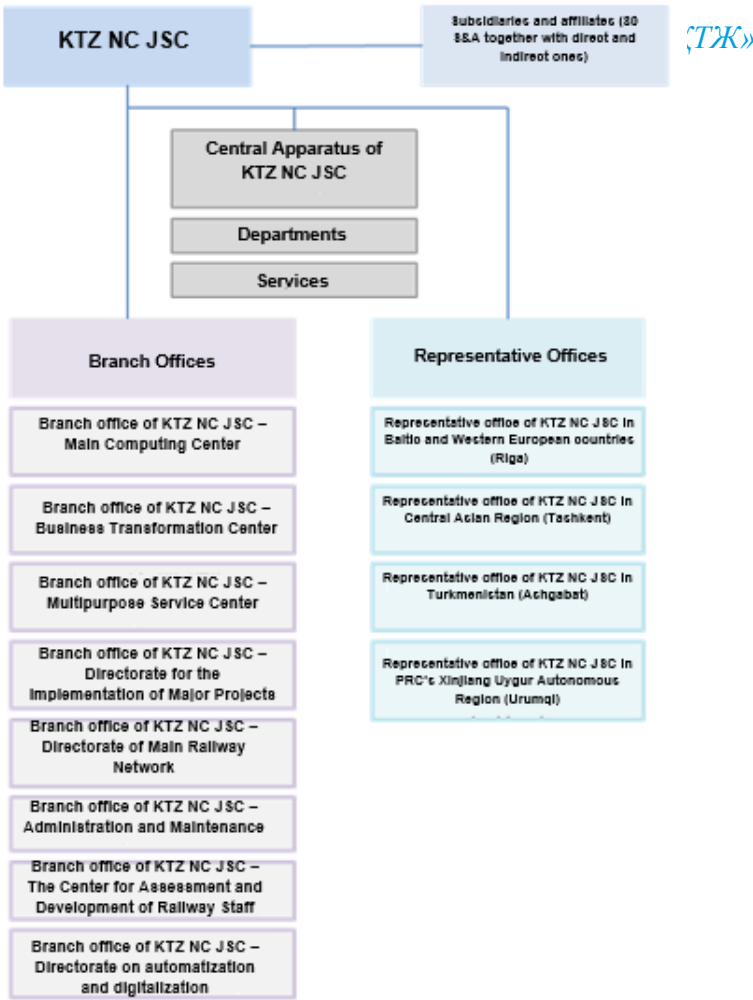
improving the efficiency of the control system and risk monitoring system, ensuring the Sole Shareholder's rights and legal interests.

32 meetings of the Management Board of KTZ NC JSC were held for 2017. Business units and subsidiaries of KTZ NC JSC submitted 351 issues for consideration of the Management Board of KTZ NC JSC.

G4-34



Организационная структура



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 of KTZ NC JSC 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 2017. **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. **G4-343**

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

Stakeholder engagement is determined by the Company's current regulatory documents to extent of their competence.

The Company's major form of stakeholder engagement is participation of the Company's representatives in the 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 NWF JSC, which makes this tool 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

NC KTZ JSC actively conducts undertakings aiming at minimization of fraud and corruption risks. So, NC KTZ JSC has developed, approved and consistently implements the Plan of Measure of NC KTZ JSC for 2015-2017 on Realization of Anticorruption Strategy of the Republic of Kazakhstan. Within the frameworks of the mentioned Plan fulfillment NC KTZ JSC in 2017 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-CIIM**

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

G4-SO4

In 2017 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 2017. 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 NC KTZ 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.

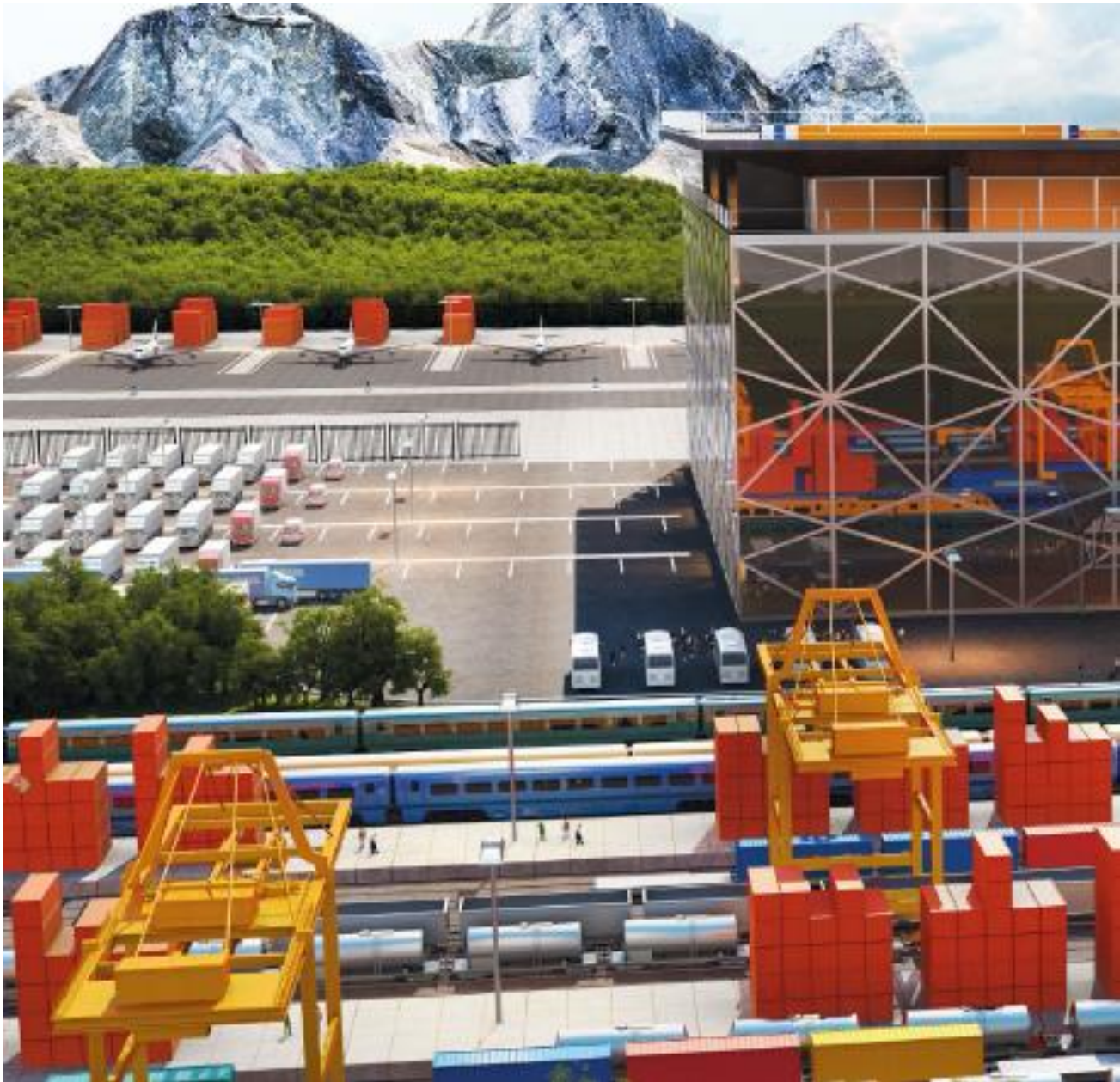
For resolution of any corporate conflicts the Board of Directors of NC KTZ JSC has appointed the corporate ombudsman.

