

# 2020

## INTEGRATED ANNUAL REPORT



**THE RAILWAYS:  
SUSTAINABILITY,  
SAFETY AND  
RESPONSIBILITY.**



# COMPANY BY NUMBERS

| Key indicators   | Changes |         |                |       |
|--|---------|---------|----------------|-------|
|  | 2020    | 2019    | Absolute value | %     |
| <b>FINANCIAL INDICATORS</b>                            |         |         |                |       |
| Revenue from operations, bln tenge                     | 1 173,3 | 1 139,1 | 34,2           | 3     |
| Revenue from freight transportation, bln tenge         | 1 062,5 | 959,8   | 102,7          | 10,7  |
| Revenue from passenger transportation, bln tenge       | 38,2    | 84,8    | -46,6          | -55   |
| Operating margin, bln tenge                            | 181,6   | 159,1   | 22,5           | 14,1  |
| EBITDA, bln tenge                                      | 338,4   | 313,9   | 24,5           | 7,8   |
| <b>OPERATING INDICATORS</b>                            |         |         |                |       |
| <b>Passenger transportation</b>                        |         |         |                |       |
| Passenger turnover, bln pkm                            | 6,4     | 14      | -7,7           | -55   |
| Passengers dispatched, thousand passengers             | 8 150   | 16 546  | -8 396         | -51   |
| <b>Freight transportation</b>                          |         |         |                |       |
| Freight turnover, bln tkm                              | 232     | 224     | 8              | 3,5   |
| Freight transported, mln tonnes                        | 287,4   | 283,9   | 3,5            | 1,2   |
| <b>Container traffic</b>                               |         |         |                |       |
| Transit in containers, thousand TEU                    | 876     | 664,6   | 211,4          | 32    |
| <b>ADDITIONAL INDICATORS</b>                           |         |         |                |       |
| Staff number, persons                                  | 119 071 | 127 860 | -8 789         | -6,9  |
| Proportion of women, %                                 | 23      | 24,5    | -1,5           | -6,1  |
| Spending on social and economic development, mln tenge | 10 387  | 10 799  | -412           | -3,8  |
| Training hours per employee                            | 35,1    | 36,9    | -1,8           | -4,9  |
| Occupational injuries                                  | 34      | 35      | -1             | -2,9  |
| Violation of traffic safety rules                      | 158     | 178     | -20            | -11,2 |
| Environmental protection costs, mln tenge              | 817,3   | 701,6   | 115,7          | 16,5  |
| Waste volume, thous. tonnes                            | 75,9    | 86,9    | -11            | -12,7 |
| Energy consumption, thous. tonnes of oil equivalent]   | 1 237,5 | 1 260,3 | -22,8          | -1,8  |
| Fuel and energy resources savings, mln tenge           | 83 659  | 39 181  | 44 478         | 113,5 |

GRI 102-50  
102-51

102-52  
102-54

## About the Report

This Integrated Annual Report aims to provide our stakeholders with comprehensive and reliable information about the Company and its activities in terms of three dimensions of sustainable development: economic, social and environmental.

The report includes indicators for the period from January 1 to December 31, 2020 inclusively, and previous periods and forecast values to reflect the dynamics of changes in indicators.

The report, published annually in Kazakh, Russian, and English, is available on the Company's website:

<https://www.railways.kz/articles/sustainable-development/sustainability-report>

This report has been prepared in accordance with the GRI Standards.

The report was approved by the decision of the Board of Directors of the «National company «Kazakhstan Temir Zholy» joint stock company dated 16 June 2021.

### LEGEND USED IN THE REPORT

For convenience, the legend is used in the Report as follows.

TEXT

#### ECONOMIC DIMENSION INDICATORS

The data highlighted by this color reflect economic indicators of the Company.

TEXT

#### SOCIAL DIMENSION INDICATORS

The data highlighted by this color reflect social indicators of the Company.

TEXT

#### ENVIRONMENTAL DIMENSION INDICATORS

The data highlighted by this color reflect environmental indicators of the Company.

GRI

#### GRI STANDARDS DISCLOSURE INDEX

The GRI Index refers to the information disclosed in accordance with the GRI Standards.



#### MATERIAL TOPICS

Disclosure of the topics identified as material by our stakeholders and the Company.



#### INTERNET LINKS

Detailed information can be found on the said website.



#### ADDITIONAL INFORMATION

Detailed information is disclosed in the specified section of the Report.





# Contents

## About the Company 6

|   |    |
|---|----|
| Company history   | 8  |
| Line of business  | 9  |
| Business model  | 9  |
| Key events of the year  | 10 |
| Participation in associations and adherence to international principles | 15 |

## Message of the Company's management 16

### Report of the Management Board 20

|  |    |
|--|----|
| Development strategy                   | 20 |
| Regulatory environment                 | 22 |
| Asset structure                        | 24 |
| Summary of results                     | 26 |
| Key business units                     | 36 |
| Customers and quality                  | 46 |
| Debt burden                            | 51 |
| Improving the efficiency of activities | 52 |
| Traffic safety                         | 53 |
| Investment activities                  | 54 |

### Corporate Governance Report 58

|   |    |
|---|----|
| Corporate governance structure                                  | 59 |
| Interaction of the Board of Directors with the Management Board | 60 |
| Board of Directors  | 61 |
| Management Board  | 88 |

|                                      |     |
|--------------------------------------|-----|
| Remuneration of officials            | 99  |
| Office of the Corporate Secretary    | 103 |
| Internal Audit Service               | 105 |
| Corporate Ombudsman                  | 106 |
| Compliance Service                   | 107 |
| Managing conflicts of interest       | 108 |
| Countering corruption                | 108 |
| Corporate ethics                     | 112 |
| Risk management and internal control | 116 |

### Sustainable Development Report 121

|   |     |
|---|-----|
| Sustainable development management        | 121 |
| Sustainable economic development          | 127 |
| Social responsibility                     | 134 |
| Industrial safety and labor protection    | 156 |
| Environmental responsibility              | 166 |
| Energy efficiency and energy conservation | 175 |

### Consolidated financial statements 179

### Additional Information 269

|   |     |
|---|-----|
| Principles for defining the contents of the Report and topic boundaries | 269 |
| Index of GRI Standards Disclosures in the Report                        | 274 |
| Glossary  | 278 |

### Contact Information 279

### Annexes

|                    |   |
|--------------------|---|
| Company by numbers | 2 |
| About the Report   | 3 |



# ABOUT THE COMPANY

The «National company «Kazakhstan Temir Zholy» joint stock company (hereinafter - NC KTZ JSC, the Company) is a transport and logistics holding, operator of the main line railway network of the Republic of Kazakhstan, national railway carrier of freight and passengers.

The central office is located in Nur-Sultan (Republic of Kazakhstan).

The sole shareholder of NC KTZ JSC is National Welfare Fund Samruk-Kazyna joint stock company

(hereinafter – the Fund), of which founder and sole shareholder is the Government of Kazakhstan.

The Company is the largest employer in Kazakhstan: about 1% of the country's population are employed with the group of companies of NC KTZ JSC.

Kazakhstan ranks 3<sup>rd</sup> among the CIS and Baltic countries with a track gauge of 1520 mm in terms of the length of railway network.

The length of the operational railway network in Kazakhstan is 16 thousand km.

The NC KTZ JSC Group is the country's largest owner of locomotives, freight and passenger cars.

Transportation activities of NC KTZ JSC provide economic connectivity with 14 regions of the Republic of Kazakhstan and 3 cities of national significance, and with **five neighboring countries: China, Russia, Uzbekistan,**

**Kyrgyzstan, and Turkmenistan** through 16 junction points.

In terms of freight turnover and revenue, NC KTZ JSC is among the **15 largest railway companies in the world.**

According to the Development Strategy, the mission of NC KTZ JSC is to provide a high-quality basis for the sustainable growth of its customers' business, to benefit consumers and society as a whole by rendering safe and competitive transportation services.

## LENGTH OF RAILWAY NETWORK OF KAZAKHSTAN

**21 THOUS. KM**

Length of main  
line railway network

**16 THOUS. KM**

Operating length of railways

## RESOURCES AND ASSETS OF THE COMPANY

**1.7 THOUS.**

Locomotives

**46.8 THOUS.**

Freight wagons

**2.3 THOUS.**

Passenger cars

**119 THOUS.**

Employees



## Company history

# 1997

Founding Republican State Enterprise Kazakhstan Temir Zholy by the Decree of the Government of Kazakhstan dated 31 January 1997 No. 129 through a merger of state enterprises:

- Almaty Railway Administration;
- Tselinnaya Railway Administration;
- West-Kazakhstan Railway Administration.

# 2002

Creating National Company Kazakhstan Temir Zholy CJSC by the Decree of the Government of Kazakhstan dated 15 March 2002 No. 310 through a merger of RSE Kazakhstan Temir Zholy with its subsidiary state enterprises.

# 2004

NC KTZ CJSC reorganized into NC KTZ JSC and adopted the Program for restructuring railway transport of the Republic of Kazakhstan for 2004-2006 aimed to develop competitiveness in the industry and attract private investment. In accordance with the program, Locomotive JSC was formed on the basis of locomotives fleet and facilities, while the entire fleet of freight wagons was allocated to create an independent enterprise Kaztemirtrans JSC.

# 2005

Starting to subsidize loss-making passenger carriers from the republican budget.

# 2016

By separating transportation activities and infrastructure, the cargo carrier KTZ - Freight Transportation was created (transformed into KTZ- Freight Transportation LLP in 2020).

## Lines of business

- Backbone railway network services;
- Freight transportation;
- Passenger transportation;
- Transportation and logistics services;
- Operating freight wagon fleet.

GRI 102-2  
102-6

## BUSINESS MODEL

| PARTNERS   | STAKEHOLDERS   | VALUE OFFER   | RESOURCES   |
|--|--|---|---|
| Suppliers of goods and services<br>Railway administrations<br>Transportation and logistics companies | Consumers<br>Shareholder<br>Board of Directors<br>Employees<br>Professional unions<br>State authorities<br>Investors and Debtors<br>Mass media<br>Population<br>Partners | Safe and reliable freight and passenger transportation services as per the established requirements   | Backbone railway network<br>Locomotives<br>Freight wagons<br>Passenger cars   |
| CORE ACTIVITY  | CONSUMER SEGMENTS  | COST STRUCTURE  | REVENUE FLOWS   |
| Backbone railway services<br>Freight transportation<br>Passenger transportation                      | Private passenger railway companies<br>Passengers<br>Private companies-owners of a fleet of freight wagon operation<br>Shippers  | Operation and maintenance of backbone railway<br>Repair and maintenance of locomotives<br>Repair and maintenance of freight wagons and passenger cars<br>Energy costs<br>Employee compensation expenses | Revenue from passenger transportation<br>Revenue from freight transportation<br>Revenue from freight forwarding and wagon operation |



## Key events of the year

### JANUARY

**January 13-14**, delegations of NC KTZ JSC and Urumqi Railway LLC (People's Republic of China), headed by the First Deputy Chairman of the Management Board K.Almagambetov and General Director G.Jinyan correspondingly, held a work meeting at the Altynkol and Khorgos stations.

**January 21**, the Trans-Caspian International Transport Route Association held a general meeting in Almaty to review the results of activities for 2019.

**January 26**, in support of the Year of the Volunteer announced in Kazakhstan, NC KTZ JSC launched the program 2020 Charity activities.

### FEBRUARY

**February 26**, the President of the Republic of Kazakhstan K.Tokayev received the Chairman of the Management Board of NC KTZ JSC S. Mynbayev. The head of NC KTZ JSC reported the results of the Company's activities in 2019 and prospects of future development of railway transport.

**February 28**, the Association of National Freight Forwarders of Kazakhstan (ANEC) and the Kazakhstan Association of Carriers and Operators of Wagons (Containers) (KazAPO) held a conference attended by the Deputy Chairman of the Transport Committee of the Ministry of Industry and Infrastructure Development of Kazakhstan Zh.Tayzhanov, First Deputy Chairman of the Board of NC KTZ JSC K.Almagambetov, and an MP of the Mazhilis of the Parliament T.Khituov.

### MARCH

**March 11-12**, a meeting with representatives of Kirov Plant and Transtelesoft LLC was held to discuss the localization of production of on-board traffic safety system "BORT" in Kazakhstan.

**March 16**, in accordance with the decision of the State Commission of the Republic of Kazakhstan on Ensuring the state of emergency under the President of the Republic of Kazakhstan, in order to prevent the spread of coronavirus, passenger trains were canceled (in total, 129 pairs of trains were canceled in March -April). The partial resumption of passenger train services will begin on June 1, 2020.

As part of the reduction in the share of debt in «hard currency», the loan of KTZ Express JSC from the European Bank for Reconstruction and Development in the amount of \$13 million was converted from the dollar to tenge.

### APRIL

**Since April 1**, for the period of emergency, Kaztemirtrans JSC canceled the idle time fee for wagons of its own operating fleet during loading and unloading on access tracks. NC KTZ JSC canceled fines, fees and charges associated with freight transportation for the period of emergency.

### MAY

**May 12**, first transit container train from China to Turkmenistan passed through Kazakhstan.

**May 20**, KTZ Express JSC together with Kerry Project Logistics Kazakhstan LLP transported oversized cargo from the Poti station, Georgia, through the Kuryk port to Aksai.

**May 20**, NC KTZ JSC acquired from PJSC TransContainer a 50% stake in the company Logistic System Management B. V., which allowed NC KTZ JSC to own a 100% stake in Kedentransservice JSC. As a result, the agreement that limited the development of transshipment activities at the Dostyk and Altynkol border stations was terminated.

### JUNE

**June 16**, the 72<sup>nd</sup> meeting of the Council for Railway Transport of the Commonwealth Member States (Moscow, Russian Federation), attended by the delegation of NC KTZ JSC, signed the minutes adopted by written agreement in absentia.

**June 18**, Deputy Chairman of the Board for Logistics P.Sokolov made a report at the online conference Container Flow-2020.

**June 26**, for all groups of the disabled, new service to register online discount tickets for socially significant trains launched on the [www.bilet.railways.kz](http://www.bilet.railways.kz).

**June 29**, the delegation of NC KTZ JSC takes part in the 29th meeting of the Asia-Pacific Regional Assembly of the International Union of Railways (ATRA UIC) organized as an online-conference from Paris, France.

As part of the reduction in the share of debt in «hard currency», NC KTZ JSC made a partial early repayment of Eurobonds issued in 2012 in the amount of US \$ 217 million out of the total nominal volume of US \$ 1,100 million.

### JULY

**July 29**, public hearing of the results of the activities of NC KTZ JSC for the 1st half of 2020 on the provision of services by natural monopolies and the main tasks for the 2nd half of 2020.

**July 30**, an online meeting chaired by the Minister of Industry and Infrastructure Development of B.Atamkulov to discuss freight transportation by rail to China.

### AUGUST

**August 6**, NC KTZ JSC and Dostyk TransTerminal LLP signed the Agreement on cooperation to construct a terminal at Dostyk station.

**August 12**, President of Kazakhstan K. Tokayev received the Chairman of the Management Board of NC KTZ JSC S. Mynbayev, who reported on the results of the Company's activities for the past period of 2020.

**August 28**, on his work trip, the Chairman of the Management Board of NC KTZ JSC S.Mynbayev inspects the progress of work on the development of Dostyk station.



## SEPTEMBER

**September 12**, KTZ Express JSC organized first shipment of polypropylene across the Caspian Sea, from the port of Turkmenbashi, Turkmenistan, through the port of Aktau to Qingdao in China.

**September 14-16**, the delegation of NC KTZ JSC takes part in the 35<sup>th</sup> Conference of General Directors (responsible representatives) of the railways of the Organization for Cooperation of Railways (OSJD) organized as a video conference from Warsaw, Poland.

**September 20**, the Chairman of the Management Board of NC KTZ S.Mynbayev and the Chairman of the Board of Directors of China Railways Lu Dongfu hold an online work meeting.

**September 24**, NC KTZ JSC and KazTransGas Onimderi LLP signed an Agreement on cooperation to use liquefied natural gas on diesel locomotives equipped with gas-diesel engines.

**September 28-30**, the delegation of NC KTZ JSC takes part in the 48<sup>th</sup> session of the OSJD Ministerial Meeting organized as online video-conference from Warsaw, Poland.

**September 29-30**, the joint work group on strategic cooperation between NC KTZ JSC and Russian Railways JSC hold the 8<sup>th</sup> meeting via videoconference.

## OCTOBER

**October 21-22**, a meeting of the work group on the development of the Trans-Caspian International Transport Route (TMTM) attended by the Deputy Chairman of the Management Board for Logistics, NC KTZ JSC, P. Sokolov held in Istanbul, Turkey.

**October 27**, NC KTZ JSC and ETT Dostyk LLP signed the Agreement on cooperation to construct a terminal at Dostyk station.

**October 28**, the delegation of NC KTZ JSC takes part in the 30<sup>th</sup> Asia-Pacific Regional Assembly of the International Union of Railways (ATRA UIC) via the video-conference from Paris, France.

## NOVEMBER

**November 5**, the Chairman of the Management Board of NC KTZ JSC S.Mynbayev takes part in the 29<sup>th</sup> plenary meeting of the International

Coordination Council for Trans-Eurasian Transport, dedicated to the development of container traffic on the Asia - Europe - Asia route.

**November 9**, the Head of State signed the Law of the Republic of Kazakhstan "On Amendments and Supplements to Certain Legal Acts of the Republic of Kazakhstan on Energy, Transport and State Awards", developed, inter alia, taking into account proposals of NC KTZ JSC.

**November 12**, NC KTZ JSC and Dostyk Transportation & Logistics LLP signed the Agreement on cooperation to construct a terminal at Dostyk station.

**November 13**, NC KTZ JSC holds a round table, chaired by the First Deputy Chairman of the Management Board K. Almagambetov, on compliance with safety measures on the railway, organized as a video-conference.

**November 19-20**, the Board of Directors of NC KTZ JSC approved the purchase of 1000 open-wagons and 2000 fitting platforms from domestic machine-building enterprises.

**November 20**, the state registration of the transaction for the sale of 30% of the share of KTZ Express JSC in the authorized capital of Continental Logistics LLP was carried out. The buyer is Odyssey Investments Group LLP. As a result, two off-take contracts with firm obligations of VNC KTZ JSC for a total amount of 410 billion tenge were terminated.

**November 27**, the delegation of NC KTZ JSC participates in the 73rd meeting of the Council for Railway Transport of the Commonwealth Member States, held in Moscow, Russian Federation, to sign the Minutes adopted by written agreement in absentia.

**November 27**, tariffs for the services of the main railway network. are divided into electrified and non-electrified sections.

## DECEMBER

**December 10**, an international online conference dedicated to the 90th anniversary of the completion of the construction of the Turkestan-Siberian Railway.

**December 10**, the General Director of Passenger Transportation JSC P.Shturm and the Chairman of the

Management Board of NC Kazakh Tourism JSC E.Yerkinbayev hold an online meeting to discuss bilateral cooperation in the tourism industry.

**December 11**, transformation projects of NC KTZ JSC granted an award "The Best Project" among portfolio companies of the Fund at the conference Digital Samruk 2020 attended by Prime Minister A.Mamin, the head of the Fund A.Yesimov, and the minister for digital development, innovation and aerospace industry B.Musin.

**December 11**, The digital project of NC KTZ JSC awarded the 2nd place in the competition UIC DIGITAL AWARDS 2020. The awards ceremony took place as part of the 6th UIC Digital Conference 2020 organized by the International Union of Railways (UIC).

**December 14**, Director-General of Passenger Transportation JSC P.Shturm holds first online meeting with passengers to discuss the improvement of the quality of services on railway passenger transport.