The contacts of the Corporate Ombudsman:

Beibit Gazizovich Zhusupov, telephone number: +7 7172 604031



Economic Performance



The Company’s gross revenue

914,1

billion KZT

The Company’s net profit

11,4

billion KZT

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

Description	2015 y.	2016 y.	2017 y.	Variation 2016–2017, %
EBITDA, million KZT	163 331	207 429	212 425	2,40%
Income (total), billion KZT	803	825	914	10,80%
Cost of sales, million KZT	601 165	644 112	702 693	9,10%
Operational profit, million KZT	54 828	85 625	101 817	18,90%
Net profit per year, billion KZT	-461	41	11	-72,20%
EBITDA margin, %	21,70%	25,10%	23,20%	-7,50%

Table 5. Expenses for Current Operations, million KZT

Item	2015 y.	2016 y.	2017 y.	Variation 2016–2017, %
Total revenue, million KZT	753 757,97	825 312	914 141	10,76%
Cargo transportation, million KZT	629 050	688 204	770 075	11,90%
Passenger transportation, million KZT	71 787	80 134	81 886	2,19%
Subsidies, million KZT	21 722	22 529	20 460	-9,18%
Other, million KZT	31 199	34 445	41 721	21,12%
Operating costs, million KZT	1 251 574	1 042 188	1 035 551	-0,64%
Salary and other payments, million KZT	248 841	261 025	276 481	5,92%
Taxes, million KZT	23 923,21	25 810	33 855	31,17%
Adjusted EBITDA, million KZT	163 331,45	207 429	212 425	2,41%

Share of Local Suppliers

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

Description	2015 y.	2016 y.	2017 y.	Variation 2016–2017, %
Share of local content in procurement of goods, works and services, %	72%	75%	84%	12,00%

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-CPM, G4-EC8**

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

Item	2015 y.	2016 y.	2017 y.	Variation 2016–2017, %
Expenses for vocational education and further training, thousand KZT	253 380	212 611	842 887	269,00%
Expenses for vocational education and further training, thousand KZT	69 060	42 589	129 276	203,54%
Expenses for a healthy way of life and development of sports, thousand KZT	827 799	681 446	582 845	-14,47%
Expenses for sanatorium and health improvement of employees, thousand KZT	3 984 782	4 265 569	5 227 299	22,55%
Expenses for material support of employees, thousand KZT	217 400	179 433	163 803	-8,71%
Expenses for sanatorium and health improvement of pensioners, thousand KZT	487 204	390 422	477 140	22,21%
Expenses for material support of pensioners, thousand KZT	428 185	369 956	357 776	-3,29%
Expenditures for summer rest for children of employees, thousand KZT	31 200	39 619	35 409	-10,63%
Expenses for payment of travel of children to a place of summer health-improving rest, boarding schools and back, thousand KZT	168 704	310 252	372 136	19,95%
Expenditures for the organization of New Year's events for children of employees (New Year parties, gifts), thousand KZT	243 607	182 526	112 604	-38,31%
Expenses for conducting festive events and cultural mass events, thousand KZT				
Total expenses, thousand KZT	6 457 941	6 461 812	7 458 288	15,42%

In 2017, the Company experienced many events contributing to the development of the presence regions G4-EC8

On December 15, 2017, the Collective Bargaining Agreement for 2018-2020 was signed between NC KTZ JSC and the Company's employees. The Collective Bargaining Agreement provides for social guarantees for the protection of labor rights, payment, labor protection, health and recreation for workers and their children. Taking into account the requirements of the new Labor Code of the Republic of Kazakhstan, the document introduces additional standards for improving the social status of employees, and also expanded the list of documents and acts of the employer that require coordination with the trade union.

The list of employees receiving social benefits includes employees of the Company - participants in the liquidation of the consequences of the Chernobyl nuclear power plant accident, international soldiers, workers who alone raise two or more children.

On December 6, 2017, the Head of State, during the Day of Industrialization in the mode of the National Teleconference, launched the work of logistics facilities built by NC "Kazakhstan Temir Zholy" JSC.

Among them were the multifunctional ferry complex Kuryk and transport and logistics center in Shymkent.

More than 500 employees of the branches of KTZ - Freight Transportation JSC took part in the competition of professional skills, conducted in 8 nominations. In the competition, for the first time since the establishment of the National Cargo Carrier, the drivers, movers, track inspectors, wagons inspectors, train composers of all 14 regional divisions of the Company demonstrated their professional qualities, skills and knowledge. The best railroad workers were determined by the nominations "The best train driver", "The best car inspector", "The best train composer", "The best expert of the IPD, PTE, ISI", "The best lecturer", "Best in profession", "Best video", "Scrabble" of PTE and instructions. "

In the port of Kuryk in the Caspian Sea, in a test mode, an automobile pier with hydraulic facilities has been launched to carry out a call for a car ferry. The project was implemented within the framework of the execution of the order of the Head of State, announced in the State of the Nation Address of the current year "The Third Modernization of Kazakhstan: Global Competitiveness". The strategic document also sets the task by 2020 to ensure the growth of transit traffic to 2 million containers.

Compliance with the Requirements

NC KTZ JSC takes all necessary measures to provide compliance with the current legislation and assumed obligations. In 2017 the Company has not detected any cases of violation of the legislation and regulatory requirements, except for penalty sanctions imposed on it for ecological disturbances to the amount of 6,6 million KZT. G4-SO8

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..

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](#)

Table No. 13. Key Indicators with Respect to Staff

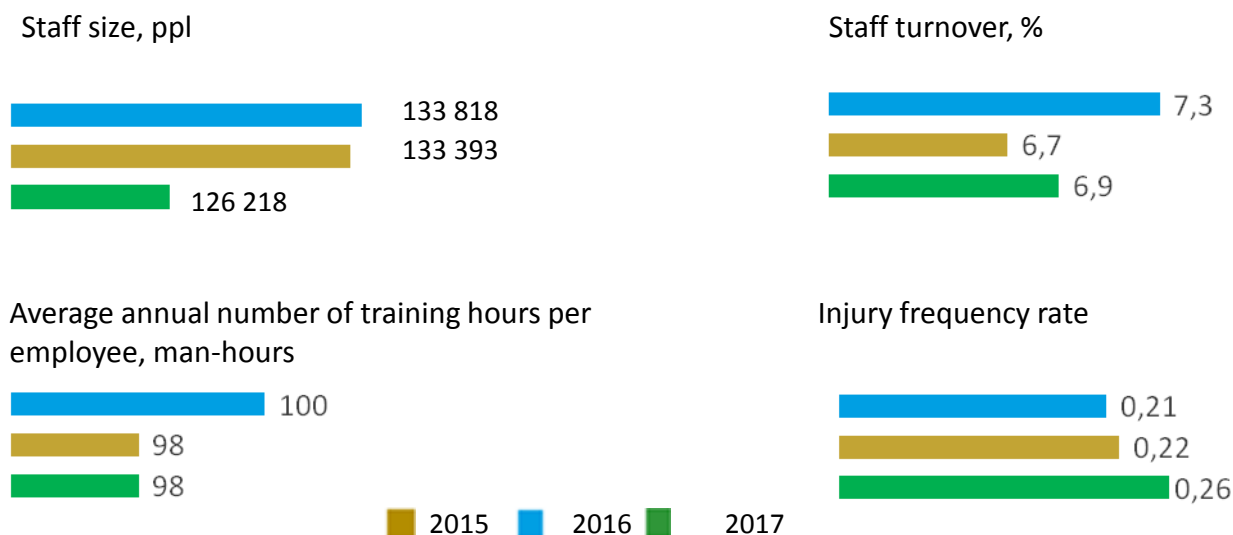


Table No. 15. The Total Number of Employees of KTZ NC JSC by the Regions of Kazakhstan

Staff structure by regions (Republic of Kazakhstan), %

Akmola Region	7.82
Astana	11.41
Almaty Region	6.20
Almaty	2.68
Aktyubinsk Region	11.21
East Kazakhstan Region	6.54
Atyrau Region	4.38
Zhambyl Region	6.69
West Kazakhstan Region	3.52
Karaganda Region	12.22
Kostanay Region	5.12
Kzylorda Region	5.82
Mangistau Region	3.42
Pavlodar Region	6.27
North Kazakhstan Region	1.55
South Kazakhstan Region	5.15
Total	100.00

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 Bargaining Agreement . [G4-11](#)

Table 17. Share of Employees covered with Collective Bargaining Agreements for 2017

Description	Value
Total number of employees at year end, ppl	137 021
Total number of employees covered with collective bargaining agreements, ppl	136 144
Share of total number of employees covered with collective bargaining agreements, %	99,36%

The Company's Collective Bargaining 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;

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](#)

Table 18. The Staff Turnover by Gender

Description	2015 г.	2016 г.	2017 г.	Variation 2015–2016, %
Staff turnover, ppl (women)	2529,00	2395,00	2266,00	-5,4%
Staff turnover, ppl (men)	8190,00	7098,00	7177,00	1,1%
Total	10719,00	9493,00	9443,00	-0,5%

The Company is one of the largest taxpayers in the country with one of the largest payroll budget.

Table No. 19. Average Salary, KZT

Description	2015	2016	2017	Variation 2016– 2017, %
Average monthly salary of administration staff, KZT	219 507,00	238 045,00	261 553,00	9%
Average monthly salary of operating staff, KZT	129 995,00	137 438,00	146 978	7%

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](#)

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 48000 retirees recorded at KTZ NC JSC.

The Company has established the Central Council of Railroading Veterans of “NC “KTZ” JSC and also regional Councils of Railroading Veterans function under the Railroad Departments.

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 Bargaining 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 (events 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 NC KTZ”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 NC KTZ JSC annually provides about 10 000 aged from 7 up to 13 with the vouchers to the children health-improvement centers of the Republic of Kazakhstan, simultaneously providing insurance of the children's life against accidents. For interesting leisure time of children en route to camps, children are provided with children's magazines containing cognitive, vocational guidance, teaching and entertaining categories.

In addition, the children of the Company's employees of predominantly industrial professions from remote settlements, raised in large families, low-income or single-parent families, children with good academic performance participate in the project "Touhan elge sayahat".

The project is initiated by the Corporate Fund "Social Projects Fund" under the NC KTZ JSC in conjunction with the Fund for the Development of Social Projects" Samruk-Kazyna Trust ". The main goal of the project is to increase the interest of children in the world around them, to study the historical and architectural monuments of the country, to bring up love for the motherland, to strengthen patriotism.

Caring for Young Employees

KTZ NC JSC employs more than 52 000 young employees aged under 35.

The work with young people in the Company is based on the Youth Policy Program approved 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.

The main programs of the youth policies are:

- 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-CPM, G4-SO1

In 2016, Kazakhstan Temir Zholy 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 branch offices of Kazakhstan Temir Zholy NC JSC.

Training

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

Twenty educational grants under the industrial program Magistral (The Mains) and ten scholarships were received in 2017 by future specialists of the transport industry.

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

In 2017, 20 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 No. 20. Expenses for Staff Training for 2017

Staff category	Number of people	Expenses for training, thousand KZT	Average expenses for training per employee, thousand KZT
Office and management staff	23 739,00	882 361,00	37,16
Operating staff	12 640,00	842 887,00	66,68
Total	36 379,00	1 725 248,00	47,42

Table No. 21. Average Annual Number of Training Hours per Employee, man-hours G4-LA9

Staff category	2014	2015	2016	2017 г.	Variation 2016–2017, %
Total, including:	124,00	100,00	98,00	98,00	0,00%
top management	20,00	16,00	16,00	16,00	0,00%
middle management	24,00	20,00	20,00	20,00	0,00%
administration staff	32,00	24,00	22,00	22,00	0,00%
operating staff	48,00	40,00	40,00	40,00	0,00%

Within the frameworks of the UN Global Treaty 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](#)

The project on the running of medical trains started in 2010 with the joint participation of the joint stock company "National company" Kazakhstan temir zholy "and the Ministry of Emergency Situations and Health of the Republic of Kazakhstan. Since 2016, the project is being implemented with the support of the Fund for the Development of Social Projects "Samryk-Kazyna Trust"..

The social project is unusual in its essence, since for the first time a fundamentally new type of mobile multidiscipline specialized consultative and diagnostic assistance for railway transport workers and their family members, urban and rural population of remote places of residence has been proposed

The project was awarded the national prize "Choice of the Year" in the nomination "The Best Social Project of 2010". In addition, in 2011 the Head of State in the annual message noted the relevance of the project and the need for further development of transport medicine. Over the years, the project has proved its importance, necessity, efficiency and demand among the population.

From the beginning of the project for 1704 days, experts surveyed 379 035 residents (including 83 806 children), 1326 stations in all regions of the republic. 2 470 423 medical visits were registered. A total of 1,537,780 diagnostic procedures were performed (326,332 ultrasound examinations of internal organs, 4,144 spirographies, 65,624 echoencephalographs and ultrasound dopplerography of the brain, 135,357 electrocardiographs, 79,094 intraocular pressure measurements, 90,697 radiological studies, 26,792 esophagogastroduodenoscopies, 809,740 clinical- biochemical analysis), 4 644 small outpatient surgeries, 21 telemedicine consultations. A mammologist examined 53,919 women. Dental care was rendered to 94,093 residents.

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 the Company's Subsidiary "KTZ–Freight Transportation" JSC.

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.

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 92 000 employees of the industry from 400

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 300 physical training and sport activities involving nearly 13 500 railway workers.

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-CPM, G4-LA6**

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 “NC “KTZ” JSC are conducted. **G4-EC7**

Since 2010 the Company has been a member of the International Union of Sportsmen Railroad Workers (USIC), comprising 24 states. For this time the Company has repeatedly become the prize-winner at USIC Championships in individual sports.

The employees’ wish to lead an active life style is evidenced by the fact that only in KTZh Central Administrative Building more than 18000 visits of the gym and 16000 – of the swimming pool has been noted for the year.

G4-EC7

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 Bargaining Agreement, the Company worked to improve working conditions, prevent occupational injuries and occupational diseases in 2017.

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

–2.2 billion KZT – taking into account the cost of overalls, special footwear and other personal protective equipment;

–3.5 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 17,800 KZT (in 2016: 16,800 KZT).