**December 30**, NC KTZ and its labor collective sign the Collective Agreement for 2021-2023.

**December 30**, a contract for the purchase and sale of 99.02% of the shares of Vostokmashzavod JSC was concluded with VMZ Invest LLP. VMZ Invest LLP has assumed obligations to repay the debt to the group of NC KTZ JSC in the amount of 8.9 billion tenge, as well as to attract investment in the plant in the amount of 2 billion tenge.

**December 30**, the approved tariffs for locomotive traction in freight transportation are divided into diesel and electric traction.



# TURK-SIB TURNS 90



In 2020, the legendary Turkestan-Siberia Railway (Turk-Sib) celebrated its 90<sup>th</sup> anniversary. Included the USSR's first five-year plan, the Turkestan-Siberia Railway has become one of the most famous construction projects. The decision to build Turk-Sib was made on 3 December 1926.

From one side, the rail track was first laid on 15 September 1927 at Semipalatinsk station, and on the other side on 19 November 1927 at Lugovaya station. Manual labor, reaching 87.5%, was used to build the entire railway.

The railway was put into permanent operation in January 1931. Commissioning of more than 1.4 thous. km of main line railway contributed

to active economic development of the country, construction of cities and industrial facilities.

Taking into consideration a significant role of the Turkestan-Siberian Railway in the development of independent Kazakhstan and the railway sector, the railways of Kazakhstan used the slogan "90 years of Turk-Sib" throughout 2020.

On October 23, 2020, the rail station Lugovaya was renamed as the Turksib station. The initiative is aimed to immortalize the work of builders and railway workers who took part in the Turk-Sib project.

## Participation in associations and adherence to international principles

GRI 102-12  
102-13



**since 1993**  
Organization for Cooperation of Railways (OSJD) (participation of the Republic of Kazakhstan)  
Warsaw, Polish Republic  
www.osjd.org



**since 1998**  
International Coordinating Council on Trans-Eurasian Transportation (ICCTT)  
Bern, the Swiss Confederation  
www.icctt.com



**since 2001**  
The Shanghai Cooperation Organization (Kazakhstan a participant)  
Beijing, People's Republic of China  
www.sectco.org



**since 2001**  
Association of National forwarders of the Republic of Kazakhstan (ANEK)  
Almaty, Republic of Kazakhstan  
www.kffanek.kz



**since 2004**  
International Union of Railways (UIC)  
Paris, French Republic  
www.uic.org



**since 2009**  
ALE Association of Taxpayers of Kazakhstan  
Almaty, Republic of Kazakhstan  
www.ank.kz



**since 2010**  
ALE Union of Machine Builders of Kazakhstan  
Nur-Sultan, Republic of Kazakhstan  
www.smkz.kz



**since 2010**  
International Railway Sports Association (USIC)  
Prague, Czech Republic  
www.usic-sports.org



**since 2011**  
UN Global Compact  
New York City, United States of America  
www.unglobalcompact.org



**since 2013**  
ALE Union of Kazakhstan transport workers KAZLOGISTICS  
Nur-Sultan, Republic of Kazakhstan  
www.kazlogistics.kz



**since 2015**  
Corporate Fund KAZLOGISTICS  
Nur-Sultan, Republic of Kazakhstan  
www.kazlogistics.kz



**since 2014**  
Non-profit partnership Union of Industries of Railway Equipment  
Moscow, Russian Federation  
www.opzt.ru



**since 2014**  
National Atameken Chamber of Entrepreneurs  
Nur-Sultan, Republic of Kazakhstan  
www.atameken.kz



**since 2015**  
Eurasian Economic Union (Kazakhstan as a participant)  
www.eaeunion.org



**since 2016**  
ALE Association for the Development of Competition and Commodity Markets  
Nur-Sultan, Republic of Kazakhstan  
www.ark.org.kz



**since 2017**  
ALE International Association Trans-Caspian International Transport Route  
Nur-Sultan, Republic of Kazakhstan  
www.middlecorridor.com



**since 2011**  
ISO (International Organization for Standardization) is the main organization for the regulation and organization of work in the area of standardization around the world.

**The Paris Agreement (2015)**  
A party to the Agreement, NC KTZ JSC participates in developing the Strategy for low-carbon development of the Republic of Kazakhstan until 2050.



**since 2019**  
The International Social Security Association's (ISSA) Vision Zero Movement promotes zero injuries concept.

### EXTERNAL INITIATIVES



**since 2011**  
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# Address of the Chairman of the Board of Directors



CHRISTIAN KUHN

Chairman of the Board of Directors of NC KTZ JSC

## DEAR SHAREHOLDERS, PARTNERS, INVESTORS AND READERS OF THE ANNUAL REPORT!

Throughout most of 2020 the Covid-19 pandemic has very much dominated the work and agenda of KTZ, its customers and employees, just as anywhere in the world.

Despite the pandemic, railway transportation in Kazakhstan has continued to grow showing the importance of the railway industry and the resilience of the business model. Due to increases in export and transit KTZ's freight traffic grew by 3.5% in 2020. Passenger traffic decreased by 54.5% compared to 2019 because of the restrictions due to the coronavirus pandemic.

In 2020, measures were continued to improve asset and labor productivity as well as energy efficiency. As a result KTZ's operating profit grew by 14.1% to 181.6 billion tenge. Even more importantly, for the first time in three years the company concluded 2020 with a net profit of 16.2 billion tenge.

KTZ has established a multitude of measures to protect both employees and customers during the pandemic. Company employees were provided with personal protective equipment, their health status was monitored, administrative and managerial personnel were transferred to remote work, and meetings and trainings were held as video conferences. The sanitary regime has been strengthened at railway stations and in passenger trains. In

2021 KTZ has started mass vaccinations of its employees as the most important contribution to overcome the pandemic.

While facing the pandemic, we have continued the development of passenger transportation. The passenger fleet was updated by purchasing 68 new wagons, and the installation of modern bathroom modules has started in the older wagons. To improve the service new standards for cleaning and equipment with amenities and sanitary items have been introduced across the network.

The e-ticket sales system «Mobius» has been improved by adding functions such as end-to-end ticket sales, purchase of discounted tickets and automatic refunds to the passenger's card. The number of customers using online sales increased from 34% to 55% during 2020.

Railway safety and labor protection remain the main priority and the most important component of the Company's activities. KTZ has continued to implement international standards and best practices, among others through the revision of accident and incident reporting. As another measure, KTZ has introduced an IT-based «Integrated Industrial Safety System» with functionalities for labor protection, including a "stop work" function available for each employee.

With these measures we continue to work towards zero-injuries in KTZ. In 2020 we have reduced traffic safety violations by 11% compared to the previous year.

During the reporting period, the Company has again made a step forward in its corporate governance rating, which according to the self-assessment conducted by its Internal Audit Service has improved further from "BB" to «BBB». The single most important field of improvement was the new enhanced structure of the risk management system.

Due to sickness of the CEO, in April 2021, some changes were made in the Company's Management Board. I would like to express my gratitude to the outgoing CEO, Mr. Sauat Mynbayev, for his outstanding contribution to the development of the Company, as well as to thank the management and employees of the Company for their professionalism and work done in 2020.

I would also like to express my deep gratitude to our clients, the Sole Shareholder and other stakeholders for their productive cooperation. I am sincerely looking forward in continuing our cooperation in 2021.

With respect  
CHRISTIAN KUHN





## REPORT OF THE MANAGEMENT BOARD



# REPORT OF THE MANAGEMENT BOARD

## DEVELOPMENT STRATEGY

In September 2019, the decision of the Board of Directors of NC KTZ JSC approved a new Development Strategy until 2029.

### MISSION STATEMENT

«As a backbone transport company in Kazakhstan, we provide a high-quality foundation for sustainable business growth for our customers, create value for the Shareholder and benefit consumers and society as a whole by providing safe and competitive transportation services.»

### VISION STATEMENT

«We are a highly efficient transport company operating in accordance with best business practices.

We are a reliable provider of transport infrastructure services, including freight and passenger transportation.

We are a leader among similar companies in terms of sustainable development, quality and cost-effectiveness of services provided by improving business processes, digitalizing activities and improving the professionalism of employees.»



The achievement of the Company's mission and vision is ensured through the implementation of five strategic goals:

1. Removing the Company from the financial risk zone and ensuring financial stability
2. Improving the Company's efficiency
3. Increase customer satisfaction
4. Ensuring the safety of train traffic
5. Ensuring the Company's sustainable development

The implementation of tasks, the dynamics of indicators that assess the achievement of strategic goals are given in the following sections of the report:

Goal №1. Removing the Company from the financial risk zone and ensuring financial stability:

- [Regulatory environment](#)
- [Debt burden](#)

Goal №2. Improving the Company's efficiency:

- [Overview of results](#)
- [Asset structure](#)
- [Key business units of the Company](#)

Goal №3. Improving customer satisfaction:

- [Customers and quality](#)

Goal №4. Guaranteeing the safety of train traffic:

- [Traffic safety](#)

Goal №5. Ensuring the Company's sustainable development:

- [Sustainable Development Report](#)
- [Corporate Governance Report](#)





# REGULATORY ENVIRONMENT

In 2020, NC KTZ JSC carried out step-by-step work to amend the regulatory environment to create a transparent system of subsidizing passenger transportation services and to introduce separate tariffs for main line railway network services (electrified or non-electrified sections) and locomotive traction by type of tractive force (electric or diesel).

## Amended procedure for cross-subsidizing passenger transportation services

To separately account for costs and introduce a transparent system of cross and state subsidies to passenger transportation services, locomotives for passenger transportation services have been separated to create a legal entity Passenger Locomotives LLP. This enabled to separate costs and revenues from freight and passenger locomotive traction.

Since 1 January 2021, locomotive traction service for passenger transportation is financed at the expense of a temporary balancing charge from transit fare revenues, state subsidies and fees for locomotive traction services for transporting passengers on commercial routes.

## Railway tariffs

Since January 1, 2021, to create equal conditions for the national and private carriers, regulated tariffs for railway transportation has been changed, namely, the tariffs for main line railway services by type of railway section (electrified or non-electrified) were separated from locomotive traction services by type of traction force (electric or diesel traction).

Based on the results of the work carried out, the Committee for the Regulation of Natural Monopolies of the Ministry of National Economy of the Republic of Kazakhstan:

1) approved tariffs, tariff schedule and an investment program for the main line railway services for the period from 2021 to 2025 in November 2020. The tariffs for the services of the MHD are divided into electrified and non-electrified sections;

2) agreed on price ceiling, estimate of costs and investment programs for locomotive traction services for freight and passenger transportation for 2021 in December 2020. Tariffs for locomotive traction in freight transportation were divided into diesel and electric traction. The cost of passenger locomotive traction was excluded from the tariff schedule for locomotive traction services for freight transportation. This led to the reduction of charge.

The resulting growth of the overall regulated tariff for railway transportation (the main railway services, locomotive traction services, and freight and commercial work services) for 2021 averaged 13%. At the same time, in 2020, compared to 2019, the total regulated tariff for rail transport did not increase.

## On amendments and supplements to some legal acts of the Republic of Kazakhstan on railway transport

The Law of the Republic of Kazakhstan dated 9 November 2020 "On Amendments and Supplements to Certain Legal Acts of the



Republic of Kazakhstan on Energy, Transport and State Awards" amended the Law of the Republic of Kazakhstan "On Railway Transport" to include the definition of "freight" concept and rules for freight transportation. These changes filled a legal gap that prevented from charging a transit tariff for the transportation of own empty wagons, and also extended the validity period of the temporary balancing charge.

To implement the NC KTZ JSC-elaborated Law of the Republic of Kazakhstan dated December 27, 2019 "On Amendments and Supplements to Certain Legal Acts of the Republic of Kazakhstan On Railway Transport", and also the Law of the

Republic of Kazakhstan dated December 27, 2019 "On Amendments and Supplements to certain legal acts of the Republic of Kazakhstan on the issues of improving the procedures for rehabilitation and bankruptcy, budget, tax laws and laws on railway transport, developed to include proposals of NC KTZ JSC, in 2020, authorized state bodies adopted 11 by-laws developed by NC KTZ JSC, regulating subsidies for passenger transportation, calculation and payment of temporary balancing charges, transportation of transit freight, etc. in accordance with the new model.



# ASSET STRUCTURE

## THE NC KTZ JSC GROUP INCLUDES 45 ORGANIZATIONS

The Company's corporate portfolio is represented by five blocks:

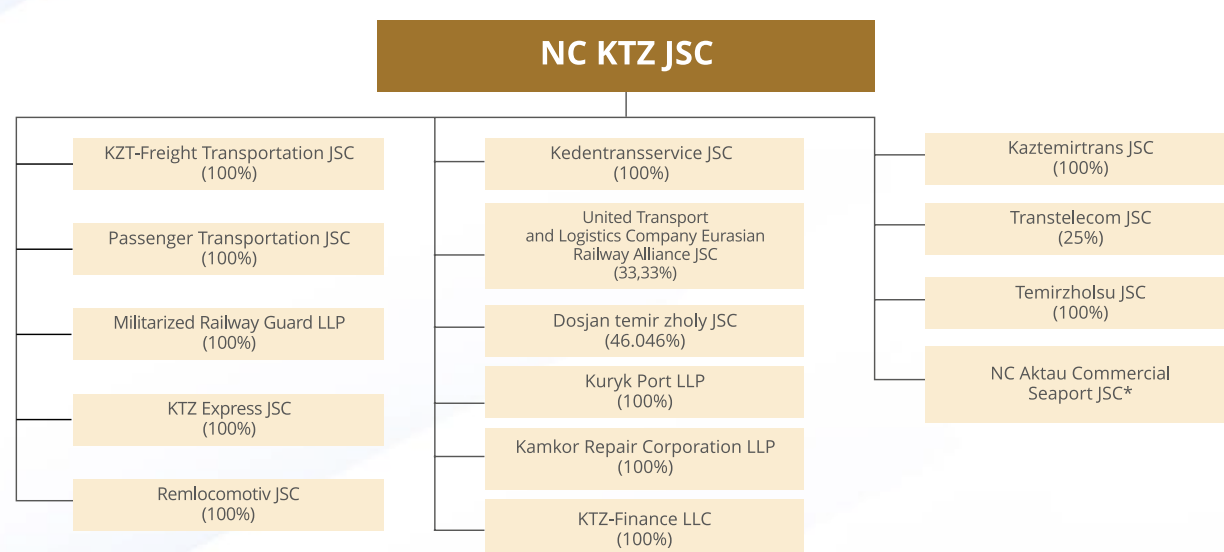
- ▶ backbone railway network: the branch of NC KTZ JSC - Directorate of the Backbone Railway Network;
- ▶ freight transportation: KTZ-Freight Transportation JSC, Kaztemirtrans JSC;
- ▶ transport and logistics block: KTZ Express Group, Kedentransservice JSC, UTLC-ERA, Kuryk Port and others;
- ▶ passenger transportation: Passenger Transportation Group JSC;
- ▶ specialized auxiliary block: TransTelecom JSC, Militarized Railway Guard LLP, Temirzholsu JSC, and others.

In accordance with the state privatization program and instructions of the Sole Shareholder, the work is continued to dispose of non-core assets of NC KTZ JSC Group.

By the end of 2020, the following changes took place in the structure of the Company:

- ▶ sale of Aktobe Rail and Section Works LLP, Continental Logistics LLP with 3 subsidiaries and dependent companies, Vostokmashzavod JSC, and a 26% share package minus 1 share of Transtelecom JSC;
- ▶ transfer of a 100% share package of MC SEZ Khorgos-Eastern Gate JSC into the communal ownership of the Almaty region;
- ▶ completion of the process of liquidating Airport Management Services LLP;
- ▶ completion of the process of reorganizing Suburban Transportation JSC through a merger with Passenger Transportation JSC.

## STRUCTURE OF THE GROUP OF COMPANIES OF NC KTZ JSC AS OF 01.01.2021 (1ST, 2ND LEVEL)



\* - in trust management





# SUMMARY OF RESULTS

## KEY INDICATORS

### Freight turnover, bln tkm



### Freight transported, mln tons



### Container in transit, thous. TEU



### Revenue from core activity, bln tenge



### Operating margin, bln tenge



### Passenger turnover, bln pkm



### Passengers dispatched, thous. persons



### EBITDA, bln tenge



GRI 102-6

# GEOGRAPHY AND TARGET MARKETS

## ECONOMY OF KAZAKHSTAN IN 2020

As of year-end 2020, Kazakhstan's GDP decreased by 2.6% compared to 2019 figure. The decrease was due to the following:

- ▶ curtailing economic activity due to the coronavirus epidemic;
- ▶ slower growth in the industrial sector.

The following industries showed negative dynamics:

- ▶ trade – -7,3%;
- ▶ mining sector – -3,7%;
- ▶ transportation and warehouse – -17,2%.

Positive dynamics however was observed in:

- ▶ construction sector –11,2%;
- ▶ agriculture – 5,6%;
- ▶ manufacturing –3,9%;

In 2020, the country's foreign trade turnover decreased by 13%, including imports decreased by 4.1%, exports decreased by 19.1%.

## TRANSPORT SECTOR OF KAZAKHSTAN

In 2020, the country's transport sector underwent hard times. Quarantine restrictions led to a serious decrease in performance indicators in the reporting year: there was a decrease in freight and passenger turnover. According to official statistics, in 2020 freight turnover amounted to 588.7 bln tkm, which is 96.6% of the 2019 figure.

Strict quarantine measures applied due to deteriorating epidemiological situation in the country and in the world, lower passenger traffic between regions, public transport in cities, international air traffic and passenger trains were the main factor that led to the reduction of passenger traffic in the country.

In 2020 passenger turnover amounted to 108.3 bln pkm, a decrease of 63.3% compared to 2019 figure.

## OVERVIEW OF FREIGHT TRANSPORTATION MARKET

In the reporting year, according to the data of the Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan, the structure of freight turnover by mode of transport was as follows:

### FREIGHT TURNOVER BY MODE OF TRANSPORT IN KAZAKHSTAN

| Transport mode                    | Freight turnover, bln tkm |       |                         | Share of total freight turnover, % |      |
|-----------------------------------|---------------------------|-------|-------------------------|------------------------------------|------|
|                                   | 2019                      | 2020  | Changes<br>2020/2019, % | 2019                               | 2020 |
| All transport modes               | 609,3                     | 588,7 | -3,4                    | 100                                | 100  |
| Pipeline                          | 136,7                     | 125   | -8,6                    | 22,4                               | 21,2 |
| Air                               | 0,838                     | 0,562 | -32,9                   | 0,1                                | 0,1  |
| Water                             | 0,015                     | 0,062 | 327,6                   | 0,0                                | 0,0  |
| Railway                           | 289,2                     | 302,2 | 4,5                     | 47,5                               | 51,3 |
| Road and urban electric transport | 182,7                     | 160,7 | -12                     | 30,0                               | 27,3 |
| Sea                               | 0,675                     | 0,631 | -6,5                    | 0,1                                | 0,1  |

Air, pipeline, and road transport showed the largest reduction in the volume of freight turnover.

In unstable economic conditions caused by the coronavirus pandemic railway transport

maintained positive dynamics and proved its status as the most sustainable transport in the sector.

Rail transport accounts for half of the country's total freight turnover.

## OVERVIEW OF PASSENGER TRANSPORTATION MARKET

Kazakhstan has vast territory, small population, and rapidly changing weather conditions. This determines specifics of the passenger transport market, significant share characterized by small capacity in the economy, high average haulage

rates and high requirements for reliability, quality and carrying capacity.

According to official statistics, the structure of passenger turnover by mode of transport is as follows:

### PASSENGER TURNOVER BY MODE OF TRANSPORT IN KAZAKHSTAN

| Transport mode                    | Passenger turnover, bln pkm |       |                         | Share in total passenger turnover, % |      |
|-----------------------------------|-----------------------------|-------|-------------------------|--------------------------------------|------|
|                                   | 2019                        | 2020  | Changes<br>2020/2019, % | 2019                                 | 2020 |
| All transport modes               | 295,2                       | 108,3 | -63,3                   | 100                                  | 100  |
| Road and urban electric transport | 260,6                       | 91,3  | -65                     | 88,3                                 | 84,3 |
| Air                               | 16,9                        | 8,3   | -50,8                   | 5,7                                  | 7,7  |
| Railway                           | 17,7                        | 8,6   | -51,2                   | 6                                    | 8    |

Restricting quarantine measures due to the coronavirus pandemic had negatively affected passenger traffic, which decreased by 63.3%

compared to 2019 figure, with the largest decrease of 65% occurring in road and urban electric transport.