3,131 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.

By the results of 2017, the Company provided 25,581 work places that were certified in terms of working conditions and 52 658 employees or 40% of total number of KTZ NC JSC's employees are employed under hazardous working conditions. [G4-LA7](#)

In 2017, the largest share of the total number of jobs with hazardous working conditions is taken by jobs with the following industrial factors:

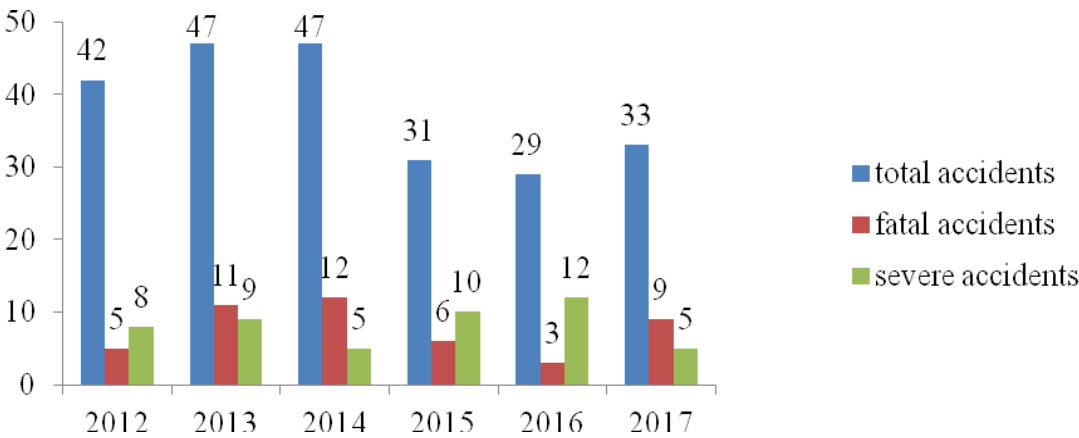
- hard work – 43%;
- noise – 40.3%;
- intensity of work – 9.7%;
- electromagnetic radiation– 4.2%;
- chemical factor – 1.2%;
- microclimate– 0.7%;
- whole-body vibration– 0.6%; and
- dustiness – 0.3%.

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, 1946 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 2017.

Despite the Company's preventive work, the rate of occupational injuries in 2017 was 33 cases (2016 - 29 cases), including fatal 9 cases (2016 -3 cases), with a disability outcome of 5 cases (2016-12 cases) [G4-LA6](#)

Diagram No. 1. Occupational Accident Rates



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-PR1](#)

In 2017 the enterprise of JSC KTZ NC have committed 238 cases of railway traffic safety violations, including 1 crash, 37 cases and 200 incidents or 43% of the total number of all violations caused by participants of the transportation process.

As per the Company’s enterprises the situation looks as follows.

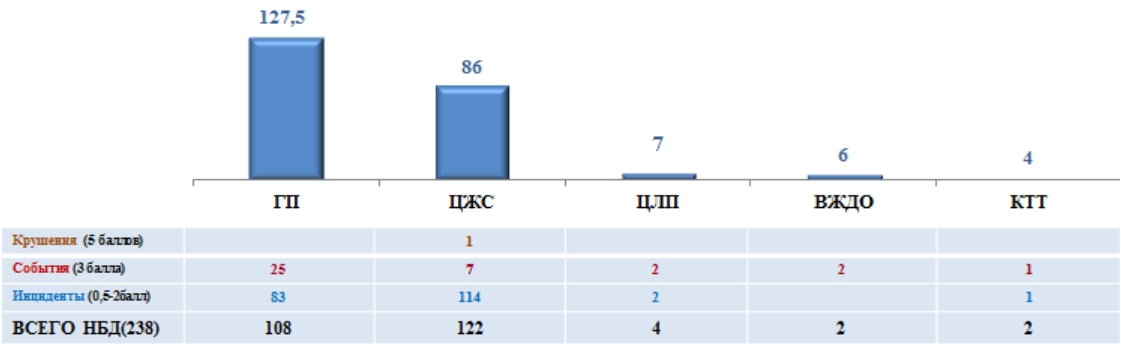
In “Freight Transportation” JSC 108 cases of traffic safety violations have been committed, including 17 cases (16 derailment, 1 accident) and 47 incidents in traffic department; 6 cases (4 derailments, 1 accident) and 24 incidents in locomotive department; 1 case (derailment) and 6 incidents in wagon department, 1 case (derailment) and 6 incidents in freight and commercial department.

- In NC KTZ JSC branch “Trunk Network Directorate” – 122 cases (1 crash, 7 cases and 114 incidents , including: 1 crash, 6 cases (derailments) and 100 incidents in track department; 1 case (derailment) and 3 incidents in signaling and communication department; 11 incidents in the energy supply department.
- As per Company subsidiaries 6 cases and 2 incidents (violations of traffic safety are committed):
- In “Passenger Transportations” JSC – 2 cases (derailments) and 2 incidents; .
- In “Kaztemirtrans” JSC 1 case (derailment), 1 incident;
- In “VZDO” (Militarized Railway Security) JSC – 2 cases.

In order to conduct an objective assessment and confirm the effectiveness of measures to provide safety of train traffic, the Company developed Guidelines for a scoring of the state of the safety of train traffic in structural divisions of the Company and its subsidiaries.

According to this Methodological Guidelines, the assessment of the state of traffic safety for the Company and its subsidiaries is determined by the level of severity of the safety violations committed. Thus, the state of traffic safety in the Company is estimated as follows: KTZ - Freight Transportation JSC - 127.5 points, the branch of NC KTZ JSC - "Directorate of the backbone network" - 86 points, Passenger transportation JSC - 7 points , VZDO JSC - 6 points and Kaztemirtrans JSC - 4 points (Diagram №2).

Diagram No.2 Indicators of traffic safety (230,5 points)



Benchmarking

A comparative analysis of the safety indicators of the Company and the largest railway administrations of the United States and Canada was made based on the results of activity for the 12 months of 2017 (Diagram No.2, 3 Table 1)

For the correct display of the results, comparable violations were taken into account, that is, crashes, events and incidents that led to material damage. The available data obtained from the website of the Federal Railways Administration (FRA) was used.

Based on the results of the analysis of traffic safety indicators, expressed in the number of traffic safety violations (TSV) per million train-km, the Company's performance is significantly lower than that of the railway administrations under consideration.

So, with the safety indicator for 12 months of 2017 for the Company - 0.310 TSV / million train-km, for the railway companies in question, these indicators were as follows:

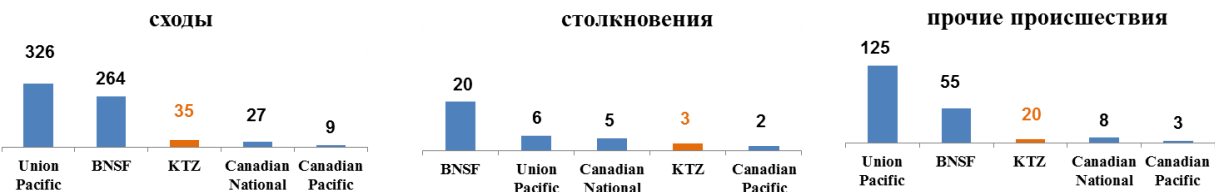
- Canadian National Railway Company - 1.250;
- Canadian Pacific Railway - 1,972;
- Union Pacific Railroad - 1,864;
- BNSF Railway Company - 1,172.

It should be noted that the length of the railway networks of Union Pacific Railway and BNSF Railway Company exceed the total length of the main railway network of NC KTZ JSC more than twice.

Table No.22 Results of benchmarking based on work results of 2017

	Union Pacific	BNSF	KTZ	Canadian National	Canadian Pacific
всего поездо/км (милля*1,609)	245191 161	289193 168	141930 890	31 991 567	14 406 223
количество НБД	457	339	44	40	14
количество НБД на млн.поездо/км	1,864	1,172	0,310	1,250	0,972
количество происшествий на станционных путях / отношение к общему количеству нарушений (%)	269/58,86	216/63,72	21/47,72	25/65,00	6/42,86
НБД, которые привели к разливу опасных грузов	3	0	0	3	0

Diagram No.3. Derailments, crashes, other violations

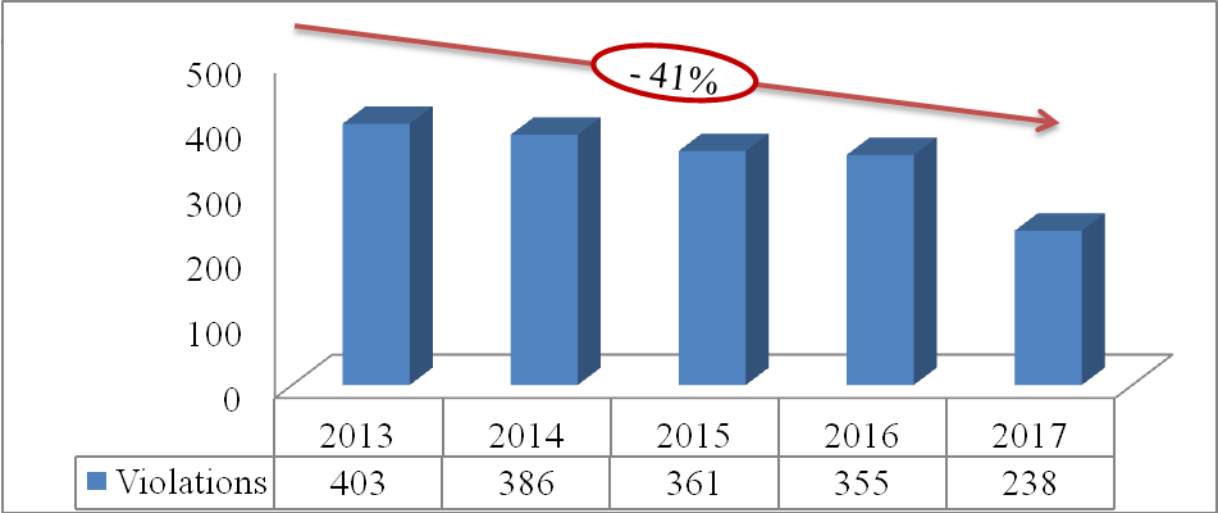


In order to prevent and minimize the factors that affect on on the state of traffic safety in 2017, the following work was done (Table 23).

Table No. 23 Measures to improve the state of traffic safety for 2017

staff impact:
➤the organization's standard "Organization and conduct of professional training of employees of NC KTZ JSC and its subsidiaries on the job" is developed
➤training of employees of production personnel and training of employees on the basis of the Center for Evaluation and Development of Railway Transport Personnel and Regions, trained - 12,480 people.
➤526 technical study rooms are equipped and operate.
➤Training programs of specialized educational institutions are developed and updated
compliance with technological processes and normative and technical documentation:
➤the standard technological process for the operation of the units of the carriage economy has been updated and the standards for the number and staff of employees of the carload economy have been revised
➤13 technological processes are updated in the passenger sector
➤the rules for the admission of freight wagons to the main railway networks have been revised
➤an instruction has been developed for the formation, order of passage and organization of inspection of long-length and heavy freight trains on the main railway network
➤mandatory requirements for scheduled repair of wagons
technical means, distribution of materials and tools:
➤Approved programs for the acquisition of process equipment for the sectors
➤a decoding center for defectograms has been created in the track sectors, 358 points at stations have been installed for the operational data transfer from flaw detector recorders
➤the European Bank for Reconstruction and Development has supplied funds for small-scale mechanization - 3,464 units.
➤modernization - roads - 964 km, locomotives purchased - 13 units, passenger cars Talgo - 62 units, freight cars - 74 units.
preventive work:
➤Company has held spring, autumn inspections of the current state of the infrastructure, rolling stock, production facilities, technical facilities
➤«Mesyachniki» were held in the structural divisions: "Side frame monitoring", "Inspection of wheel blocks of passenger trains built by Talgo Tulpar - Talgo, defects", "Warning brake", "Safe way", "Safety of movement during shunting operations!", The maintenance of rail chains ", Observance of requirements of technological process", "Quality control of repair»
➤preventive measures were taken to prevent raids on the tracks on people and livestock
➤new diagnostic tools have revealed about 7 thousand faulty parts of the wagons
control:
➤the organizational structure of traffic safety has been revised
➤job description instructions were revised for workers related to traffic safety issues
➤reporting in the field of traffic safety was introduced at management levels, the periodicity and reporting procedure were determined
➤on a quarterly basis, the heads of the Company's structural divisions and the chief regional auditors of the Department of Traffic Safety

At the same time, over the past 5 years, the Company has been demonstrating a persistent trend of reduction of number of traffic safety violations by 41%. (Diagram No.4)



Reduction of traffic safety violations was achieved through the implementation of a set of measures, including:

- 5300 kilometers of overhaul and modernization of the upper structure of the track, 1707 kilometers of new railway lines;
- renovation and overhaul of the fleet of locomotives - 1090 units, TE33 was purchased - 296 units, KZ - 68 units, SKD - 123 units, overhauled - 512 units.
- renewal and overhaul of the freight car fleet - 41226 units, 29301 cars were purchased, 11925 units were overhauled.

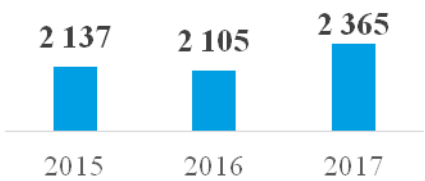
- renovation and overhaul of passenger cars - 1560 units, 614 Talgo cars and 341 other types of cars were purchased, , and 605 units were overhauled.

New diagnostic tools were introduced, with the help of which more than 90,000 faulty parts of the car were identified, which prevented the potential collection of rolling stock.