# PRODUCTION INDICATORS

In the context of the coronavirus pandemic, the load on railway transport has increased, which is associated with the closure of alternative modes of transportation. The Company quickly reacted to all changes and in difficult conditions rail transport proved to be an efficient, fast and safe mode of transport for the delivery of goods.

## FREIGHT TRANSPORTATION

In 2020, the Company's freight turnover amounted to 232 billion t-km, which is 3.5% more than in 2019. The growth was due to an increase in freight turnover in export and transit traffic.

### FREIGHT TURNOVER IN THE PERIOD FROM 2018 TO 2020, BILLION T-KM

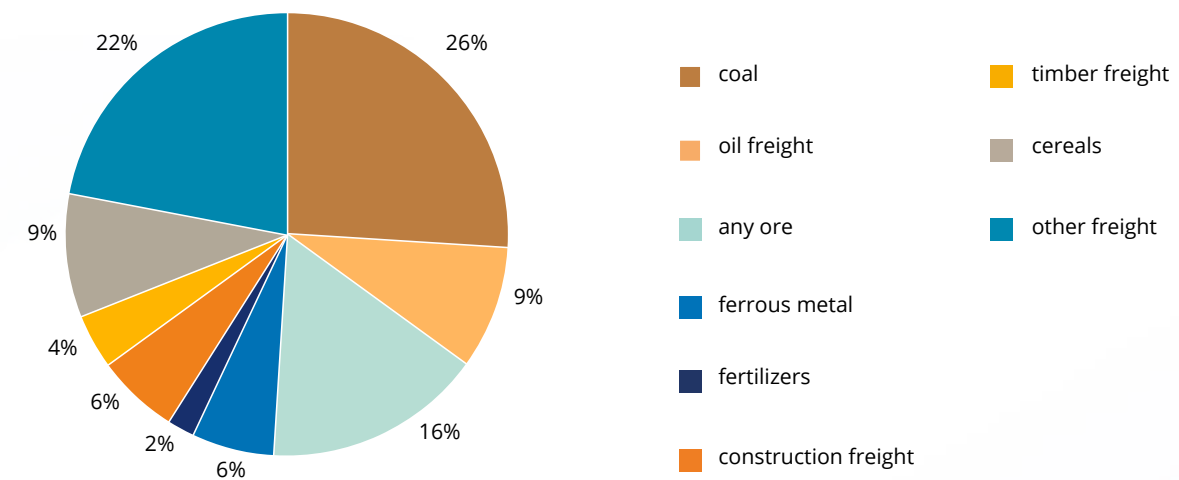
|      |             |     |
|------|-------------|-----|
| 2020 | <div></div> | 232 |
| 2019 | <div></div> | 224 |
| 2018 | <div></div> | 220 |

In the structure of types of messages, the freight turnover is as follows:

- in domestic traffic, the decrease was 5.5% due to the reduction in the average distance of freight transportation by 5.3%. The volume of loading in 2020 was 99.8% of the figure in 2019;
- in export traffic, freight turnover increased by 9.7% due to an increase in the average distance of freight transportation by 8.8%. The increase in the average distance of freight transportation occurred mainly in the transportation of coal, grain, iron and non-ferrous ore, fertilizers. The volume of cargo loading in 2020 was 100.8% compared to 2019;
- in import traffic, freight turnover decreased by 3.5% due to a decrease in the average distance of freight transportation by 3.3%. A decrease in the average distance occurred mainly in the transportation of non-ferrous metals, grain, fertilizers, non-ferrous ore, and other goods (sawn timber). The volume of cargo loading in 2020 was 99.8% of the figure for 2019;
- in transit traffic, the increase was 19.4%, due to the growth of traffic volumes by 17.4%. The transportation of oil products from Russia to CA countries and China has increased; grain from Russia to Iran and Central Asian countries; chemicals and soda from Russia to China, from China to Poland; fertilizers from Russia to CA countries and China, from Uzbekistan to China, Vietnam and Ukraine; non-ferrous metals from Uzbekistan to Turkey and from China to Poland; ferrous metals from Russia and China to Tajikistan and Kyrgyzstan, other cargo: timber from Russia to CA countries, sugar from Russia and Belarus to CA countries, food freight from Russia to CA countries and China, machinery and equipment from China to Poland and Belarus.

In 2020, the structure and share of the main goods presented for transportation by rail did not change and remained at the level of the previous year.

## SHARE OF MAIN GOODS IN THE COMPANY'S FREIGHT TURNOVER BY FREIGHT IN 2020, %



In 2020, in relation to 2019, there was an increase in the transportation of the following goods:

- ore, by 6%;
- ferrous metals, by 2.6%;
- fertilizers, by 10.3%;
- other freight, by 4.7%.

## TRANSIT TRANSPORTATION

At the end of 2020, the volume of transit freight traffic through the territory of the Republic of Kazakhstan increased by 17% by 2019 and amounted to 20.6 million tons, including transit in containers by 32% by 2019 to 876 thousand TEU.

|      |             |       |
|------|-------------|-------|
| 2020 | <div></div> | 876   |
| 2019 | <div></div> | 664,6 |
| 2018 | <div></div> | 537,4 |

The growth in transit traffic was due to an increase in the transportation of oil freight (+25%), chemicals (+15%), grain (+58%), fertilizers (+58%), non-ferrous metals (+68%) and other goods (+20%).

Decrease in demand for energy resources in the world market and limited storage capacities for oil products at Russian oil refineries, as well as decrease in oil prices influenced an increase in

demand for Russian oil products in Uzbekistan and Tajikistan.

The growth in the transportation of other goods was due to the supply of timber from Russia to Uzbekistan, Kyrgyzstan and Tajikistan, machinery and equipment in containers from China to Europe, from Korea to Uzbekistan, goods in containers in the direction of China-Europe, China-Uzbekistan, and Europe-China.

The growth of timber transportation in wagons was due to the work being done to exclude transportation using “hidden transit” schemes (introduction of the concept of “cargo transit” into the Law of the Republic of Kazakhstan dated December 8, 2001 No. 266-II “On Railway Transport”, the ban on the export of wood from the territory of Kazakhstan according to the orders of the Minister of Industry and Infrastructure Development of the Republic of Kazakhstan dated July 29, 2019 No. 564 and April 27, 2020 No. 238, amendments and additions, the order of the Minister of Industry and Infrastructure Development of the Republic

of Kazakhstan dated August 2, 2019 No. 612 “On approval of the Rules for the carriage of goods by rail” in terms of determining transit logistics schemes and charging the corresponding tariff for carrying out transportation on them).

In addition, the ongoing work to establish favorable tariff conditions for the carriage of goods in wagons and containers influenced the positive dynamics of freight transportation.

The largest growth in transit freight transportation was in container transportation. In almost all directions, container traffic shows positive dynamics:

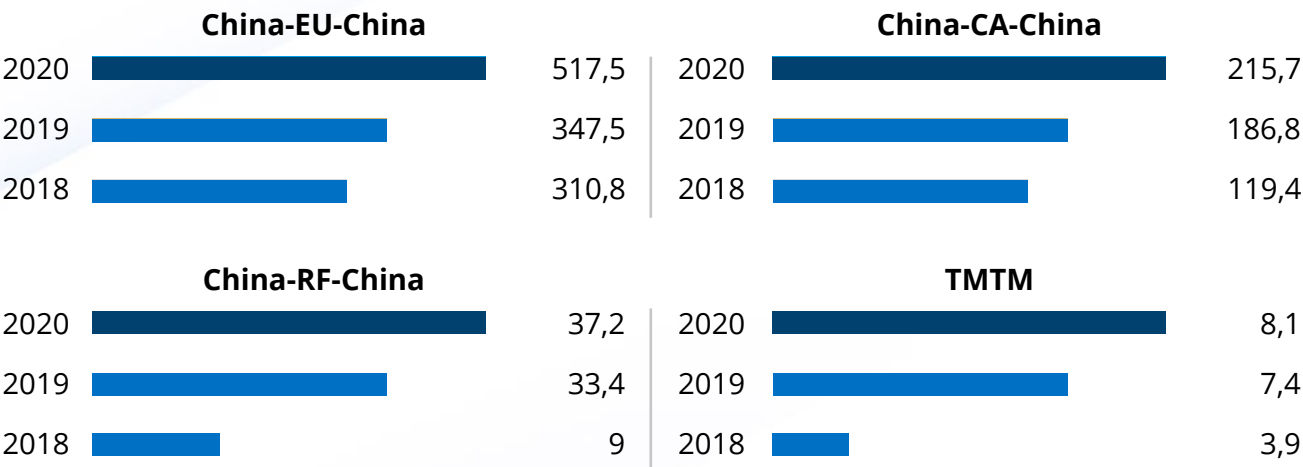
China-Europe-China, 517.5 thousand TEU (+65% by 2019);

China-Central Asian countries-China, 215.7 (+15% by 2019);

China-Russia-China, 37.2 thousand TEU (+11% by 2019);

Trans-Caspian International Transport Route (TMTM), 8.1 thousand TEU (+9% by 2019).

TRANSIT TRAFFIC BY DESTINATION IN THE PERIOD FROM 2018 TO 2020, THOUSAND TEU



The main share in transit container traffic was taken by the China-Europe-China route, whose share is 59%. The successful work of the joint venture of the railway administrations of Kazakhstan, Russia and Belarus – UTLC ERA contributed to an increase in the volume of traffic on this route in comparison with last year by 65%.

NC KTZ JSC improves service and increases speed. In 2020, the route speed of the passage of container trains in transit traffic in the direction of China-Europe increased to 1,150 km per day, which is planned to be maintained in the future.

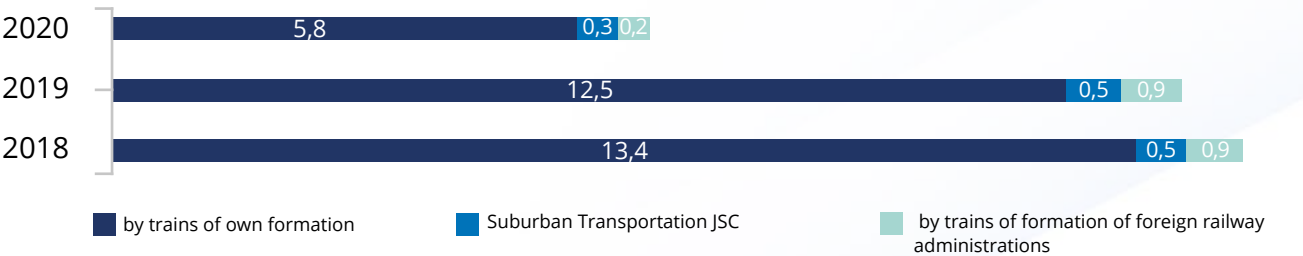
Also, to develop transit traffic by the Company:

- work is underway to increase the transit freight traffic through Kazakhstani seaports in the direction of the Caucasus countries, Iran and Turkey;
- a regular feeder service was organized from the port of Aktau in the direction of the Iranian ports of Anzali and Amirabad. Feeder flights are carried out along the route Turkmenbashi-Aktau port in the direction of China;
- work is underway to minimize administrative barriers;
- work is underway to implement planned infrastructure projects in order to increase capacity, etc.

PASSENGER TRANSPORTATION

The Company's passenger turnover in 2020 decreased by 54.5% compared to 2019 and amounted to 6,354.4 million p-km. The main reasons for the decrease in passenger turnover were the restriction of train traffic due to the introduction of a state of emergency in Kazakhstan, a decrease in the mobility of the population in the context of an epidemiological situation.

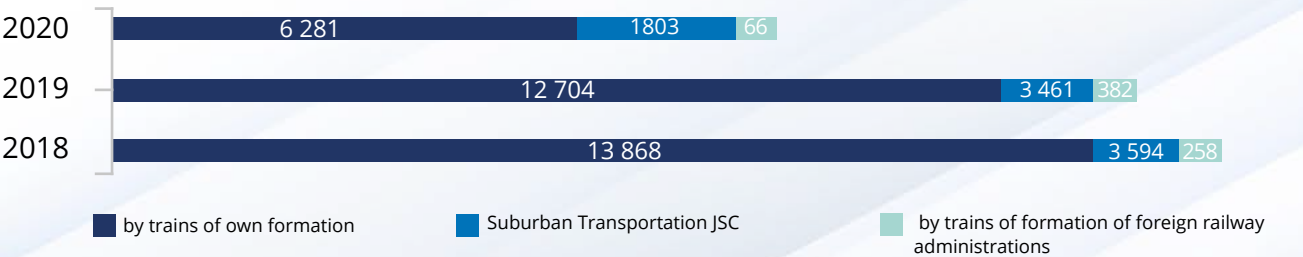
PASSENGER TURNOVER, BILLION PASSENGER-KM



The number of passengers sent by enterprises belonging to the Passenger Transportation Group and by trains formed by other railway administrations passing through the territory of the republic in 2020 amounted to 8,150 thousand passengers, including:

- by trains formed by Passenger Transportation JSC, 6,281 thousand passengers;
- by trains formed by Suburban Transportation JSC, 1,803 thousand passengers;
- by on trains formed by other railway administrations, 66 thousand passengers

NUMBER OF PASSENGERS SENT, THOUSAND PEOPLE





# FINANCIAL PERFORMANCE

Income from core activities for 2020 amounted to 1,173.3 billion tenge, which is 3% higher than the fact of 2019. The increase was mainly due to an increase in revenues from freight traffic by 9.3% due to an increase in freight traffic by 3.5%.

## OPERATING INCOME, BLN TENGE

|      |        |
|------|--------|
| 2020 | 1173,3 |
| 2019 | 1139,1 |
| 2018 | 1044,2 |

Income from freight traffic in relation to the fact of 2019 increased by 10.7%, mainly due to an increase in the volume of freight turnover by 3.5%; changes in the exchange rate (Swiss franc) for the calculation of income from transit traffic; increase in income from changes in the average level of tariff increases, etc.

## FREIGHT INCOME, BLN TENGE

|      |        |
|------|--------|
| 2020 | 1062,5 |
| 2019 | 959,8  |
| 2018 | 849    |

Income from passenger traffic for 2020 amounted to 38.2 billion tenge, which is 46.6 billion tenge lower than the fact of the same period in 2019 due to a decrease in passenger turnover by 55%.

## PASSENGER TRAFFIC INCOME, BLN TENGE

|      |      |
|------|------|
| 2020 | 38,2 |
| 2019 | 84,8 |
| 2018 | 84,2 |

EBITDA for 2020 amounted to 338.4 billion tenge, which is 7.8% higher than the fact of 2019.

## EBITDA, BLN TENGE

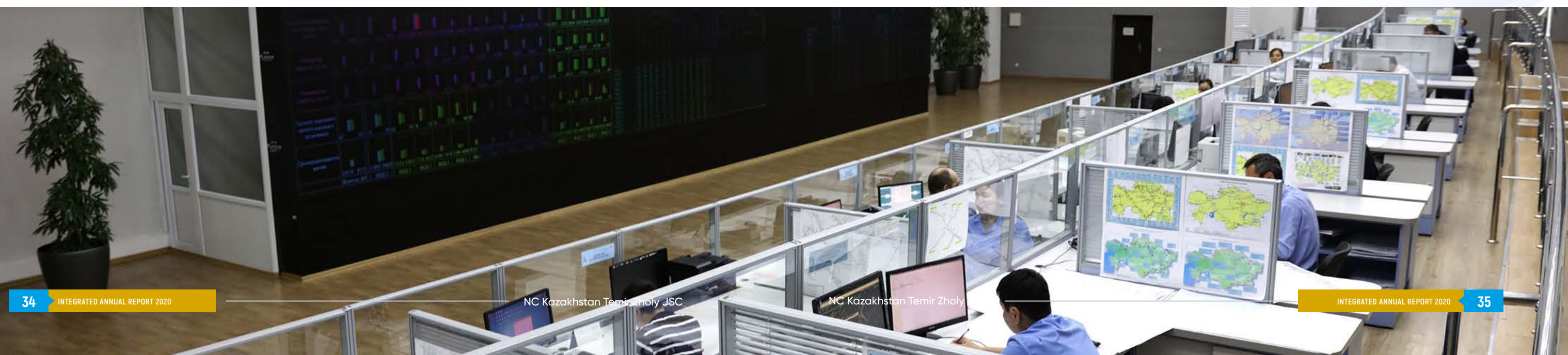
|      |       |
|------|-------|
| 2020 | 338,4 |
| 2019 | 313,9 |
| 2018 | 249,1 |

Operating profit for 2020 amounted to 181.6 billion tenge, which is 14.1% higher than the fact of 2019.

## OPERATING PROFIT, BLN TENGE

|      |       |
|------|-------|
| 2020 | 181,6 |
| 2019 | 159,1 |
| 2018 | 122,2 |

Net income attributable to the Sole Shareholder for 2020 amounted to 16.2 billion tenge, which is higher than the fact of the same period in 2019 by 86.4 billion tenge, mainly due to an increase in income from core activities by 3% due to an increase in freight turnover by 3.5%, reduction in general and administrative costs by 11.1% and financing costs by 21.7%.





# KEY BUSINESS UNITS OF THE COMPANY

## KTZ-FREIGHT TRANSPORTATION LLP

### CREATED IN

2016

### OWNERSHIP SHARE OF NC KTZ JSC

100%

KTZ-Freight Transportation LLP is the largest freight carrier and locomotive traction operator on the territory of the Republic of Kazakhstan.

By the Decree of the Government of the Republic of Kazakhstan dated September 29, 2017 No. 608 «On Amendments to the Decree of the Government of the Republic of Kazakhstan dated December 25, 2004 No. 1389 «On Certain Issues of the National Railway Company and National Carriers», KTZ-Freight Transportation JSC was determined as the National Carrier of Goods.

In 2020, KTZ- Freight Transportation JSC was transformed into KTZ- Freight Transportation LLP.

The main goals in the activities of the partnership are uninterrupted and high-quality provision of the needs of the economy and the population in the transportation of goods by rail while ensuring the safety of train traffic and the safety of transported baggage, freight luggage, freight.

## BUSINESS MODEL

| Resource   |   |
|--|---|
| <b>Employees</b><br>47,301 people  | <b>Rolling Stock</b><br>1,713 locomotives   |
| <b>Regional branches</b><br>13 regional branches,<br>3 representative offices in China,<br>Iran and Russia                           | <b>Infrastructure</b><br>30 locomotive depots<br>17 wagon depots<br>834 stations  |
| Business activities  |   |
| <b>Consumer segments</b><br>Consignors<br>Consignees<br>Forwarders<br>Branch owners<br>Participants in the transportation<br>process | <b>Value offer</b><br>Uninterrupted and high-quality provision of the needs of the economy and the population in the carriage of goods by rail while ensuring the safety of train traffic and the safety of transported baggage, freight luggage, freight.<br>Formation of the functions of a single operator taking into account the use of multimodal transportation, interaction with operators and owners of rolling stock and providing access to the main railway network.<br>Development of trunk and terminal infrastructure of transport corridors |

## KEY ACTIVITIES

- Transportation of goods by rail;
- Transportation of social goods by rail;
- Provision of locomotive traction services;
- Provision of services of locomotive crews;
- Provision of services for the preparation of traction rolling stock and motor-car rolling stock for access to the backbone network;
- Provision of services for traction shunters, commodity cashiers, acceptance suppliers;
- Provision of services for the preparation of freight cars for loading.

## BUSINESS UNIT OVERVIEW

| Indicators                                      | 2020    | 2019  | 2018  | Changes<br>2019/2018, % | Changes<br>2020/2019, % |
|---|---------|-------|-------|-------------------------|-------------------------|
| Revenue, bln tenge                              | 1 019,2 | 934,9 | 862,6 | 8,4                     | 9                       |
| Operating profit, bln tenge                     | 110,8   | 61,2  | 81,6  | -25                     | 81                      |
| EBITDA, bln tenge                               | 129,2   | 79,8  | 99,1  | -19,4                   | 61,8                    |
| Tariff freight turnover, bln tkm                | 229,7   | 222,3 | 219,8 | 1,1                     | 3,3                     |
| Freight transported, million tons               | 278,3   | 275,6 | 282,2 | -2,3                    | 1                       |
| Number of employees, people, including:         | 47301   | 50344 | 51398 | -2                      | -6                      |
| Share of women, %                               | 26      | 28    | 28    | 0                       | -7                      |
| Administrative and management personnel, people | 1910    | 2654  | 2663  | -0,3                    | -28                     |
| Production personnel, people                    | 45391   | 47690 | 48735 | -2,1                    | -4,8                    |
| Social stability index, %                       | 72      | 73    | 71    | 2,8                     | -1,4                    |
| Occupational Injury Rate (LTIFR)                | 0,24    | 0,22  | 0,22  | 0                       | 9                       |
| Waste volume, thousand tons                     | 9,3     | 10,8  | 11,8  | -8,5                    | -13,9                   |

In the reporting year, the revenue of KTZ- Freight Transportation LLP increased by 9% compared to the fact of 2019, which is due to an increase in the volume of cargo turnover, as well as the exchange rate for calculating income from transit traffic and income from mutual settlements between railway administrations.

In 2020, freight turnover amounted to 229.75 billion t-km, which is 3.3% more than in 2019. The growth was due to an increase in freight turnover in export and transit traffic.



SOCIAL RESPONSIBILITY

In 2020, the actual social expenses of KTZ-Freight Transportation LLP amounted to 5,126.9 million tenge.

Basic payments to employees and retirees under the terms of the Collective Agreement:

- one-time incentives to women for the 8 March holiday;
- encouragement to the employees of KTZ-Freight Transportation LLP who prevented violations of train traffic safety and found hard-to-detect defects;
- awards based on the results of the industry competition for the branches of road divisions of KTZ-Freight Transportation LLP;
- payment for dental prosthetics for pensioners and employees eligible for social benefits who have reached 20 years of work experience in railway transport;
- incentives for anniversaries of employees upon reaching 55 years of age for women and 60 years for men;
- supplements to pensions, lump sum benefits for retirees;
- for major birthdays (70, 80, 90 and 100 years old and recipients of the industry allowance upon reaching 60 years of age);
- for spa treatment for employees and pensioners;
- for the burial of employees and pensioners;
- for birth, in connection with the registration of marriage;
- payments for the Day of Transport Workers;
- payments to the recipients of the sectoral allowance for age to employees of locomotive crews who have reached the age of 57 and for early retirement.

ENVIRONMENTAL RESPONSIBILITY

The decrease in the volume of waste in 2020 by 13.9% in comparison with the same reporting period in 2019 was due to:

- the transfer of buildings and premises of houses and recreation rooms of locomotive crews under the management of KTZ-Freight Transportation LLP to the Alem-Pavlodar LLP in accordance with the contract No. 220/85-GP dated April 23, 2020;
  - in the branches of KTZ-Freight Transportation LLP, separate waste collection is carried out; paper, glass and plastic are transferred to third-party organizations for recycling.
- In June 2020, an online seminar was held timed to coincide with the World Environment Day (Ecologist's Day) for ecologists of the branches of KTZ-Freight Transportation LLP.

PASSENGER TRANSPORTATION JSC

CREATED IN1998

OWNERSHIP SHARE OF NC KTZ JSC100%

Passenger Transportation JSC carries out railway transportation of passengers, mail, baggage and freight luggage in interdistrict, interregional and international routes.

By the Decree of the Government of the Republic of Kazakhstan dated December 25, 2004 No. 1389 “On some issues of the national railway company and national carriers” Passenger Transportation JSC was assigned the status of the National Carrier for the transportation of passengers, baggage, freight and mail.

BUSINESS MODEL

| Resource   |  |
|--|--|
| <b>Employees</b><br>11,611 people  | <b>Rolling Stock</b><br>2,303 units – passenger cars   |
| <b>Regional branches</b><br>5 branches: Western, Northern, Southern, Express, Passenger Transportation JSC – Suburban Transportation JSC |  |
| Business activities  |  |
| <b>Consumer segments</b><br>Passengers<br>Consignors of baggage and freight luggage Organizations that provide transportation services   | <b>Value offer</b><br>Provision of high-quality and safe services for the transportation of passengers, baggage, freight luggage and postal items in international, interregional, interdistrict, domestic and suburban railway transport. |

KEY ACTIVITY

- Passenger rail transportation;
- Transportation of baggage, freight luggage and mail.



## BUSINESS UNIT OVERVIEW

| Indicators   | 2020   | 2019   | 2018    | Changes<br>2019/2018, % | Changes<br>2020/2019, % |
|--|--------|--------|---------|-------------------------|-------------------------|
| Revenue, bln tenge                                 | 68,9   | 123    | 112     | 9,8                     | -44                     |
| Operating profit, bln tenge                        | 9,5    | -4,5   | -21,8   |                         |                         |
| EBITDA, bln tenge                                  | 18,8   | 3,8    | -13,5   |                         | 390,2                   |
| Passenger turnover, bln tkm                        | 6,4    | 14     | 14,9    | -6,2                    | -54,5                   |
| Passenger transported, million tons                | 8,2    | 16,5   | 17,7    | -6,6                    | -50,7                   |
| Number of employees, people, including:            | 11 611 | 12 577 | 13 413  | -6,2                    | -7,7                    |
| Share of women, %                                  | 33     | 34     | 34      | 0                       | -2,9                    |
| Administrative and management personnel, people    | 663    | 697    | 736     | -5,3                    | -4,9                    |
| Production personnel, people                       | 10 948 | 11 880 | 12 677  | -6,3                    | -7,8                    |
| Social stability index, %                          | 71     | 54     | 42      | 28,6                    | 31,5                    |
| Occupational Injury Rate (LTIFR)                   | 0,19   | 0,18   | 0,22    | -18,2                   | 5,6                     |
| Greenhouse gas emissions into the atmosphere, tons | 862,3  | 954,3  | 1 036,6 | -7,3                    | -10,3                   |
| Waste volume, thousand tons                        | 10,3   | 12,1   | 14,7    | -14,8                   | -18                     |

At the end of 2020, revenue was reduced compared to the level of 2019 due to a decrease in passenger turnover by 54.5%. Operating profit and EBITDA increased due to the restoration of previously accrued provisions for advances issued for the supply of railcars in the amount of KZT 23.8. billion, due to the return of advances in 2020.

The decrease in production indicators in the reporting year was due to the restriction of train traffic due to the introduction of a state of emergency in Kazakhstan, quarantine restrictions introduced in certain regions of the republic and the cancellation of domestic and transit trains services.

## SOCIAL RESPONSIBILITY

During 2020, the management staff of Passenger Transportation JSC held 12 meetings with labor collectives on explanatory work in the regions.

During 2020, the amount of surcharges for the levels of conductors of passenger cars, as well as for the traveling nature of work, was revised and increased to 0.50% MCI.

In the reporting year, more than 2,000 conductors of passenger cars were trained on the following topics:

- customer focus;
- effective communication;
- conflict management;
- stress tolerance.



In 2020, in order to improve communication with employees, a telegram bot was launched at Passenger Transportation JSC, where:

- video messages of the General Director of Passenger Transportation JSC are posted;
- polls are carried out on proposals, problems and comments in the work of the Company of Passenger Transportation JSC;
- there is a daily news feed.

More than 4 thousand employees have become the users of this communication channel.

## ENVIRONMENTAL RESPONSIBILITY

In order to minimize the negative impact on the environment, Passenger Transportation JSC works on phasing out cars with coal heating and replacing them with cars equipped with diesel heating installations. In 2020, 68 passenger cars of a reserved seat type, manufactured according to the technology of Tver Carriage Works OJSC with combined heating (on electricity and solid fuel) were purchased.



# KTZ EXPRESS JSC

## CREATED IN

2013

## OWNERSHIP SHARE OF NC KTZ JSC

100%

KTZ Express JSC provides a full range of transport and logistics services in all types of communications, integrating transportation by rail, sea and road, using port infrastructure, a network of warehouses and terminals.

Also, KTZ Express JSC carries out transportation of groupage freight according to the principle of Less Than Container Load (LCL), transportation of goods in organized shuttle trains, as well as transportation of goods that are sensitive to temperature conditions.

## BUSINESS MODEL

| Resource  |   |
|---|---|
| <b>Employees</b><br>571 people  | <b>Rolling Stock</b><br>3600 units – 20 and 45 ft. containers   |
| <b>Regional branches</b><br>3 regional branches, 2 representative offices abroad: Moscow (Russia), Berlin (Germany) |   |
| Business activities   |   |
| <b>Consumer segments</b><br>Forwarders<br>Consignors  | <b>Value offer</b><br>Comprehensive customer service with the provision of additional services such as customs clearance, intermodal exchange, service through "one stop shop". |

## KEY ACTIVITY

- provision of transport and forwarding services;
- logistics activities;
- transportation of oversized, heavy and dangerous goods;
- management of objects of transport and logistics infrastructure;
- provision of information support for the transportation of goods;
- customs clearance, insurance, provision of guarantees for all types of risk, organization, escort, security, certification of goods.

## BUSINESS UNIT OVERVIEW

| Indicators   | 2020  | 2019  | 2018   | Changes<br>2019/2018, % | Changes<br>2020/2019, % |
|--|-------|-------|--------|-------------------------|-------------------------|
| Revenue, bln tenge                                 | 31,8  | 32,7  | 121,4  | -73                     | -2,8                    |
| Operating profit, bln tenge                        | 10,3  | -15,3 | -20,2  |                         |                         |
| EBITDA, bln tenge                                  | 14,4  | -8,7  | -15,8  |                         |                         |
| Container forwarding, thousand TEU                 | 286,8 | 205,2 | 299,8  | -31,5                   | 39,8                    |
| Freight forwarding by rail, thousand tons          | 6 034 | 9 533 | 22 681 | -57,9                   | -36,7                   |
| Number of employees, people, including:            | 571   | 602   | 1142   | -47,3                   | -5,1                    |
| Share of women, %                                  | 43    | 41    | 44     | -6,8                    | 4,9                     |
| Administrative and management personnel, people    | 181   | 207   | 380    | -45,5                   | -12,6                   |
| Production personnel, people                       | 390   | 395   | 762    | -48,2                   | -1,3                    |
| Social stability index, %                          | 79    | 72    | -      | -                       | 9,7                     |
| Waste volume, tons                                 | 307,5 | 336,3 | 388,9  | -13,5                   | -8,6                    |
| Greenhouse gas emissions into the atmosphere, tons | 13,9  | 24,7  | 27,7   | -10,8                   | -43,7                   |

At the end of 2020, revenue amounted to 31,812 million tenge, which is 2.8% lower than in 2019. In general, the decrease in revenue was due to a decrease in global trade due to the COVID-19 pandemic, and the introduction of an emergency situation in the country.

Forwarding container traffic in 2020 amounted to 286,831 TEU, which is 81,594 TEU higher than in 2019; the growth was due to an increase in the volume of container traffic in the directions of PRC-EU-PRC, PRC-SA-PRC.

Freight forwarding by rail in 2020 amounted to 6,034 thousand tons, compared to 2019, there was a decrease by 3,499 thousand tons, the reasons for the decrease in the indicator was a decrease in trade turnover due to a pandemic, the introduction of an emergency regime in the Republic of Kazakhstan, as well as with the withdrawal of parts of rail cars from the operation of KTZ Express JSC.

## SOCIAL RESPONSIBILITY

Social expenses for sanatorium-resort treatment in 2020 amounted to 8,539 thousand tenge. Due to the prevailing negative socio-epidemiological situation associated with the spread of coronavirus infection COVID-19, summer recreation of employees' children, sports competitions, competitions and other events were not held.

## ENVIRONMENTAL RESPONSIBILITY

The volume of waste in 2020 decreased by 8.6% compared to 2019.



# KAZTEMIRTRANS JSC

CREATED IN

2003

OWNERSHIP SHARE OF NC KTZ JSC

100%

Kaztemirtrans JSC is the largest operator of the freight wagon fleet in the Republic of Kazakhstan. The Company's activities cover such areas as provision of freight cars for operation, leasing of special rolling stock, storage and sale of scrap metal.

The bulk of freight transported in Kaztemirtrans JSC wagons is mostly bulk freight such as coal, grain, flour and milling products, ore, mineral fertilizers and cement.



## BUSINESS MODEL

| Resource  |   |
|---|---|
| <b>Employees</b><br>903 people  | <b>Rolling Stock</b><br>46,8 thousand units of wagons                       |
| <b>Regional branches</b><br>10 regional branches  | <b>Infrastructure</b><br>Saryozek production base                           |
| Business activities   |   |
| <b>Consumer segments</b><br>The main segment is the owners of bulk freight, such as coal, grain, flour and milling products, ore, mineral fertilizers and cement. | <b>Value offer</b><br>Providing high-quality cargo transportation services. |

## KEY ACTIVITY

- provision of freight cars for operation;
- lease of special rolling stock;
- storage and sale of scrap metal.

## BUSINESS UNIT OVERVIEW

| Indicators                                      | 2020  | 2019  | 2018  | Changes<br>2019/2018, % | Changes<br>2020/2019, % |
|---|-------|-------|-------|-------------------------|-------------------------|
| Revenue, bln tenge                              | 121,7 | 154,9 | 109,3 | 41,7                    | -21,4                   |
| Operating profit, bln tenge                     | 26,3  | 30,3  | 58,9  | -48,5                   | -13,2                   |
| EBITDA, bln tenge                               | 48    | 52    | 82,8  | -37,1                   | -7,7                    |
| Freight transported, million tons               | 86,5  | 93,7  | 89,8  | 4,4                     | -7,7                    |
| Number of employees, people, including:         | 903   | 1318  | 1254  | 5,1                     | -31,5                   |
| Share of women, %                               | 48    | 46    | 41    | 12,2                    | 4,3                     |
| Administrative and management personnel, people | 326   | 411   | 360   | 14,2                    | -20,7                   |
| Production personnel, people                    | 577   | 907   | 894   | 1,5                     | -36,4                   |
| Social stability index, %                       | 80    | 70    | -     | -                       | 14,3                    |

At the end of 2020, the revenue of Kaztemirtrans JSC decreased by 21.4% compared to 2019, operating profit decreased by 13.2%, and transported goods decreased by 7.7%. The decline is due to the negative impact of the COVID-19 pandemic.

## SOCIAL RESPONSIBILITY

Within the framework of the 2020 GOOD DEEDS Program, implemented as part of the Year of Volunteerism, employees of Kaztemirtrans JSC have done 61 good deeds.



For more information about the 2020 GOOD DEEDS program, see the section [Volunteering](#).



# CUSTOMERS AND QUALITY

## CUSTOMER SATISFACTION

Increasing customer satisfaction by providing high-quality, safe and affordable services for the transportation of goods and passengers is a key task of the Company.

In order to identify problem areas of customer relationships and take the necessary measures to improve them, the Company's subsidiaries conduct a regular assessment of customer satisfaction.

CUSTOMER SATISFACTION RATE FROM 2018 TO 2020, %

|                                | 2018            | 2019 | 2020 |
|--------------------------------|-----------------|------|------|
| KTZ-Freight Transportation LLP | 60              | 65   | 67   |
| Passenger Transportation JSC   | not carried out | 64   | 75   |
| KTZ Express JSC                | 77              | 65   | 66   |
| Kaztemirtrans JSC              | not carried out | 74   | 82   |

## FREIGHT TRANSPORTATION

### KTZ-FREIGHT TRANSPORTATION LLP

To increase customer loyalty, meetings are held on a regular basis with the participation of consignors/consignees, forwarding companies with the involvement of representatives of government agencies for joint discussion and resolution of current issues.

All relevant and new information in terms of interaction with consignors, forwarding and operator companies is published on the corporate website of KTZ-Freight Transportation LLP in the Clients section

In the reporting year, in order to provide support to Kazakhstani manufacturers during the pandemic until the end of 2020, KTZ-Freight Transportation LLP canceled a 10-time fee for storage of goods idle for more than 48 hours.

As part of the survey to determine the level of customer satisfaction, the timeliness of the

delivery of wagons for loading/unloading of goods is the main area for improvement. As part of the implementation of the business transformation project of “Improving the Efficiency of Shunting Work in KTZ-Freight Transportation LLP”, it is planned to introduce

measures to change the technology of servicing access roads. As a result of the project, it is expected an increase in the level of customer satisfaction with the timely delivery and cleaning of cars.

### KAZTEMIRTRANS JSC

Kaztemirtrans JSC implements new IT tools, such as the development and implementation of a personal account for the convenience of customers, where each customer can apply online for calculating the rate, cargo transportation, track the location of wagons, conclude an offer agreement, and write appeals to Kaztemirtrans JSC.

In addition, it became possible to conclude a Service agreement with Kaztemirtrans JSC on a

long-term basis. This contract allows customers to be sure that they will be 100% provided with wagons for their transportation in any period of shipments and they are not affected by the seasonality of the surplus or deficit of wagons. Thus, there is a closer interaction with customers and the building of long-term and reliable partnerships.

## PASSENGER TRANSPORTATION

### ELECTRONIC TICKETING SYSTEM

In order to improve the quality of services provided by Passenger Transportation JSC, the FCC Mobius electronic ticket sales system was introduced, which made it possible to:

- improve the conditions for purchasing tickets for the population by:
  - expansion of sales channels by organizing sales through 15 sites, about 30 thousand self-service machines, post offices, etc.;
  - ensuring transparency of data on availability/absence of vacant seats for users of services when purchasing tickets in self-service mode;
  - the possibility of purchasing tickets in the order of priority using the electronic Waiting List.
- ensure the possibility of implementing new functionalities that could not be produced in the conditions of work on the ACS Express, namely:
  - introduction of end-to-end ticket sales when there is no direct routes, i. e. if there is not a direct route, the client is given the opportunity to register seats with transfers in one train, in the event of a complete absence of seats on the train, it is possible to register seats for



agreed trains (the functionality was implemented in September of this year at ticket offices, replication of the option to other sales channels is planned for 2021);

- automation of the process of booking seats, taking into account the transparency of the use of technological armor (the task will be completed by the end of this year). This measure will make it possible to issue armored seats through the Company's website [bilet.railways.kz](http://bilet.railways.kz);
- automation of ticket redemption by organized groups. To date, transparency has been ensured for all organized group transportation.

In 2020, an opportunity was organized to purchase discounted tickets through the [bilet.railways.kz](http://bilet.railways.kz) website for persons with disabilities. The [bilet.railways.kz](http://bilet.railways.kz) website has been supplemented with an alternative Kaspi bank processing

The function of automatic refund of money to the passenger's card has been implemented when returning tickets previously paid for through a POS terminal at ticket offices.

The ticket offices have implemented a functionality that allows you to purchase tickets

on through routes there is nno seats in direct traffic.

The option of boarding passengers on the train using an electronic identity card has been introduced through the E-Gov mobile application.

The function of user authentication has been launched in the KTZ Ticket mobile application using a fingerprint (Touch ID and Pin-code15).

The share of online sales of travel documents (tickets) increased in 2020 to 55% against 34% in 2019.