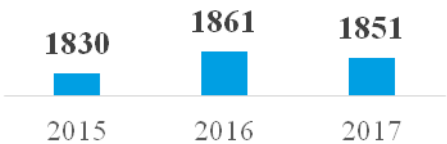
Increasing operational efficiency

The company on a regular basis conducts complex work on increase of labor productivity and production assets:

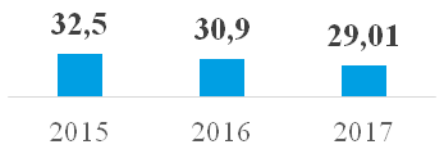
Labor productivity, thousand ton km/person



Locomotive's daily average capacity, thousand ton/km brutto

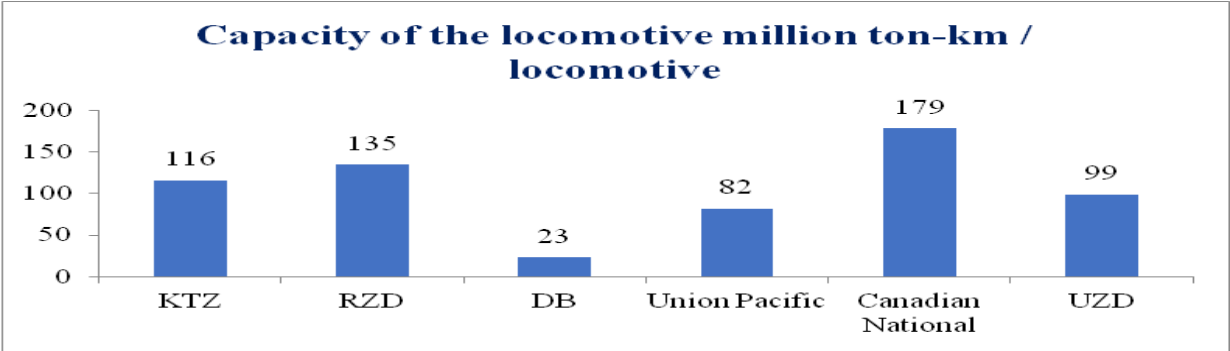


Unit cost of diesel fuel, kg/1000 ton km brutto

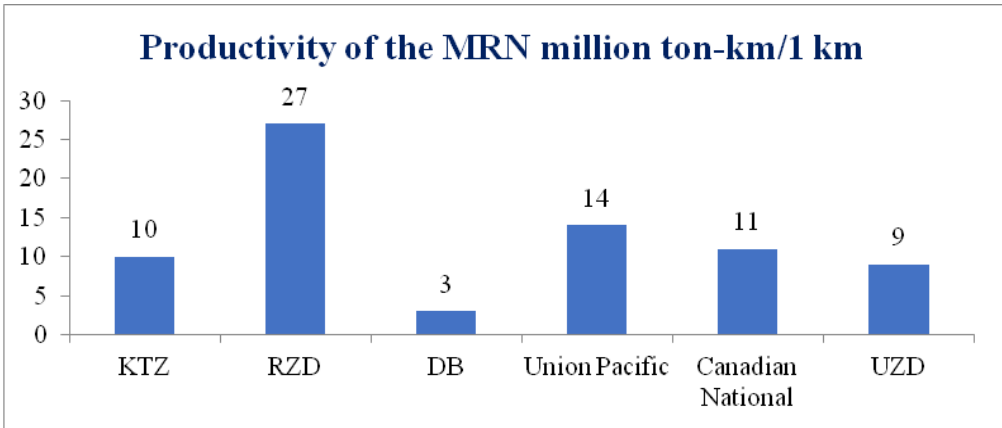


The value of production indicators determines the level of technology used, the degree of moral and physical deterioration of rolling stock, as well as standards used in the industry. It is also necessary to take into account the degree of development of market competition, which causes different conditions, opportunities and volumes of investment in the industry's production assets.

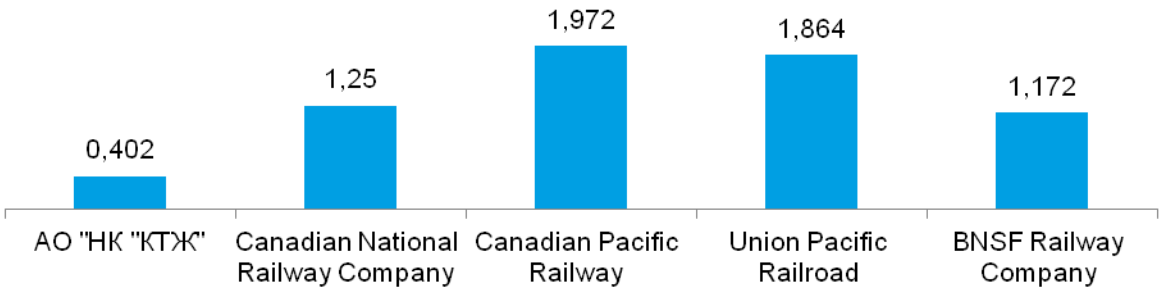
The performance of the locomotive of the Company exceeds the level of the similar indicator of DB, Union Pacific and UZD, conceding at the same time to RZD and Canadian National:



The indicator of productivity of the main railway network of NC KTZ JSC exceeds the level of a similar indicator DB and UZD, conceding at the same time RZD, Union Pacific and Canadian National:



At the same time, it should be noted that the Company's traffic safety indicators, expressed in the number of traffic safety violations per million train km, are significantly lower than those of other railway administrations:



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, regulating a unified approach to management of safety and labor protection, industrial and fire safety, environmental safety.

The results of the certification audit conducted at the NC KTZ JSC in 2017 by the auditors of SGS Kazakhstan LTD confirmed compliance with the principles of ISO14001: 2015, which allowed the Company to obtain a certificate of compliance issued by SGS – the international certification body.

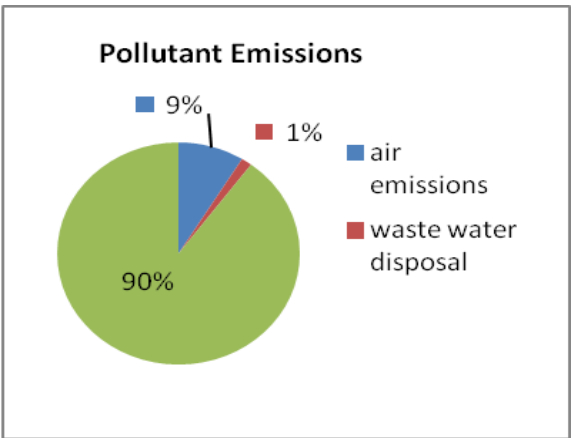
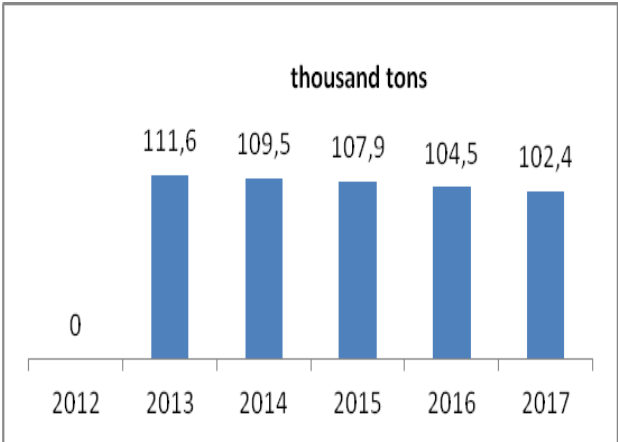


Table No. 24. Total Environmental Performance G4-EN15, G4-EN29, G4-EN31

Description	2014	2015	2016	2017	Variation 2016–2017, %
Greenhouse gas emissions, thousand tons of CO ₂ equivalent	211,50	78,63	98,60	55,26	-44
Environmental costs, million KZT	748,50	716,70	677,17	663	-2
Economic penalties for environmental violations, million KZT	30,80	19,90	12,06	6,6	-45

Environmental Emissions

Chart No. 5 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.