## ROLLING STOCK RENEWAL

During 2020, 68 new passenger cars of the Tulpar Wagon Building Plant LLP were delivered, which partially renewed the trains of the following routes: Atyrau-Almaty, Nur-Sultan-Saryagash, Atyrau-Mangystau, Nur-Sultan-Arkalyk, Nur-Sultan-Semey, Almaty-Zhezkazgan.

To improve the sanitary-technical condition of the cars, modern sanitary modules are installed in the old-built cars, improving the internal condition of the sanitary units.

## SERVICE IMPROVEMENT

In order to improve the quality of services provided, Passenger Transportation JSC adopted a Unified Standard for cleaning and equipping passenger trains with sanitary and hygienic means.

The introduction of a new Standard of equipment has significantly improved the sanitary condition of our cars and allowed us to minimize complaints about the quality of linen.

## COVID-19

In order to ensure the safety of passengers and prevent the spread of coronavirus infection, the following measures were taken to strengthen the sanitary at railway stations and on passenger trains:

- an increase in the frequency of sanitization of trains; disinfection of wagons after each trip, an increase in the frequency of wet cleaning in trains and at stations – at least 4 times a day, toilets – as they become dirty, places most often in contact with the hands of passengers are treated with disinfectants;
- carrying out an audit of ventilation systems at railway stations on a regular basis;
- installation of sanitizers for processing the hands of passengers and employees, as well as litter-boxes for the non-contact disposal of personal protective equipment (masks, gloves) on the platform and in railway station buildings;
- introduction of a strict mask regime for employees and passengers, as well as for accompanying persons;
- carrying out non-contact thermometry at the checkpoints of passengers;
- creation of separate corridors for arriving and departing passengers in order to exclude the crossing of passenger flows;
- application of floor markings and wall signs on the observance of a distance between passengers of at least 1 meter, including in front of information desks, ticket offices, ATMs of railway stations and points of additional service;
- organization of quarantine corners to isolate identified patients until the arrival of an ambulance;
- carrying out scheduled inspections for epidemiological indications in accordance with the decree of officials of the sanitary and epidemiological service; disinsection and deratization measures;
- in case of detecting symptoms of COVID-19 disease in passengers, measures are provided for the treatment of buildings and territories with disinfectants;
- purchase of personal protective equipment (disposable masks, gloves, disinfectants) to ensure the sanitary and epidemiological requirements of the Company.



## TRANSPORT AND LOGISTICS SERVICES

### KTZ EXPRESS JSC

On all routes through Kazakhstan KTZ Express JSC, the most favorable tariff conditions have been created, all parameters of speed and safety of goods are observed.

For the convenience of customers, all online services have been established and international offices have been opened in China, Russia, Europe and major cities of Kazakhstan.

Improving the quality of services provided is ensured through the implementation of the following measures:

- launch of the client's Personal Account project on the corporate website of KTZ Express JSC, the functionality of which includes: an application for rate calculation/conclusion of an agreement/organization of transportation, formation and issuance of instructions for filling out a waybill, dislocation of wagons/containers. In 2020, 80% of all requests for transportation were submitted through the Personal Account.
- implementation of a full cycle of processing customer orders, including receiving a protocol of contractual prices and the ability to download shipping information in the Personal Account by the client;
- automation of signing price protocols in the Aikey CRM system by means of an electronic digital signature (EDS);
- carrying out a Client Information Day with clients on container and wagon transportation.

## DEBT BURDEN

The Company's consolidated debt as of January 1, 2021 amounted to KZT 1,901,541 million at face value and KZT 1,570,179 million at book value.

Debt /EBITDA decreased from 5.28 at the end of 2019 to 4.89 at the end of 2020.

In 2020, the Company carried out planned repayments of borrowings in full on time. At the same time, work continued to reduce the share of debt in the «hard» currency:

- In March 2020, the loan of KTZ Express JSC from the European Bank for Reconstruction and Development in the amount of \$13 million was converted from the dollar to tenge.
- In June 2020, NC KTZ JSC made a partial early repayment of Eurobonds issued in 2012 in the amount of US \$217 million out of the total nominal amount of US \$ 1,100 million.

As a result of these measures, the share of debt in the «hard» currency was reduced to 34.2% by the end of 2020.

Company attracted concessional financing in the total amount of 121 billion tenge:

At the same time, in order to implement the planned renewal of the rolling stock fleet, the

- Passenger Transportation JSC 40 billion tenge for the purchase of 100 passenger cars;
- Kaztemirtrans JSC 23 billion tenge for the purchase of 1000 gondola cars;
- KTZ Express JSC 51.7 billion tenge for the acquisition of 2000 fitting platforms;
- Kedentranservice JSC 6.2 billion tenge for the acquisition of 300 fitting platforms.

Due to the fact that in accordance with the Policy of debt management and financial stability of the Fund, the Company is in the «red zone»

of credit risk, restrictions have been imposed on the implementation of large investment projects at the expense of borrowed funds.



## IMPROVING THE EFFICIENCY OF ACTIVITIES

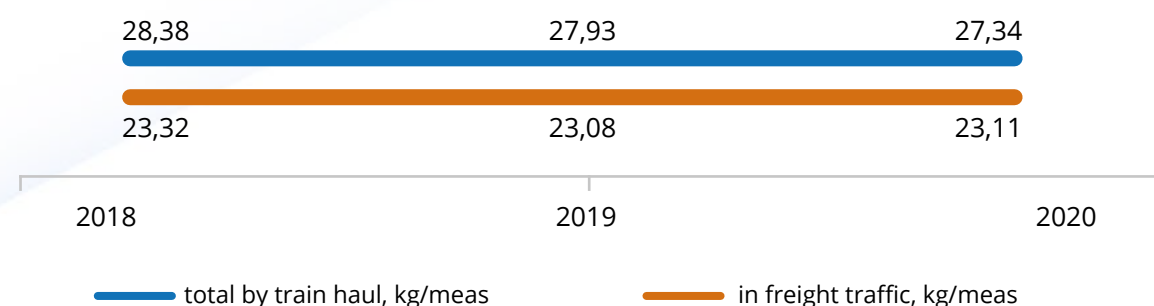
### AVERAGE DAILY PRODUCTIVITY OF A LOCOMOTIVE, THOUSAND T-KM GROSS



The decrease in the indicator by 2019 was caused by a decrease in the average train weight, including due to an increase in container trains with a low degree of carrying capacity of

wagons (growth by 2019, 41%) and an increase in trains delayed from traffic due to untimely reception by the Chinese side and increased quarantine measures (COVID-19).

### DYNAMICS OF CHANGES IN THE SPECIFIC CONSUMPTION OF DIESEL FUEL FOR TRACTION OF TRAINS, KG/MEAS.



In 2020, the total specific consumption for train traction decreased by 2.1% compared to 2019 and 3.7% compared to 2018.

### LABOR PRODUCTIVITY, THOUSAND TONS OF KM/PERSON



The 3.3% decrease in labor productivity in 2020 compared to 2019 is due to a decrease in passenger traffic due to the suspension of passenger train traffic during the coronavirus pandemic.

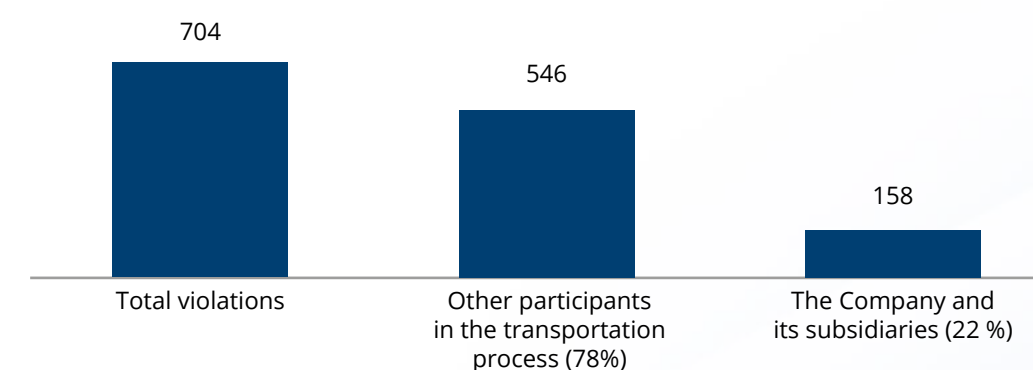
## TRAFFIC SAFETY

Ensuring traffic safety remains the most important task of the Company.

violated 158 cases of violations, or 22% of the total number of violations.

In 2020, out of 704 traffic safety violations, the Company's structural divisions and subsidiaries

### VIOLATIONS OF TRAFFIC SAFETY BY ALL PARTICIPANTS IN THE TRANSPORTATION PROCESS



At the same time, the Company reduced the number of violations by 11% for 2020 compared to 2019.

### VIOLATIONS OF TRAFFIC SAFETY BY THE COMPANY AND ITS SUBSIDIARIES



Note: The data for 2019 compared to the data specified in the Integrated Annual Report of NC KTZ JSC for 2019 were changed due to the fact that hidden cases of traffic safety violations were revealed, additional reviews were also conducted, where the enterprises of NC KTZ JSC were found guilty.



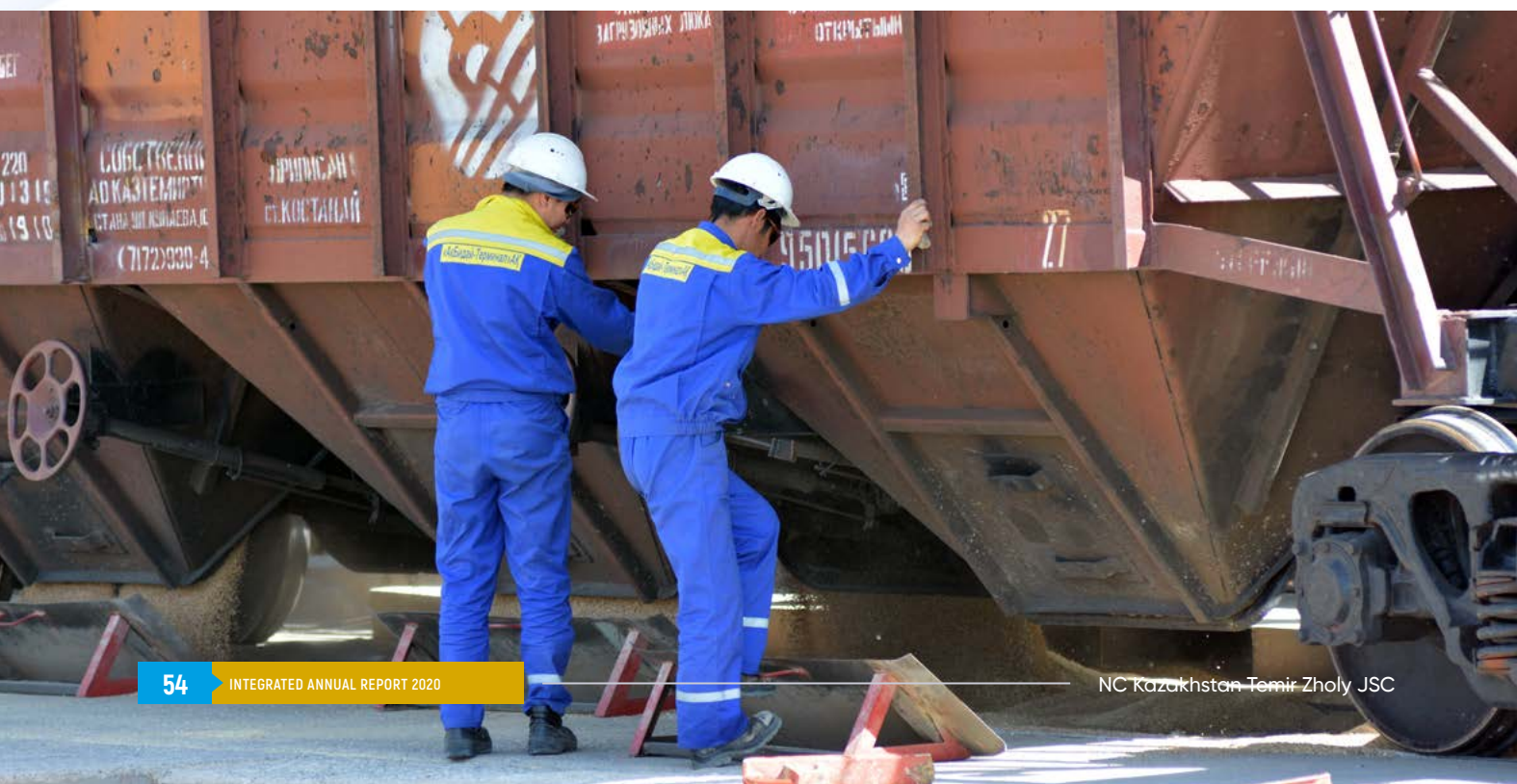


## INVESTMENT ACTIVITIES

In 2020, investments in the amount of 160 billion tenge were directed to the development of railway infrastructure, renewal of rolling stock.

At the expense of these funds, the following major activities were carried out:

- work continued on the completion of the construction of the ferry complex in the port of Kuryk and the operation of universal cargo and passenger ferries;
- in order to maintain a safe level of train traffic, work has been carried out to modernize and repair the upper structure of 416 km of track;
- to meet the demand for passenger transportation and improve the condition of passenger cars, 68 units were purchased and 20 passenger cars were overhauled;
- to ensure uninterrupted cargo transportation, 20 units were purchased. and major repairs of 45 locomotives were carried out;
- 209 units were purchased and 887 freight cars were overhauled;
- other measures aimed at updating and rehabilitating the railway infrastructure, developing transport logistics and improving traffic safety have also been implemented.







# CORPORATE GOVERNANCE REPORT

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# CORPORATE GOVERNANCE REPORT

NC KTZ JSC realizes the importance of improving corporate governance and strives to ensure openness and transparency of activities, as well as the practical implementation of the basic principles of the Corporate Governance Code.

The Corporate Governance Code was approved by the decision of the Sole Shareholder dated May 27, 2015 (Minutes of the meeting of the Management Board of the Fund No. 22/15).

## CONFORMITY ASSESSMENT

The corporate governance of NC KTZ JSC is annually assessed for compliance with the best practice according to the Methodology for diagnosing corporate governance in the companies of the Fund Group.

The assessment indicator is the corporate governance rating.

In 2020, based on the results of the internal diagnostics of the Company's corporate governance, the corporate governance rating of NC KTZ JSC was determined at the BBB level. This rating means that the corporate governance system of the Company meets, in all material aspects, most of the established criteria and there is sufficient confirmation that the system is working effectively.

The objectives of the Code are to improve corporate governance in the Fund and organizations, ensure transparency of management, and confirm the commitment of the Fund and organizations to follow the standards of good corporate governance.

We are convinced that good corporate governance is fundamental to the success of the Company.

The assigned corporate governance rating in comparison with the level of 2019 is BB; it has improved by one position and corresponds to the target values of the key performance indicators of the Company in 2020.

In the reporting year, the Board of Directors of NC KTZ JSC approved the Policy on Management and Interaction with Subsidiaries of NC KTZ JSC aimed at improving the corporate governance system across the entire Company Group and efficient organization of management processes and interaction between the Company and its subsidiaries as an operating holding.

# CORPORATE GOVERNANCE STRUCTURE

## SOLE SHAREHOLDER

The supreme body is the Sole Shareholder – the Fund. The Sole Shareholder has the rights provided for by law and the Charter. The Sole Shareholder has the right to cancel any decision of other bodies of the Company on issues related to the internal activities of the Company.

## BOARD OF DIRECTORS

The governing body of NC KTZ JSC, which carries out general management of the Company's activities, with the exception of resolving issues attributed by the Law "On Joint Stock Companies" and the Charter to the exclusive competence of the Sole Shareholder.

## Committees of the Board of Directors

The purpose of the work of the Committees under the Board of Directors is to increase the efficiency of the Board of Directors and improve the structure of corporate governance. The Board of Directors has four committees: Nomination and Remuneration Committee; Strategy and Finance Committee; Committee on Safety and Environmental Protection; and Audit Committee.

## Internal Audit Service

The purpose of the Internal Audit Service is to monitor the financial and economic activities of the NC KTZ JSC Group, assessments in the field of internal control, risk management, execution of documents in corporate governance and consulting in order to improve the activities of the NC KTZ JSC Group.

## Compliance Service

The purpose of the Compliance Service is to ensure compliance with regulatory requirements on anti-corruption issues, as well as the introduction of mechanisms for preventing corruption risks in accordance with the anti-corruption legislation of the Republic of Kazakhstan and the best international anti-corruption practices of the Organization for Economic Cooperation and Development.

## Corporate Secretary

The purpose of the Compliance Service is to ensure compliance with regulatory requirements on anti-corruption issues, as well as the introduction of mechanisms to prevent corruption risks in accordance with the anti-corruption legislation of the Republic of Kazakhstan and the best international anti-corruption practice of the Organization for Economic Cooperation and Development.

## Corporate Ombudsman

The main functions of the Corporate Ombudsman are to advise the employees of the Company who have contacted him and provide assistance in resolving labor disputes, conflicts, problematic issues of a social and labor nature, as well as in observing the principles of business ethics by the employees of the Company.

## MANAGEMENT BOARD

Collegial executive body of NC KTZ JSC, which is responsible for resolving all issues of the Company's activities that are not attributed to the Law "On Joint Stock Companies", other legislative acts of the Republic of Kazakhstan and the Charter to the competence of other bodies and officials of the Company.

## Committees of the Management Board

In order to improve the efficiency of the decisions taken by the Management Board, there are five committees: the Risk Committee; Development Committee; Investment Committee; Budget Committee, and Credit Committee.

## Secretariat Service of the Management Board

The main tasks of the Secretariat Service of the Management Board are organizational and protocol support for the work of the Management Board, organizational and documentation support for the activities of the Chairman of the Management Board of the Company, control over the timely and high-quality execution of decisions of the Management Board and instructions of the Chairman of the Management Board of the Company.



## INTERACTION OF THE BOARD OF DIRECTORS WITH THE MANAGEMENT BOARD

The Company encourages free and open contact between members of the Board of Directors and management at all levels.

Members of the Board of Directors are provided with full access to the necessary information. In order to monitor the strategic initiatives of the Company and take timely corrective measures, at each meeting of the committees, the members of the Board of Directors receive reports and detailed presentations from the supervising managers of the Company. Further at the meetings, the Chairman of each Committee reports to the Board of Directors on the issues considered at the meetings of the Committee.

The Board of Directors regularly analyzes the actual performance of the Company in comparison with its long-term strategy.

In 2020, the Board of Directors, in close cooperation with the members of the Management Board, proceeded to transform

the Company's subsidiaries from joint-stock companies to limited liability partnerships to simplify the management hierarchy across the NC KTZ JSC Group and introduce best practices for managing an operating holding.

During the reporting period, members of the Board of Directors took direct part in the 2nd International Forum on Occupational Safety initiated by the Occupational Safety Block of the Company in an online format. Within the framework of this forum, the Chairman of the Board of Directors called on all heads of structural divisions and subsidiaries of the Company to show leadership and adherence to the principles of "zero" injuries.

Also, at the initiative of the members of the Board of Directors, a number of working meetings and meetings with top executive officers of the Company and its subsidiaries were held.

## BOARD OF DIRECTORS

The Board of Directors plays a key role in ensuring the safe, successful and sustainable development of the Company, as well as in creating long-term shareholder value. The Board of Directors approves the development strategy of the Company, which determines the priority areas of its activities, approves long-term plans and main programs of

activities, determines the general principles and approaches to organizing the risk management system. The Board of Directors oversees the activities of the executive body of NC KTZ JSC.

The structure of the Board of Directors ensures fair and objective representation of the interests of the Sole Shareholder.

### CHANGES IN THE COMPOSITION OF THE BOARD OF DIRECTORS

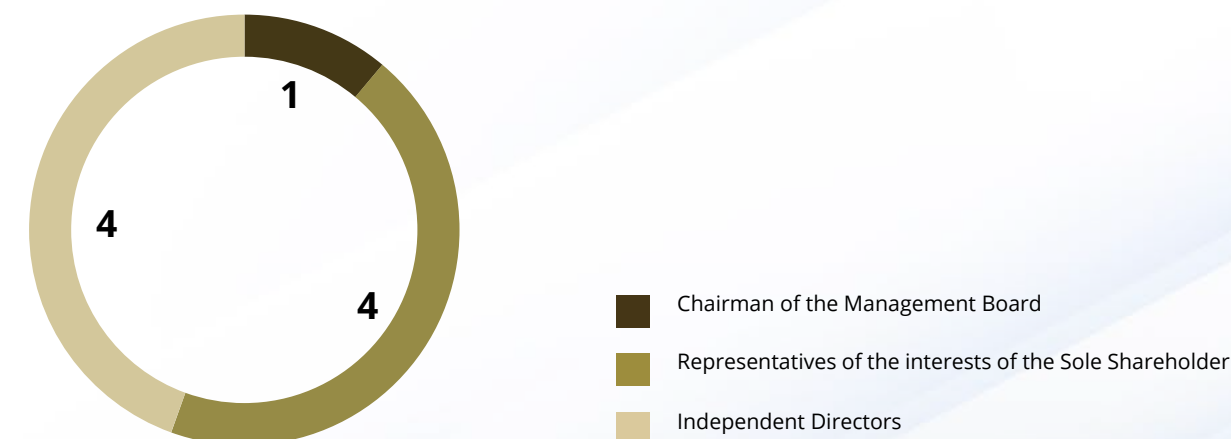
The quantitative composition of the Board of Directors is determined by the Sole Shareholder. Only an individual can be a member of the Board of Directors.

Members of the Management Board, with the exception of the Chairman of the Management Board of the Company, cannot be elected to

the Board of Directors. The Chairman of the Management Board of the Company cannot be elected as the Chairman of the Board of Directors.

The Board of Directors of NC KTZ JSC consists of nine members, four of whom are independent.

### STRUCTURE OF THE BOARD OF DIRECTORS



There were no changes in the composition of the Board of Directors in 2020.



# COMPOSITION OF THE BOARD OF DIRECTORS

At the end of 2020, the Board of Directors of NC KTZ JSC was represented as follows:

| Name             | Position   |
|------------------|--|
| Ch. Kuhn         | Independent Director – Chairman of the Board of Directors  |
| S.M. Mynbayev    | Chairman of the Management Board of NC KTZ JSC   |
| Ye.B. Zhanadil   | Co-Managing Director for Economics and Finance of the Fund – Representative of the interests of the Sole Shareholder                                 |
| A.N. Kravchenko  | Managing Director for Legal Support and Risks – Member of the Management Board of the Fund – Representative of the interests of the Sole Shareholder |
| A.M. Satkaliyev  | Managing Director for Asset Management and Privatization of the Fund – Representative of the interests of the Sole Shareholder                       |
| N.T. Baydauletov | Representative of the interests of the Sole Shareholder  |
| L. Freytag       | Independent Director   |
| Ye.A. Kudabayev  | Independent Director   |
| K. Boecker       | Independent Director   |

## ATTRACTING INDEPENDENT DIRECTORS

When selecting independent directors, the Sole Shareholder and the Company are guided by the requirements of the Corporate Governance Code and the Charter of the Company, as well as national legislation and local acts of the Sole Shareholder, which determine the procedure for searching and selecting candidates on a competitive basis for the position of independent directors.

In accordance with the provisions of the Charter of the Company, the decision on the

appointment of independent directors is made by the Sole Shareholder.

According to the Corporate Governance Code of the Company, the Board of Directors established the fact of independence of directors and believes that there are no relations or circumstances that have or may have a significant impact on decisions made by independent directors Ch. Kuhn, L. Freytag, Ye. Kudabayev, K. Boecker.



**CHRISTIAN KUHN**  
Chairman of the Board of Directors,  
Independent Director  
Member of the Board of Directors since 2014.

**Year of birth:**  
1965

**Citizenship:**  
German Federal Republic

**Background:**  
Technical University of Darmstadt, Darmstadt, Germany, Master of Engineering.  
Gottfried Wilhelm Leibniz University of Hanover, Hanover, Germany, Engineering, PhD.

**Professional experience:**  
1996 – 2005: Head of Sales, Managing Director at Connex Cargo Logistics  
2005 – 2011: Managing Director, Member of the Management Board of Deutsche Bahn AG’s Freight Business.  
2005 – 2009: Head of the steel and coal industry division of Stinnes Freight Logistics/ Railion Deutschland AG.  
2009 – today: managerial positions in international logistics companies, also worked as an independent consultant and independent director in railway and logistics companies.

**No shares that belong to the Company, suppliers, or competitors of the Company.**





**SAUAT MUKHAMETBAYEVICH  
MYNBAYEV**

Member of the Board of Directors,  
Chairman of the Management Board

Member of the Board of Directors  
from 2018 to 2021.

**Year of birth:**

1962

**Citizenship:**

Republic of Kazakhstan

**Background:**

Lomonosov Moscow State University, Russian Federation, Candidate of Economic Sciences.

**Professional experience:**

In 1989, started career as a teacher at Alma-Ata Institute of National Economy.

Managerial positions in commercial organizations and the banking sector.

Over the years, he held the posts of Minister of Finance, Agriculture, Energy and Mineral Resources, Oil and Gas, Industry and Trade of Kazakhstan; Deputy Head of the Presidential Administration, Deputy Prime Minister of Kazakhstan; Chairman of the Management Board of Kazakhstan Holding for State Assets Management Samruk JSC.

2013 – 2018: Chairman of the Management Board of NC KazMunayGas JSC.

From November 20, 2018 to April 7, 2021-Chairman of the Management Board of NC KTZ JSC.

**No shares that belong to the Company, suppliers, or competitors of the Company.**



**YERNAR BEISENULY  
ZHANADIL**

Member of the Board of Directors,  
Representative of the Sole Shareholder's  
interests

Member of the Board of Directors since 2018.

**Year of birth:**

1984

**Citizenship:**

Republic of Kazakhstan

**Background:**

Manchester Business School, UK, Master in Finance and Accounting.

**Professional experience:**

Over the years, he worked for Philip Morris Kazakhstan, ElitStroy LLP, PricewaterhouseCoopers, the Fund.

From 2016 to 2018, held the positions of Financial Controller, Managing Director for Finance and Operations of the Fund.

From 2018 to 2021, held the position of Co-Managing Director for Economics and Finance of the Fund.

From April 2021 to the present, he is the Managing Director for Investment, Privatization and International Cooperation – a member of the Management Board of the Fund.

**No shares that belong to the Company, suppliers, or competitors of the Company.**





**ANDREY NIKOLAYEVICH  
KRAVCHENKO**

Member of the Board of Directors,  
Representative of the Sole Shareholder's  
interests

Member of the Board of Directors since 2018.

**Year of birth:**

1966

**Citizenship:**

Republic of Kazakhstan

**Background:**

Kirov Kazakh State University, Republic of  
Kazakhstan, attorney at law

Moscow Business School, Russian Federation,  
Master of Business Administration.

**Professional experience:**

Over the years, he held the positions of  
prosecutor, senior prosecutor of Taldykorgan  
region; Deputy Prosecutor General of the  
Republic of Kazakhstan.

2018 – present: Managing Director for  
Legal Support and Risks; Member of the  
Management Board, the Fund.

**No shares that belong to the Company,  
suppliers, or competitors of the Company.**



**ALMASADAM MAYDANOVICH  
SATKALIYEV**

Member of the Board of Directors,  
Representative of the Sole Shareholder's  
interests

Member of the Board of Directors from 2018  
to 2021.

**Year of birth:**

1970

**Citizenship:**

Republic of Kazakhstan

**Background:**

Al-Farabi Kazakh National University, Republic  
of Kazakhstan, mechanical engineer, applied  
mathematician.

Russian Academy of National Economy and  
State Service under the President of the  
Russian Federation, Russian Federation,  
Master of Economics.

Nazarbayev University, Graduate School of  
Business (Cooperation Program with the  
Fuqua School of Business at Duke University),  
Republic of Kazakhstan, Master of Business  
Administration.

Stanford University, Business School, United  
States of America.

**Professional experience:**

Over the years, he held executive positions in  
the national companies KazTransOil, KEGOC,  
Samruk; as well as the post of Vice Minister of  
Energy and Mineral Resources of the Republic  
of Kazakhstan.

From 2018 to 2021, he held the position of  
Managing Director for Asset Management and  
Privatization of the Fund.

From March 2021 to the present-Chairman of  
the Management Board of the Fund.

**No shares that belong to the Company,  
suppliers, or competitors of the Company.**





**NURZHAN TALIPOVICH  
BAYDAULETOV**

Member of the Board of Directors,  
Representative of the Sole Shareholder's  
interests

Member of the Board of Directors since 2018.

**Year of birth:**

1960

**Citizenship:**

Republic of Kazakhstan

**Background:**

Moscow Institute of Railway Transport,  
Russian Federation, railway transportation  
management.

In July 2019, he passed international  
certification at the Institute of Directors IoD.

**Professional experience:**

N. Baydauletov rose from the trainer to the  
leading positions of the RSE Kazakhstan Temir  
Zholy.

Over the years, he held the positions of Director  
of the Railway Transport Department of the  
Ministry of Transport and Communications of the  
Republic of Kazakhstan; Vice Minister  
of Transport and Communications of the  
Republic of Kazakhstan; Chairman of the  
Railway Committee of the Ministry of Transport  
and Communications of the Republic of  
Kazakhstan; executive positions in the Fund.

2016 – present: Chairman of the Board of  
Directors of Kazakhtelecom JSC.

**No shares that belong to the Company,  
suppliers, or competitors of the Company.**



**LUTZ  
FREYTAG**

Member of the Board of Directors,  
Independent Director

Member of the Board of Directors since 2019.

**Year of birth:**

1958

**Citizenship:**

German Federal Republic

**Background:**

University of Tübingen, Federal Republic of  
Germany, Physics, PhD.

University of Frankfurt, Federal Republic of  
Germany, Bioinformatics, Master of Science.

**Professional experience:**

Over the years, he held the positions of  
financial director at Stinnes BauMarkt AG, Raab  
Karcher Baustoffe GmbH, Parsytec AG, Isola  
AG, Railion Deutschland AG, Schenker AG.

**No shares that belong to the Company,  
suppliers, or competitors of the Company.**





**YERMEK ASKERBEKOVICH  
KUDABAYEV**

Member of the Board of Directors,  
Independent Director

Member of the Board of Directors  
since 2019.

**Year of birth:**

1970

**Citizenship:**

Republic of Kazakhstan

**Background:**

Moscow Institute of Steel and Alloys, Russian Federation, engineer-economist

Kazakhstan Institute of Management, Economics and Forecasting, Republic of Kazakhstan, Master of Business Administration.

**Professional experience:**

Over the years, he held the positions of Director of the Astana Office of Ernst & Young Kazakhstan LLP, Financial Director of Kazakhoil Aktobe LLP, Bekem Metals Inc, Chagala Group Limited, Managing Director for Economics and Finance of KazPetroDrilling JSC, etc.

2016 – present: Managing Director for Economics and Finance, General Director of Intelligent Consulting Solutions LLP.

**No shares that belong to the Company, suppliers, or competitors of the Company.**



**KERSTIN  
BOECKER**

Member of the Board of Directors,  
Independent Director

Member of the Board of Directors since 2019.

**Year of birth:**

1964

**Citizenship:**

German Federal Republic

**Background:**

Bayreuth University, Germany, Master of Business Administration, PhD in Law

American School of International Management, United States of America, Master of International Management

**Professional experience:**

Over the years, she held senior positions in Daimler-Benz InterServices AG, Mercedes-Benz Credit Corporation, DaimlerChrysler Services AG, Infineon Technologies AG, as well as positions of Vice President for Management Development, Vice President for Administrative Management, and Vice President for Total Remuneration and Performance Management at thyssenkrupp AG.

From 2014 to 2020 – Chief Human Resources Officer and member of the Executive Board of thyssenkrupp System Engineering GmbH.

In 2020, she assumed the position of Chief Human Resources Officer and member of the Management Board of Deutsche Flugsicherung GmbH.

**No shares that belong to the Company, suppliers, or competitors of the Company.**



# ACTIVITIES OF THE BOARD OF DIRECTORS

In 2020, the Board of Directors held 23 meetings, including 18 meetings in person, and 5 meetings in the form of absentee voting. At the meetings of the Board of Directors, 185 issues were considered in various areas of the Company's activities.

The attendance at meetings by members of the Board of Directors in 2020 was 94%.

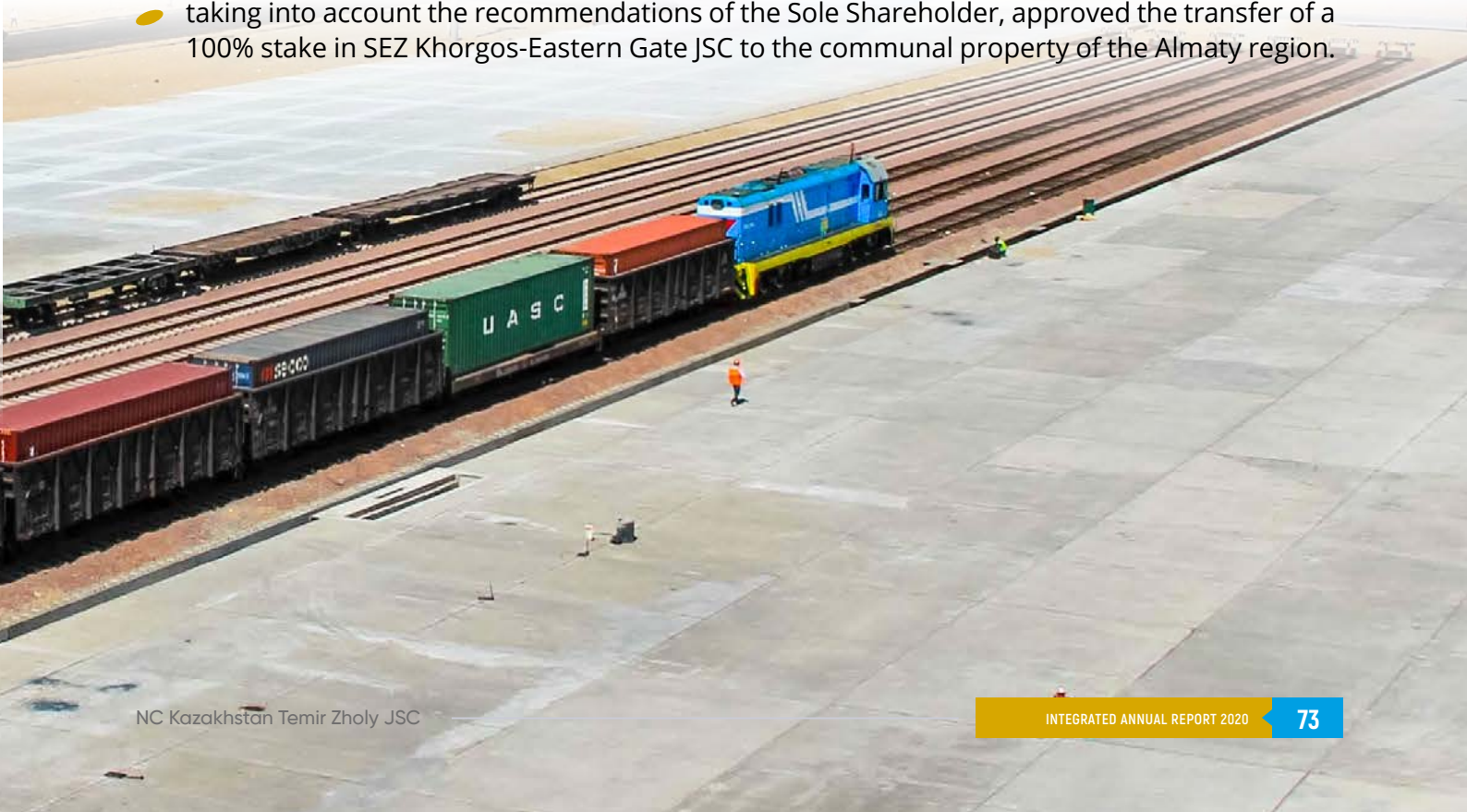
## STRUCTURE OF ISSUES CONSIDERED BY THE BOARD OF DIRECTORS AT MEETINGS



As part of the implementation of the main functions and tasks in the reporting year, the Board of Directors:

- in accordance with the legislative acts of the Republic of Kazakhstan, made decisions on the conclusion of major deals and the Company interested deals, preliminary approved the annual financial statements of the Company;
- approved the Policy on Management and Interaction with Subsidiaries of the Company, and the updated Policy on the Prevention and Settlement of Conflicts of Interest of Officials and Employees of the Company;

- in order to increase the productivity of personnel, made changes to the organizational structure of the Company, the composition of the Management Board and divisions directly accountable to the Board of Directors, took measures to improve the processes of search, selection and assessment of the activities of executives and employees of services directly accountable to the Board of Directors, including approved the Succession Plan for the Company's Strategic Talent Pool;
- coordinated the activities of the executive body on the withdrawal of non-core non-strategic assets of the Company;
- approved the Integrated Annual Report of the Company for 2019, in accordance with the best international practice, combining the contents of the annual report and the report on sustainable development of the Company;
- discussed, approved and supervised the implementation of the Development Strategy and key Programs of the Company;
- monitored the implementation of the procurement project by DB Engineering & Consulting GmbH and Passenger Transportation JSC;
- paid special attention to risk management issues, the impact of restrictive measures related to the spread of coronavirus infection, improvement of the corporate governance system of the Company;
- approved the updated Development Plan of the Company, the Action Plan for bringing the Company into the green zone of credit risk for 2021-2025, maps of key performance indicators of the Company's executive employees;
- considered the strategy of KTZ-Freight Transportation LLP IPO;
- regularly reviewed the report on the status of integrated health and safety in the Company;
- in accordance with the provisions of the Charter of the Company, approved amendments and additions to the Accounting Policy and Tax Accounting Policy of the Company;
- discussed in detail the procedure for redemption of Eurobonds;
- taking into account the recommendations of the Sole Shareholder, approved the transfer of a 100% stake in SEZ Khorgos-Eastern Gate JSC to the communal property of the Almaty region.





## COMMITTEES OF THE BOARD OF DIRECTORS

In order to increase the efficiency of the Board of Directors and improve the corporate governance structure, four committees have been formed under the Board of Directors:

- Nomination and Remuneration Committee;
- Strategy and Finance Committee;
- Committee on Safety and Environmental Protection;
- Audit Committee.

The main task of the committees is a preliminary comprehensive study of issues within their competence and preparation of recommendations for the Board of Directors to make well-grounded and balanced decisions.

The committees are composed of members of the Board of Directors with the necessary professional knowledge, competencies and skills to work on the committee.

The activities of the committees of the Board of Directors are regulated by the relevant provisions on them. According to the provisions on committees, only independent directors can be elected as members of the Audit Committee; in other committees, independent directors must constitute a majority. The Chairmen of the Committees of the Board of Directors are independent directors.