Reduction of emissions to the environment is ensured by:

- implementation of annual environmental protection measures aimed at protecting the atmospheric air, protecting water and land resources. At performance of nature protection actions the means for the sum of 227 647 thousand KZT are mastered;

- availability of environmental management system;

- monitoring of the impact on the environment.

In each division of the Company, whose economic activities have an impact on the environment, there are specialists responsible for environmental protection.

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-СПМ, G4-EN3

Following the performance results for 2017, total consumption of fuel and energy resources (FPR) by KTZ NC JSC amounted to 1 238,04 thousand tfe for the amount of about 127,32 billion KZT. Including 1 130,65 thousand the (91.3 %) for hauling operations; 107,39 thousand tfe (8.7%) for non-hauling operations. Hauling operations required 30.5% of energy and 69.5% of diesel fuel consumed by the Company or up to 91.3% of total consumption of all types of fuel and energy resources. G4-EN3

Table No. 25. TER consumed for Operating and Process (Non-Hauling) Operations

Description	2014	2015	2016	2017.	Variation 2017–2016, %
Energy, thousand kWh	388 474,10	355 708,40	308 603,80	325 668,26	5,53%
Coal, tons	47 942,87	43 630,24	38 961,89	31 035,20	-20,34%
Natural gas, thousand m ³	2 685,96	2 362,33	2 282,12	1 890,86	-17,14%
Petrol, tons	9 739,87	9 141,17	8 255,75	7 533,35	-8,75%
Diesel fuel, tons	25 890,20	25 676,40	26 227,90	23 890,75	-8,91%
Stove fuel, tons	344,21	344,20	187,20	0	0%
TPR consumption, tfe	133 476,60	125 166,10	115 614,50	107 564,0	-6,96%
TPR cost, million KZT (VAT incl.)	11 060,06	11 309,06	10 907,40	12 481,63	14,43%
TPR cost, thousand KZT/tfe	82,86	90,35	94,34	116,04	23,0%

In the period from 2014 to 2017, 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 No. 26. FPR consumed for Hauling Operations (diesel + electric) for 2017 G4-EN5, LT2

Description	2015	2016	2017	By 2016, %
Scope of works, billion ton km gross	367,65	363,65	395,695	8,81%
FPR consumed for hauling operations, thousand tfe	1 126,83	1 109,07	1 130,65	1,95%
Energy intensity*, kg fe/ 10K ton km gross	30,65	30,50	28,57	-6,3%

*-The indicator of reduction of specific costs of fuel and energy resources per unit of output (work).

Table No. 27. Performance of the Energy Saving Program of KTZ NC JSC in 2014–2017 G4-EN6

Energy source type	Performance	2014	2015	2016	2017	Variation 2017–2016, %
Energy	energy saved, thousand kW	10 257,25	19 776,35	33 950,40	138 641,0	308,37%
	energy expenses reduced, million KZT	102,57	277,74	435,47	2 062,02	373,52%
diesel fuel	diesel fuel saved, tons	80 042,60	88 427,00	148 082,34	175 239,0	18,34%
	diesel fuel expenses reduced, million KZT	9 064,13	12 027,08	17 492,52	31 084,7	77,7%
coal	coal saved, tons	0,00	0,00	0,00	0,00	-
	coal expenses reduced, million KZT	0,00	0,00	0,00	0,00	-
petrol	petrol saved, tons	32,10	38,00	12,80	69,0	439,06%
	petrol expenses reduced, million KZT	3,53	4,23	1,54	8,94	480,52%
Total, million KZT		9 170,24	12 309,05	17 929,54	33 155,66	84,92%

Table №28. Efficiency of FPR Specific Expenses per the Work Unit in 2008 – 2017, kg of conditional tons / 10 thousand tons km gross

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
37,20	37,07	37,01	36,67	34,83	34,71	35,52	34,04	33,67	31,29

Contact Details

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

Please, do not hesitate to send any questions related to the information contained herein to the following address:

Kazakhstan Temir Zholy National Company JSC, 010000, 6 Konayev Street, Astana, Kazakhstan.

Ruslan Muzhikov, Top Manager of the Strategy Department, GR and Corporate Development tel. +7 (7172) 60-38-37, e-mail: Muzhikov_R@Railways.kz

#	Term	Unit of Measurement (if applicable)	Explanation
1.	Freight turnover	t/km (ton-kilometer)	<p>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.</p> <p>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.</p>
2.	Passenger turnover	pkm	<p>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.</p>
3.	Average schedule speed	km/h	<p>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:</p> $V_y = \frac{\sum NS}{\sum Nt_y},$ <p>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.</p> <p>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.</p>
4.	Injury frequency rate		<p>The rate (Rf) expressing the number of occupational accidents per 1,000 employees.</p> <p>Calculation formula:</p> $Rf = \frac{T * 1000}{P}, \text{ where}$ <p>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> <p>P is an average headcount of employees for the period of time.</p>

№	Term	Unit of Measurement (if applicable)	Explanation
5	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.
6	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.
7	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.
8	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.
9	A round trip of a freight car	km	The average distance run by the car during the turnaround time.
10	Loaded round trip of a freight car	km	The average distance run by the car when loaded during the turnaround time.
11	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.
12	Main track lines	km	The sum of the lengths of all the main track lines (first, second, third, etc.).
13	Access tracks		Railway tracks connecting the railway station located on the main line with an industrial enterprise or other organization.
14	Rolling stock		Train vehicle units intended for the transportation of cargo and passengers by rail.
15	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".
16	EBITDA margin		Measure the company's profitability. It is calculated as the ratio of EBITDA and revenue.
17	NZHS		Regional mains divisions
18	KTZ NC JSC, Company		Kazakhstan Temir Zholy National Company Joint-Stock Company
19	Report		The 2016 Sustainability Report
20	S&A		Subsidiaries and affiliates
21	GRI G4 Guidelines		The G4 Sustainability Reporting Guidelines
22	MPSC		KTZ NC JSC's Branch Office – Multi-Purpose Service Center

№	Термин	Ед. измерения (если приемлемо)	Пояснение
23	United Nations Global Compact		The UN initiative aimed at promoting corporate social responsibility and providing reports on the implementation of such policies.
24	Job Matching		A program of activities aimed at assessing the employee's compliance with the position held.
25	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.
26	KPI		Key performance indicators.
27	Administrative apparatus		Administrative apparatus of KTZ NC JSC.
28	FPR		Fuel and energy resources.
29	ISO		International Organization for Standardization.
30	CTSMS		Corporate Transport Safety Management System

Index of the GRI G4 General Standard Disclosures contained in the Report

Element code	Disclosures Group /Aspect	Sections of the Report / Comments	Page in the Report	Notes
Strategy and Analysis				
G4-1	Top manager’s statement	Address to Stakeholders	4	
		Address to the readers of the Report	5	
Organizational Profile				
G4-3	Name of the organization	About the Company	14	
G4-4	Primary brands, products, and services	Geographical and market presence of the Company	14	
G4-5	Location of the organization’s headquarters	Geographical and market presence of the Company	14	
G4-6	Number of countries where the organization operates	Geographical and market presence of the Company	14	
G4-7	Nature of ownership and legal form	History	14	
G4-8	Markets served	Geographical and market presence of the Company	14	

Element code	Disclosures Group /Aspect	Sections of the Report / Comments	Page in the Report	Notes
G4-9	Scale of the organization	Implementation of the Company's Transformation Program	19	
G4-10	Total number of employees	Number of staff	15	
G4-11	Percentage of all employees covered by collective bargaining agreements	Staff	37	
G4-12	Organization's supply chain	Supply chain	15	
G4-13	Significant changes in size, structure or ownership	Implementation of the Company's Transformation Program	19	
G4-14	Precautionary principle	Participation in external initiatives	20	
G4-15	Economic, environmental or social charters, principles or other initiatives in the area of sustainability to which the organization subscribes or which it endorses	Participation in external initiatives	20	
G4-16	Memberships of associations	Participation in external initiatives	20	
Identified Material Aspects and Boundaries				
G4-17	Entities included in the organization's consolidated financial statements	Materiality and scope of aspects	11	
G4-18	Process for defining the report content and the Aspect Boundaries	Materiality and scope of aspects	9	
G4-19	List of all material Aspects	Materiality and scope of aspects	10	
G4-20	Description of the Aspect Boundary for each material Aspect within the organization	Materiality and scope of aspects	10	
G4-21	Description of the Aspect Boundary for each material Aspect outside the organization	Materiality and scope of aspects	10	
G4-22	Effect of any restatements of information provided in previous reports			No restatements were made
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries			No material changes

Element code	Disclosures Group /Aspect	Sections of the Report / Comments	Page in the Report	Notes
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Stakeholder Engagement

G4-24	List of stakeholder groups	Involvement of stakeholder	8	
G4-25	Basis for identification and selection of stakeholders	Involvement of stakeholder	8	
G4-26	Organization's approach to stakeholder engagement	Involvement of stakeholder	8	
G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns			

Report Profile

G4-28	Reporting period	About the report	8	
G4-29	Date of most recent previous report	About the Report	8	
G4-30	Reporting cycle	About the Report	8	
G4-31	Contact point	Contact info	55	
G4-32	Option 'in accordance' with the GRI Guidelines	About the Report	8	
G4-33	Organization's policy and current practice with regard to seeking external assurance for the report	Level of disclosure and verification	13	

Governance

G4-34	Governance structure of the organization	Corporate governance	23	
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Ethics and Integrity

G4-56	Organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	Ethics and Integrity	27	
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Index of the GRI G4 Specific Standard Disclosures contained in the Report

Element code	Disclosures Group /Aspect	Sections of the Report / Comments	Page in the Report	Notes
Category: Economic				
Economic Performance				
G4-SPM	Details of management approaches	Economic efficiency	29	
G4-EC1	Direct economic value generated and distributed	Economic Value generated and distributed	30	
G4-EC3	security of the organization's liabilities related to pension plans with established benefits	Caring about pensioners	39	
Indirect Economic Impacts				
G4-SPM	Details of management approaches	Indirect economic impacts	31	
G4-EC7	development and impact of infrastructure investments and services supported	Indirect economic impacts	31	
G4-EC8	significant indirect economic impacts, including the extent of impacts	Indirect economic impacts	31	
Procurement Practices				
G4-SPM	Details of management approaches			
G4-EC9	proportion of spending on local suppliers at significant locations of operation	Share of local suppliers	31	
Category: Environmental				
Energy				
G4-SPM	Details of management approaches	System of ecologic management	51	
G4-EN3	energy consumption within the organization	Resource consumption	53	
G4-EN5	energy intensity	Resource consumption	53	
G4-EN6	reduction of energy consumption	Resource consumption	53	
Emissions				
G4-SPM	Details of management approaches	System of ecological management	51	
G4-EN15	direct greenhouse gas emissions (scope 1)	Emissions into the environment	52	
G4-EN16	energy indirect greenhouse gas emissions (scope 2)	Emissions into the environment	52	
G4-EN19	reduction of greenhouse gas emissions	Emissions into the environment	52	

Element code	Disclosures Group /Aspect	Sections of the Report / Comments	Page in the Report
Compliance			
G4-SPM	Details of management approaches	System of ecological management	52
G4-EN29	monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations		51
Overall			
G4-SPM	Details of management approaches	System of ecological management	51
G4-EN31	total environmental protection expenditures and investments by type	System of ecological management	51
Category: Social			
Sub-Category: Labor Practices and Decent Work			
Employment			
G4-SPM	Details of management approaches	Social responsibility	35
G4-LA1	total number and rates of new employee hires and employee turnover by age group, gender and region	Staff	35
Occupational Health and Safety			
G4-SPM	Details of management approaches	Safety and labor protection	47
G4-LA6	type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	Safety and labor protection	49
G4-LA7	workers with high incidence or high risk of diseases related to their occupation	Safety and labor protection	48
Training and Education			
G4-SPM	Details of management approaches	Training	43
G4-LA9	average hours of training per year per employee by gender, and by employee category	Training	43
G4-LA10	programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Caring about young employees	41
Sub-Category: Human Rights			
Freedom of Association and Collective Bargaining			
G4-SPM	Details of management approaches		

Element code	Disclosures Group /Aspect	Sections of the Report / Comments	Page in the Report	Notes
G4-HR4	operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	Staff	38	
Security Practices				
G4-SPM	Details of management approaches			
G4-HR7	percentage of security personnel trained in the organization's human rights policies or procedures that are relevant to operations	Training	44	
Sub-Category: Society				
Local Communities				
G4-SPM	Details of management approaches	Caring for disabled people	42	
G4-SO1	percentage of operations with implemented local community engagement, impact assessments, and development programs	Caring for disabled people	42	
Anti-Corruption				
G4-SPM	Details of management approaches	Ethics and integrity	28	
G4-SO3	total number and percentage of operations assessed for risks related to corruption and the significant risks identified	Ethics and integrity	28	
G4-SO4	communication and training on anti-corruption policies and procedures	Ethics and integrity	28	
G4-SO5	confirmed incidents of corruption and actions taken	Ethics and integrity	28	
Compliance				
G4-SPM	Details of management approaches			
G4-SO8	monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Compliance with demands	34	
Sub-Category: Product Responsibility				
Customer Health and Safety				
G4-SPM	Details of management approaches			
G4-PR1	PERCENTAGE OF SIGNIFICANT PRODUCT AND SERVICE CATEGORIES FOR WHICH HEALTH AND SAFETY IMPACTS ARE ASSESSED FOR IMPROVEMENT	Traffic Safety	49	

Element code	Disclosures Group /Aspect	Sections of the Report / Comments	Page in the Report	Notes
Customer Privacy				
G4-SPM	Details of management approaches			
G4-PR8	total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Compliance with demands	34	
Sectorial Supplement on Transportation and Logistics				
LT2	Composition of the fleet by engine types, fuel consumption and environmental impact	Resource consumption	53	
LT3	Description of environmental impact policies and programs, including: <ul style="list-style-type: none">• Sustainable transportation initiatives• Transition to new types and forms• Route planning	Emissions into the environment	52	
LT5	Description of initiatives to control emissions as related to land transportation	Emissions into the environment	52	