## NOMINATION AND REMUNERATION COMMITTEE

### MESSAGE FROM THE CHAIRMAN OF THE NOMINATION AND REMUNERATION COMMITTEE



*In 2020, the work of the Committee was aimed at ensuring an effective personnel policy, succession planning, compensation and remuneration systems, social support, professional development and training of officials and employees of NC KTZ JSC. In addition, within the framework of its competence, the Committee considers issues on the composition of the Board of Directors of NC KTZ JSC and its committees, including with a view to following the recommendations on the appointment of individual independent directors as chairmen of committees. The Committee paid attention to the issues of the Management Board of NC KTZ JSC, the Boards of Directors and executive bodies of subsidiaries of NC KTZ JSC, the formation of key performance indicators of the executive management of NC KTZ JSC.*

*The Committee is working on an ongoing basis to consider candidates for key management and leadership positions. In 2020, interviews were conducted with candidates for the positions of Deputy Chairman of the Management Board for Procurement, Chairman of the Management Board (General Director) of Passenger Transportation JSC, Deputy Chairman of the Management Board for Freight Traffic – General Director of KTZ-Freight Transportation LLP, Director of the Department for Risk Management and Internal Control, Managing Director for Transformation. Based on the results of the interviews, recommendations were developed for the appointment of candidates for the positions.*

*The Committee paid special attention to the system of remuneration and motivation of employees of NC KTZ JSC, including non-material motivation, as well as the development of the institution of the ombudsman in the NC KTZ JSC Group.*

*The Committee keeps focusing on the professional development of NC KTZ JSC employees by providing a supportive, meritocratic and progressive environment.*





*Paying attention to social responsibility and involvement, the Committee will continue to ensure the resolution of social problems, including situations of social tension in the regions, problems of unemployment, contribute to the implementation of social support programs of the Company for both employees of NC KTZ JSC and employees of subsidiaries.*

*Yours faithfully,*  
**Chairwoman of the Nomination and Remuneration Committee**  
**K. Boecker**

## COMPOSITION OF THE NOMINATION AND REMUNERATION COMMITTEE

| Name            | Position   | Date of election  |
|-----------------|--|-------------------|
| K. Boecker      | Chairwoman of the Committee, Independent Director                                | September 6, 2019 |
| Ch. Kuhn        | Member of the Committee, Independent Director                                    | January 8, 2019   |
| A.N. Kravchenko | Member of the Committee, representative of the interests of the Sole Shareholder | January 8, 2019   |
| Ye.A. Kudabayev | Member of the Committee, Independent Director                                    | January 8, 2019   |

## ACTIVITIES OF THE COMMITTEE IN 2020

Issues considered by the Committee in 2020:

|  |  |
|--|--|
| Personnel policy                                     | <ul style="list-style-type: none"> <li>Approval of individual development plans for members of the Management Board of the Company;</li> <li>Hearing of the Report on HR issues as part of the implementation of the HR Policy of NC KTZ JSC for 2019-2029;</li> <li>Updating approaches to the formation of a succession plan for the Company's strategic talent pool;</li> <li>Analysis of changes in the organizational structure of the central office of the Company;</li> <li>Information on the preservation of social stability for the Group of the Company.</li> </ul> |
| Appointment of personnel to key management positions | <ul style="list-style-type: none"> <li>Interviews with candidates for management positions of the Company and its subsidiaries, which resulted in meaningful recommendations for the appointment of the most suitable candidates.</li> </ul>   |

|   |   |
|---|---|
| Performance assessment and remuneration | <ul style="list-style-type: none"> <li>Consideration of a competency model for members of the Management Board of the Company and employees directly accountable to the Board of Directors;</li> <li>Consideration and analysis of draft maps of key performance indicators of executives of NC KTZ JSC for 2020;</li> <li>Approval of the results of the assessment of the activities of the executives of NC KTZ JSC for 2019;</li> <li>Approval and launch of the process of self-assessment of the activities of the Board of Directors, its committees, the Chairman of the Board of Directors and the Corporate Secretary based on the results of 2019-2020.</li> </ul> |
| NC KTZ JSC subsidiaries management      | <ul style="list-style-type: none"> <li>Consideration of the results of the analysis of the composition of the Boards of Directors of subsidiaries of NC KTZ JSC;</li> <li>Discussion of issues of further improvement of the corporate governance system of NC KTZ JSC;</li> <li>Discussion of the possibility of transforming some of the subsidiaries of the Company into limited liability partnerships in order to simplify the procedure for managing subsidiaries;</li> <li>Discussion of the Policy on management and interaction with subsidiaries of NC KTZ JSC as part of building an updated corporate governance system in the Company.</li> </ul>                |

Documents reviewed and approved by the Committee in 2020:

- Reports on HR issues in the framework of KTZ's HR Policy implementation;
- Rules for the search and selection of personnel for positions accountable in their activities to the Board of Directors of NC KTZ JSC, the Corporate Ombudsman and the Corporate Secretary, as well as to the positions of CEO-1 and CEO-2;
- Succession Plan for the Strategic Talent Pool of NC KTZ JSC;
- Report on the results of an anonymous survey conducted as part of monitoring industrial relations in some branches and subsidiaries of NC KTZ JSC;
- Rules for assessing the performance of employees who are directly accountable in their activities to the Board of Directors of NC KTZ JSC and employees who are accountable to the Corporate Ombudsman and the Corporate Secretary;
- Report on the work of the Corporate Ombudsman NC KTZ JSC at the end of 2019;
- Rules for the application of disciplinary sanctions to employees whose working conditions are determined by the Board of Directors of NC KTZ JSC;
- Report on the work of the Committee and the Board of Directors of NC KTZ JSC at the end of 2019.



# STRATEGY AND FINANCE COMMITTEE

## MESSAGE FROM THE CHAIRMAN OF THE STRATEGY AND FINANCE COMMITTEE



*In 2020, the Strategy and Finance Committee focused its work on the goals of achieving the long-term strategy of NC KTZ JSC and was the coordinator of efforts to improve the Company's financial position. In general, the activities of the Committee are focused on measures to improve the operational efficiency and investment attractiveness of the Company. During the meetings, the Committee listened to the financial director's reporting information, as well as status reports on transformation, privatization, investment and divestment programs.*

*In addition, the Committee considered approaches to changing the Development Strategy of NC KTZ JSC 2029 on the proposed IPO of the Company and the possible implementation of a number of subsidiaries.*

*Among other things, the Committee paid attention to the activities of KTZ-Freight Transportation LLP, Kaztemirtrans JSC, KTZ Express JSC within the framework of existing issues on the train and car fleet, functional isolation between divisions and the functioning of joint ventures.*

*The Committee focused on issues of increasing the investment attractiveness of NC KTZ JSC, along with other strategic issues referred to the competence of the Board of Directors. Considerable efforts of the Committee were directed to the formation of the investment portfolio of NC KTZ JSC taking into account the prioritization of projects, the establishment of criteria for making an investment decision, including the minimum allowable profitability index, sources and conditions of financing.*

*On an ongoing basis, the Committee develops recommendations on the use of various approaches to forecasting and preparation of financial statements.*

*Yours faithfully,*  
**Chairman of the Strategy and Finance Committee**  
**L. Freytag**

# COMPOSITION OF THE STRATEGY AND FINANCE COMMITTEE

| Name             | Position   | Date of election |
|------------------|--|------------------|
| L. Freytag       | Chairman of the Committee, Independent Director                                  | January 8, 2019  |
| Ch. Kuhn         | Member of the Committee, Independent Director                                    | January 8, 2019  |
| Ye.B. Zhanadil   | Member of the Committee, representative of the interests of the Sole Shareholder | January 8, 2019  |
| N.T. Baydauletov | Member of the Committee, representative of the interests of the Sole Shareholder | January 8, 2019  |
| Ye.A. Kudabayev  | Member of the Committee, Independent Director                                    | January 8, 2019  |

# ACTIVITIES OF THE COMMITTEE IN 2020

Issues considered by the Committee in 2020:

|   |  |
|---|--|
| Strategy and financial stability of the Company | <ul style="list-style-type: none"> <li>Analysis of adjustments to the approved development plan of the Company for 2020-2024 taking into account the influence of objective factors;</li> <li>Approval of the Rolling Stock Fleet Strategy of Passenger Transportation JSC;</li> <li>Development of recommendations aimed at improving the financial stability of the Company;</li> <li>Implementation of the practice of preparing alternative forecasts of indicators of the Company's development plan;</li> <li>On approval of the main parameters of the treasury portfolio of NC KTZ JSC;</li> <li>Consideration of approaches to changing the Development Strategy of NC KTZ JSC 2029.</li> </ul> |
| Implementation of investment projects           | <ul style="list-style-type: none"> <li>Investment projects for the acquisition of rolling stock;</li> <li>Consideration of the project "1st Start-up complex of modernization of the railway transport corridor Dostyk – Akto gay – Moiynty – Zharyk – Zhezkazgan – Saksaulskaya – Kandyagash – Aktobe – Ilets'k".</li> </ul>  |
| Asset management                                | <ul style="list-style-type: none"> <li>Transfer of a block of shares of SEZ Khorgos – Eastern Gate JSC;</li> <li>Information on the current activities and development prospects of a number of subsidiaries of NC KTZ JSC;</li> <li>Development of recommendations for the sale of a stake in Aktobe Rail and Section Works LLP;</li> <li>Information on the implementation of the Privatization and Divestment Program.</li> </ul>   |



Documents reviewed and approved by the Committee in 2020:

- Report on the execution of the Action Plan for the implementation of the expectations of the Sole Shareholder of NC KTZ JSC for 2019-2023 at the end of 2019;
- Report on the implementation of the Agreement on cooperation in managing passenger traffic concluded between Passenger Transportation JSC and DB Engineering & Consulting GmbH;
- Charter of KTZ-Freight Transportation LLP due to the reorganization;
- Action plan for bringing NC KTZ JSC into the green zone of credit risk for 2021-2025;
- Report on the progress of the implementation of the Development Strategy of NC KTZ JSC 2029;
- List of non-strategic assets to be withdrawn from the NC KTZ JSC Group;
- Development Plan of NC KTZ JSC for 2021-2025;
- Charter of the Digital Transformation Program of NC KTZ JSC;
- Portfolio of projects of the Digital Transformation Program of NC KTZ JSC;
- Report on the work of the Committee at the end of 2019.



## COMMITTEE ON SAFETY AND ENVIRONMENTAL PROTECTION

### MESSAGE FROM THE CHAIRMAN OF THE COMMITTEE ON SAFETY AND ENVIRONMENTAL PROTECTION



*2020 has been an exceptional year for the challenges posed by the global pandemic. The Committee on Safety and Environment oversaw the Company's measures to contain and prevent the spread of Covid-19 in workplaces, as well as on trains and stations.*

*In addition to this task, the Committee focused on the analysis of a number of serious accidents that occurred during the year, and made a number of recommendations for improving the processes and rules on safety issues in the Company, which are in the process of implementation. In 2020, NC KTZ JSC has made significant progress in introducing digital tools to improve safety in the industry, which have also received international awards. The main priority in the work of the Committee next year will remain the introduction of the latest methods and approaches in the field of traffic safety and the systematic improvement of safety at production facilities and workplaces of NC KTZ JSC using new tools developed in 2020.*

*Yours faithfully,*  
**Chairman of the Committee on Safety and Environmental Protection**  
**Ch. Kuhn**



## COMPOSITION OF THE COMMITTEE ON SAFETY AND ENVIRONMENTAL PROTECTION

| Name             | Position   | Date of election  |
|------------------|--|-------------------|
| Ch. Kuhn         | Chairman of the Committee, Independent Director                                  | January 8, 2019   |
| A.M. Satkaliyev  | Member of the Committee, representative of the interests of the Sole Shareholder | January 8, 2019   |
| N.T. Baydauletov | Member of the Committee, representative of the interests of the Sole Shareholder | January 8, 2019   |
| K. Boecker       | Member of the Committee, Independent Director                                    | September 6, 2019 |

## ACTIVITIES OF THE COMMITTEE IN 2020

Issues considered by the Committee in 2020:

|  |   |
|--|---|
| Integrated safety and labor protection | <ul style="list-style-type: none"> <li>Information on the sanitary and quarantine measures taken by the Company against COVID-19;</li> <li>Further development of the Integrated Industrial Safety System;</li> <li>Development of recommendations on the activities of the NC KTZ JSC Group and measures taken based on the results of the analysis of the root causes of traffic violations and accidents.</li> </ul> |
| Improving the efficiency of NC KTZ JSC | <ul style="list-style-type: none"> <li>Implementation of projects under the NC KTZ JSC Efficiency Improvement Program and the Program for Socially Responsible Layoff of Personnel.</li> </ul>  |
| Operating-related issues of NC KTZ JSC | <ul style="list-style-type: none"> <li>Monitoring of the current state of operating activities of NC KTZ JSC;</li> <li>Results of analysis of indicators of energy consumption for traction of trains by KTZ-Freight Transportation LLP;</li> <li>Consideration of the project for the purchase of shunting locomotives and the results of the analysis of the operated shunting locomotives' efficiency.</li> </ul>    |
| Sustainable Development of NC KTZ JSC  | <ul style="list-style-type: none"> <li>Approval of the Methodology for Assessing the Effectiveness of Sustainable Development of NC KTZ JSC and the results of the assessment carried out according to the specified Methodology.</li> </ul>  |

Documents reviewed and approved by the Committee in 2020:

- Reports on the status of integrated safety and labor protection in NC KTZ JSC at the end of 2019, as well as Q1, H1 and 9 months of 2020;
- Program for Socially Responsible Layoff of Personnel, planned to be laid off until 2024;
- Reports on the performance of operational indicators at the end of 2019, as well as Q1, H1 and 9 months of 2020;
- Approval of the initiation of a number of projects of the NC KTZ JSC Efficiency Improvement Program;
- Methodology for assessing the effectiveness of sustainable development of the Company;
- Mechanism for introducing sustainable development principles into the Company's processes;
- Comprehensive action plan to prevent rolling stock collisions with employees of NC KTZ JSC for 2020-2022;
- Report on the work of the Committee at the end of 2019.





# AUDIT COMMITTEE

## MESSAGE FROM THE CHAIRMAN OF THE AUDIT COMMITTEE



*Despite the epidemiological situation in the world, in 2020, we managed to reformat the work of the Audit Committee and did not shift the focus from its priority functions and tasks.*

*In 2020, the priority areas of the Audit Committee's activities were to ensure completeness, accuracy and reliability in the preparation of the Company's financial statements; ensuring the independence and objectivity of external audit; ensuring control over the reliability and efficiency of the risk management and internal control systems; ensuring the development of the corporate governance system; ensuring the independence and objectivity of the internal audit function; ensuring control over the practice of performing the compliance function.*

*Of the work carried out by the Audit Committee, one can highlight the work done together with the Company's Management on the functioning of the risk management system, in particular, in 2020, the new format of the Company's Risk Management Reports was completely revised and approved at a consolidated level, which allows the Board of Directors to be informed about the assessments of potential risks across the entire Group of the Company.*

*It stands to mention the work of the Audit Committee in ensuring the independence and objectivity of external audit. In 2020, as part of the external audit process, the Audit Committee held 6 (six) meetings with representatives of the external auditor.*

*I would also like to draw special attention to the achievement of the Audit Committee and the Company as a whole in ensuring the development of the corporate governance system. Thus, based on the results of the internal diagnostics of corporate governance, the Company was assigned a rating at the BBB level, which is significantly different from the rating level in 2017-2018.*

*Yours faithfully,  
**Chairman of the Audit Committee**  
**Ye. Kudabayev***

# COMPOSITION OF THE AUDIT COMMITTEE

| Name            | Position  | Date of election  |
|-----------------|---|-------------------|
| Ye.A. Kudabayev | Chairman of the Committee, Independent Director | September 6, 2019 |
| K. Boecker      | Member of the Committee, Independent Director   | September 6, 2019 |
| L. Freytag      | Member of the Committee, Independent Director   | September 6, 2019 |
| D. Hadaway      | Expert of the Committee (without vote)          | April 1, 2020     |

# ACTIVITIES OF THE COMMITTEE IN 2020

Issues considered by the Committee in 2020:

|   |   |
|---|---|
| Financial statements of the Company   | <ul style="list-style-type: none"> <li>Approval of annual financial statements of NC KTZ JSC for 2019;</li> <li>Report on the internal assessment of the process of preparing financial statements for 2019;</li> <li>Amendments and additions to the Accounting and Tax Policy of NC KTZ JSC.</li> </ul>   |
| Ensuring the independence and objectivity of the external audit                                 | <ul style="list-style-type: none"> <li>Discussion with the external auditor of issues and observations related to the issuance of the auditor's report as part of the audit process;</li> <li>Development of recommendations to the Board of Directors based on the results of the audit report of the State Institution "Accounts Committee for Control over Execution of the Republican Budget";</li> <li>Consideration of the Report on the execution of the Action Plan for the implementation of the recommendations of the external auditor for 2019;</li> <li>Consideration of the Report on the execution of the Action Plan to eliminate the identified risks and the implementation of the received recommendations of the external audit of information technologies in NC KTZ JSC;</li> <li>Consideration of the External Auditor's Plan for the audit of separate and consolidated financial statements of NC KTZ JSC for 2020.</li> </ul> |
| Control over the reliability and efficiency of the risk management and internal control systems | <ul style="list-style-type: none"> <li>Approval of consolidated risk management reports;</li> <li>Conducting meetings with heads of subsidiaries of NC KTZ JSC and with risk owners on risk management issues;</li> <li>Consideration of risk appetite, risk register and risk map of NC KTZ JSC;</li> <li>Consideration of the results of diagnostics of the Corporate Risk Management System of NC KTZ JSC according to the COSO methodology</li> <li>Consideration of the Action Plan to improve the Corporate Risk Management System of NC KTZ JSC.</li> </ul>  |



|  |  |
|--|--|
| Ensuring the development of the corporate governance system  | <ul style="list-style-type: none"> <li>Approval of the Report on compliance with the principles and provisions of the Corporate Governance Code of NC KTZ JSC for 2019;</li> <li>Approval of the Integrated Annual Report for 2019;</li> <li>Consideration of Reports on Key Measures to Improve the Corporate Governance System of NC KTZ JSC for 2019-2020;</li> <li>Consideration of the new website of the Company;</li> <li>Consideration of the information note on the transparency of the activities of NC KTZ JSC and the efficiency of the information disclosure processes for 2019.</li> </ul>   |
| Ensuring the independence and objectivity of the internal audit function, as well as control over the practice of performing the compliance function | <ul style="list-style-type: none"> <li>Approval of the reports of the Internal Audit Service and the Compliance Service for the Q1, Q2 and Q3 2020;</li> <li>Amendments and additions to the Anti-Corruption Policy in NC KTZ JSC;</li> <li>Anti-corruption work carried out by NC KTZ JSC and its subsidiaries and the operation of the hotline in 2019;</li> <li>Discussion of the form for assessing the performance of the Heads of the Internal Audit Service and the Compliance Service of NC KTZ JSC for 2020;</li> <li>Approval of the Policy for the prevention and settlement of conflicts of interest of officials and employees of NC KTZ JSC;</li> <li>Approval of the main items of the cost estimate of the Internal Audit Service of NC KTZ JSC for 2021.</li> </ul> |

Documents reviewed and approved by the Committee in 2020:

- Documents reviewed and approved by the Committee in 2020:
- Amendments and additions to the Anti-Corruption Policy at NC KTZ JSC;
- Amendments and additions to the Accounting Policy of NC KTZ JSC;
- Amendments and additions to the Tax Accounting Policy of NC KTZ JSC;
- Policy for the prevention and settlement of conflicts of interest of officials and employees of NC KTZ JSC;
- Report on the work of the Committee at the end of 2019.



# ASSESSMENT OF THE ACTIVITIES OF THE BOARD OF DIRECTORS

In accordance with the NC KTZ JSC Corporate Governance Code, the Board of Directors, committees and members of the Board of Directors must be assessed on an annual basis. In this case, at least once every three years, the assessment is carried out with the involvement of an independent professional organization.

In the period from November 2020 to April 2021, based on the Methodological Recommendations for evaluating the activities of the Boards of Directors of the organizations of the Fund, a self-assessment of the activities of the Board of Directors, its committees, the Chairman, members of the Board of Directors and the Corporate Secretary of NC KTZ JSC was conducted based on the results of 2019-2020.

As part of the self-assessment of the Board of Directors ' performance for 2019-2020, the following activities were carried out, the results of which are reflected in the Report:

1. A survey of the members of the Board of Directors was conducted, during which questionnaires covering 13 main components of the Board of Directors ' activities were developed and sent to the members of the Board of Directors;
2. the analysis of documents in the field of corporate governance, operating in NC KTZ JSC;
3. A statistical analysis of the activities of the

Board of Directors for 2019-2020 was carried out;

4. The Chairman of the Board of Directors, the Chairman of the Nomination and Remuneration Committee of the Board of Directors conducted interviews with each member of the Board of Directors and received comments on the activities of the Board of Directors and the work of the Chairman of the Board of Directors;

5. Mutual assessment and self-assessment of the competencies of the members of the Board of Directors was carried out.

According to the results of the assessment, the percentage of compliance of the activities of the Board of Directors, its committees, the Chairman and the Corporate Secretary of NC KTZ JSC with the best practices of corporate governance in all components corresponds to the fifth level of maturity – «PRACTICE LEADERSHIP».

The report on the self-assessment of the activities of the Board of Directors for 2019-2020 was approved and taken into account at the meeting of the Board of Directors on April 29, 2021.

Based on the recommendations submitted by the members of the Board of Directors during the self-assessment, a Plan for the Development and Training of the Board of Directors is formed.



# MANAGEMENT BOARD

The Management Board, as a collegial executive body, manages the daily activities of the organization and ensures its compliance with the strategy, development plan and decisions taken by the Sole Shareholder and the Board of Directors.

The main tasks of the Management Board are to develop proposals on the strategy of the Company, implement the financial and economic policy of the Company, develop

decisions on the most important issues of its current economic activities and coordinate the work of its divisions, improve the efficiency of the control system and the risk monitoring system, ensure the rights and legitimate interests of the Sole Shareholder.

The Management Board is committed to the growth of long-term value and sustainable development of the Company.

# CHANGES IN THE COMPOSITION OF THE MANAGEMENT BOARD

According to the Charter of NC KTZ JSC, determination of the quantitative composition, term of office of the Management Board, election of members of the Management Board, as well as early termination of their powers are within the competence of the Board of Directors of NC KTZ JSC. The appointment and early termination of the powers of the Chairman of the Management Board is within the competence of the Sole Shareholder.

In 2020, the following changes took place in the composition of the Management Board:

On April 23, 2020, by the decision of the Board of Directors of NC KTZ JSC (Minutes No. 68), Sayat Kairtayevich Kurmanov, Managing Director for Procurement of NC KTZ JSC, was elected to the Management Board;

On November 4, 2020, by the decision of the Board of Directors of JS NC KTZ JSC (Minutes No. 18), Bimov Dauren Oralsynovich, Deputy Chairman of the Management Board for Freight Traffic of NC KTZ JSC, was elected to the Management Board.

# COMPOSITION OF THE MANAGEMENT BOARD

At the end of 2020, the composition of the Management Board of NC KTZ JSC was represented as follows:

| Name              | Position  |
|-------------------|---|
| S.M. Mynbayev     | Chairman of the Management Board  |
| K.E. Almagambetov | First Deputy Chairman of the Management Board   |
| S.S. Abdenov      | Deputy Chairman of the Management Board for Corporate Issues and HR                                   |
| D.A. Kusherov     | Deputy Chairman of the Management Board for Finance   |
| D.O Bimov         | Deputy Chairman of the Board for Freight Traffic - General Director of KTZ-Freight Transportation LLP |
| P.V. Sokolov      | Deputy Chairman of the Management Board for Logistics   |
| M.A.Duzbayeva     | Managing Director for Development   |
| S.K. Kurmanov     | Managing Director of Procurement  |
| A.Zh. Mukushov    | Managing Director for Legal Support   |



**SAUAT MUKHAMBETBAYEVICH MYNBAYEV**

Member of the Board of Directors,  
Chairman of the Management Board

Chairman of the Management Board from 2018 to 2021.

**Year of birth:**  
1962

**Citizenship:**  
Republic of Kazakhstan

**Background:**  
Lomonosov Moscow State University, Russian Federation, candidate of economic sciences.

**Professional experience:**  
He began his career in 1989 as a teacher at the Alma-Ata Institute of National Economy. Held executive positions in commercial organizations and banking sector. Over the years, he held the posts of the Minister of Finance, Agriculture, Energy and Mineral Resources, Oil and Gas, Industry and Trade of the Republic of Kazakhstan; Deputy Head of the Presidential Administration of the Republic of Kazakhstan, Deputy Prime Minister of the Republic of Kazakhstan; Chairman of the Management Board of Samruk Kazakhstan Holding for State Assets Management JSC.

Between 2013 and 2018, Chairman of the Management Board of NC KazMunayGas JSC. From November 20, 2018 to April 7, 2021- Chairman of the Management Board of NC KTZ JSC.





**KANAT YESMUKHANOVICH  
ALMAGAMBETOV**

Member of the Management Board

Member of the Management Board  
since 2018.

**Year of birth:**

1962

**Citizenship:**

Republic of Kazakhstan

**Background:**

Almaty Institute of Railway Engineers;  
Operation of Railways;

Tynyshpayev Kazakh Academy of Transport  
and Communications; Economics and  
Management in Railway Transport.

**Professional experience:**

K. Almagambetov rose from the trainer to  
the leading positions of the Republican State  
Enterprise Kazakhstan Temir Zholy.

Over the years, he held the positions  
of director of the branch of the Akmola  
Transportation Department of NC KTZ JSC,  
Vice President, President of Kaztemirtrans JSC,  
Managing Director for Transportation Process,  
Managing Director for Operation of NC KTZ  
JSC, and Adviser to the President of NC KTZ  
JSC.

Between 2015 and 2018, General Director of  
the KAZLOGISTICS Union of Transport and  
Logistics Organizations and Associations.

Since December 4, 2018 to the present, Acting  
First Deputy Chairman of the Management  
Board NC KTZ JSC.



**SERIK SAKBALDIYEVICH  
ABDENOV**

Member of the Management Board

Member of the Management  
Board from 2018 to 2021.

**Year of birth:**

1977

**Citizenship:**

Republic of Kazakhstan

**Background:**

Kazakh Institute of Jurisprudence  
and International Relations, specialty:  
Jurisprudence;

Karaganda Economic University of  
Kazpotreboyz, specialty: Economics;

Russian Academy of National Economy under  
the President of the Russian Federation,  
Federal State Budgetary Educational Institution  
of Higher Professional Education (MBA).

**Professional experience:**

S. Abdenov began his career in 1998 as a  
chief specialist of the Ministry of Justice of the  
Republic of Kazakhstan.

Over the years, he held the positions of Vice-  
Minister of Labor and Social Protection of the  
Population of the Republic of Kazakhstan of  
the Ministry of Labor and Social Protection of  
the Population of the Republic of Kazakhstan;  
Minister of Labor and Social Protection of the  
Population of the Republic of Kazakhstan;  
Advisor to the Chairman of the Management  
Board; Managing Director for Human Resource  
Management and Compensation; Vice  
President for Human Resources Management  
of NC KazMunayGas JSC.

From November 2018 to April 2021, Deputy  
Chairman of the Management Board for  
Corporate Issues and HR of NC KTZ JSC.





**DAIR ADILBEKOVICH  
KUSHEROV**

Member of the Management Board

Member of the Management  
Board since 2018.

**Year of birth:**

1977

**Citizenship:**

Republic of Kazakhstan

**Background:**

Indiana University, Bachelor of Finance;  
Kazakh State Academy of Management,  
specialty: International Economics.

**Professional experience:**

Over the years, D. Kusherov held the positions  
of Deputy Director, Director of the Corporate  
Finance Department of Intergas Central Asia  
JSC, Financial Director of KazTransOil JSC,  
Director of the Corporate Finance Department,  
Managing Director for Economics and Finance,  
Deputy General Director for Economics and  
Finance of KazTransGas JSC.

Since December 2018 to the present, Deputy  
Chairman of the Management Board for  
Finance of NC KTZ JSC.



**DAUREN ORALSYNOVICH  
BIMOV**

Member of the Management Board

Member of the Management Board  
from 2020 to 2021.

**Year of birth:**

1982

**Citizenship:**

Republic of Kazakhstan

**Background:**

Tynyshpayev Kazakh Academy of Transport  
and Communications, specialty: Wagons;

Kazakh University of Railways, specialty:  
Organization of Transportation, Movement  
and Operation of Transport, Master of  
Engineering Science;

Almaty Management University (Alma U),  
Master of Business Administration.

**Professional experience:**

D. Bimov began his career in 2004 as a process  
engineer at YRYSTY-AEVRZ JSC. Over the years,  
he held the positions of Logistics Manager  
at KazRefTransService LLP, Deputy Director  
for Forwarding at KazRefTransService LLP,  
Commercial Director of TransproektService  
LLP, Technical Director, Managing Director  
and Director of UNIVERSAL LOGISTICS LLP;

Between 2014 and 2018, Founder and General  
Director of Interlog Multimodal LLP;

Between 2018 and 2019, Founder and  
Chairman of the Management Board of the  
KIT Association of Entrepreneurs;

Between 2019 and 2020, Chairman of the  
Management Board (General Director) of  
Kaztemirtrans JSC.

From November 2020 to April 2021 - Deputy  
Chairman of the Board for Freight Traffic -  
General Director of KTZ-Freight Transportation  
LLP .





**PAVEL VLADIMIROVICH  
SOKOLOV**

Member of the Management Board

Member of the Management Board  
from 2019 to 2021.

**Year of birth:**

1978

**Citizenship:**

Russian Federation

**Background:**

St. Petersburg State Transport University, specialty: Organization of Transportation and Management of Transport (Railway), railway engineer;  
St. Petersburg State University, specialty: Marketing Management, marketing expert;  
ANO Corporate University of Russian Railways JSC, specialty: Corporate Management.

**Professional experience:**

Over the years, P. Sokolov held the positions of Deputy Director of the Sales Center and Organization of Intermodal Transportation of TransContainer JSC, General Director of Russian Railways Logistics JSC, First Deputy General Director of Novorossiysk Commercial Sea Port PJSC.

From February 2019 to April 2021-Deputy Chairman of the Management Board for Logistics of NC KTZ JSC.



**MEYRAMKUL ALTYNBEKOVNA  
DUZBAYEVA**

Member of the Management Board

Member of the Management  
Board since 2019.

**Year of birth:**

1966

**Citizenship:**

Republic of Kazakhstan

**Background:**

V.I. Lenin Kazakh Polytechnic Institute;  
K.I. Satpayeva Kazakh National Technical University.

**Professional experience:**

M. Duzbayeva began her career in 1987 as a foreman of the main production facility at Kazzoloto GOK.

Over the years, she held the positions of Deputy Chairman of the Committee for State Property and Privatization of the Ministry of Finance of the Republic of Kazakhstan, Executive Director of NC KazakhOil JSC and NC KazMunayGas JSC, Director of the Strategy and Corporate Governance Department of Kazakhstan Holding for State Assets Management Samruk JSC, CEO of commercial companies, Deputy Chairman of the Management Board – member of the Management Board of Atameken NCE RK.

From 2016 to the present - a member of the Presidium of the National Chamber of Entrepreneurs of the Republic of Kazakhstan Atameken National Chamber of Entrepreneurs.

Sine December 2018 to the present, Managing Director of Development of NC KTZ JSC.





**SAYAT KAIRTAYEVICH  
KURMANOV**

Member of the Management Board

Member of the Management Board  
from 2020 to 2021.

**Year of birth:**

1978

**Citizenship:**

Republic of Kazakhstan

**Background:**

Moscow Aviation Institute (MAI), specialty:  
Automated Control System;

Kazakh Finance and Economics Academy,  
specialty: Economics;

Kazakh Humanitarian Law University, specialty:  
Jurisprudence;

Advanced training program at Baylbrook  
Aviation College (Bath, UK);

RAI Master's program training (Riga, Latvia),  
specialty: Head of a Transport Company;

Kazakhstan Institute of Management,  
Economics and Forecasting, Republic of  
Kazakhstan, Executive MBA.

**Professional experience:**

Over the years, S. Kurmanov held executive  
positions in the RSE Kazaeronavigatsia,  
KLPE LLP, UCC LLP, Chairman of the Board  
of Directors of the SEZ Himpark Taraz, a  
member of the Board of Directors of the SEZ  
National Industrial Petrochemical Technopark,  
Chairman of the Supervisory Board Karabatan  
Utility Solution LLP.

From November, 2019 to April 2021- Deputy  
Chairman of the Management Board for  
Procurement of NC KTZ JSC.



**ARDAK ZHUMAGULOVICH  
MUKUSHOV**

Member of the Management Board

Member of the Management Board  
from 2018 to 2021.

**Year of birth:**

1978

**Citizenship:**

Republic of Kazakhstan

**Background:**

L.N. Gumilyov Eurasian National University,  
specialty: Law and Methodology of Legal  
Education;

T. Ryskulov Kazakh Economic University,  
specialty: Economics..

**Professional experience:**

A. Mukushov began his career working in the  
internal affairs bodies of Astana, held various  
positions in the Ministry of Energy and Mineral  
Resources of the Republic of Kazakhstan, as  
well as the Ministry of Oil and Gas of the  
Republic of Kazakhstan.

Since 2014, he held executive positions at NC  
KazMunayGas JSC.

Since November 2018, held the positions of  
Director of the Department of Legal Support  
and Litigation Work, Deputy Chairman of the  
Board for Legal Affairs of NC KTZ JSC.

Since February 2019 to April 2021- Managing  
Director for Legal Support of NC KTZ JSC.



# ACTIVITIES OF THE MANAGEMENT BOARD IN 2020

In 2020, the Management Board held 48 meetings, at which it reviewed 420 issues.

During the reporting period, the Management Board of the Company considered issues related to the operational activities of the Company, implementation of the development strategy, decisions of the Sole Shareholder and the Board of Directors of NC KTZ JSC.

The Management Board considered 45 issues on concluding transactions in which the Company is interested. Based on the results of consideration of issues by the Management Board of the Company, 59 issues were submitted to the Board of Directors; 1 issue was submitted to the Board of Directors regarding the conclusion of major transactions after the adoption of a decision by the Management Board of the Company.

Also, in 2020, the Management Board approved 106 internal documents, as well as 46 reports approved by the resolution of the Management Board and sent to the Board of Directors for consideration, including:

- Risk Register, Risk Map of NC KTZ JSC;
- Progress Report on the Implementation of the Development Strategy of NC KTZ JSC 2029.
- Report on the State of Integrated Safety and Labor Protection of NC KTZ JSC at the end of 2019;
- Policy on management and interaction with subsidiaries of NC KTZ JSC;
- Annual Financial Statements of NC KTZ JSC for 2019 and others.

# REMUNERATION OF OFFICIALS

Payment of remuneration to members of the Management Board of NC KTZ JSC based on the results of work for the year is carried out in accordance with the Rules for remuneration and bonuses for executives, employees of the Corporate Ombudsman's Office, employees of the Office of the Corporate Secretary, Internal Audit and Compliance Service approved by the Board of Directors of NC KTZ JSC on July 12, 2017 (Minutes No. 5).

The above Rules are based on the following principles:

- the relationship between remuneration and the performance of tasks that meet the interests of NC KTZ JSC and its Sole Shareholder;
- dependence of the amount of remuneration on the performance of NC KTZ JSC and the performance of employees.

The decision on the payment of remuneration to executives is made by the Board of Directors of NC KTZ JSC.

The procedure for establishing remuneration for members of the Board of Directors is provided for by the Rules for the formation of the composition of the Board of Directors of the Fund approved by the decision of the Management Board of the Fund dated September 26, 2016 (Minutes No. 35/16).

Representatives of the Sole Shareholder and the Chairman of the Management Board as members of the Board of Directors do not receive remuneration.

GRI 102-35  
102-36





# EVENTS THAT OCCURRED AFTER THE REPORTING PERIOD

## CHANGES IN THE COMPOSITION OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

Since April 7, 2021, by the decision of the Management Board of the Fund dated 07.04.2021 (Protocol No. 12/21), the powers of S. M. Mynbayev have been prematurely terminated.

Since April 7, 2021, by the decision of the Board of Directors of NC KTZ JSC dated 29.04.2021 (Protocol No. 7), the powers of P. V. Sokolov have been prematurely terminated.

Since April 8, 2021, by the decision of the Management Board of the Fund dated 12.04.2021 (Protocol No. 13/21), N. E. Sauranbayev has been appointed Chairman of the Management Board of NC KTZ JSC.

From April 23, 2021, by the decision of the Board of Directors of NC KTZ JSC dated 29.04.2021(Protocol No. 7), the powers of Abdenov S. S., Mukushov A. Zh., Kurmanov S. K., Bimov D. O. were prematurely terminated.

Since April 26, 2021, by the decision of the Management Board of the Fund dated April 26, 2021 (Protocol No. 17/21), the powers of A. M. Satkaliyev have been prematurely terminated.

Since April 26, 2021, by the decision of the Management Board of the Fund dated April 26, 2021 (Minutes No. 17/21), B. Akchulakov was elected a member of the Board of Directors of NC KTZ JSC, a representative of the interests of the Fund.

Starting from April 26, 2021, by the decision of the Board of Directors of NC KTZ JSC dated 29.04.2021 (Minutes No. 7), the following members of the Management Board were elected:

S. Zh. Keulimzhayev-Deputy Chairman of the Management Board for Corporate Affairs and HR;

E. A. Zhangaulov-Managing Director for Legal Support;

E. K. Nagaspaev-Managing Director for Software Development;

Urynbasarov B. P.-Acting Director of the branch of JSC «NC «KTZ» - «Directorate of the main network».

# PROPORTION OF FEMALE EMPLOYEES IN THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

Currently, there are two women in the Board of Directors and the Management Board of the Company. Thus, the share of fenale employees is 11%.

The Company creates equal social opportunities for its employees respecting the principle of gender equality.

Details on the proportion of women in leadership positions in NC KTZ JSC and its subsidiaries can be found in the [Company personnel](#) section.

## TRANSPARENCY

NC KTZ JSC is committed to ensuring the transparency of its activities, while maintaining and expanding the trust of our stakeholders in the Company.

Information disclosure is carried out in accordance with the requirements of the legislation of the Republic of Kazakhstan and the

Information Policy of the Company approved by the Board of Directors of NC KTZ JSC. In addition, all information on all important aspects of operations including results of operations is available on the corporate website of the Company <http://www.railways.kz>.

## FINANCIAL STATEMENTS

The financial statements of NC KTZ JSC and its subsidiaries (hereinafter collectively referred to as the Group) comply with the requirements of International Financial Reporting Standards (IFRS) including the requirements of IAS 1 “Presentation of Financial Statements”.

The Company regularly reviews, analyzes and identifies amendments to IFRS for their impact on the Group’s financial statements.

To ensure the timeliness of the period-closing process, accounting books and the preparation

of the Group’s statements, the following have been approved and followed: the period-closing regulations, the regulations for the preparation and formation of operational financial and management reports, the regulations for the consolidation and preparation of the consolidated financial statements of the Group.

The Company has developed a checklist of information disclosed in financial statements under IFRS. When preparing the consolidated financial statements, the Group implemented a





process of checking and agreeing information disclosed in the financial statements with the relevant structural divisions and subsidiaries. The Group studies the events and non-routine transactions affecting its consolidated financial statements.

To organize the efficient work of the structural divisions and subsidiaries of the Company to provide information necessary for the preparation of financial statements and conduct an external audit, the Company has approved the Regulations for the preparation of separate and consolidated financial statements of NC KTZ JSC and interaction of NC KTZ JSC with external auditors in the framework of the audit of a separate and consolidated financial statements of NC KTZ JSC.

The consolidated financial statements of the Group shall be approved by the management, preliminarily approved by the Audit Committee of the Board of Directors of the Company, and

are subject to subsequent approval by the Board of Directors and the Shareholder.

The 2020 consolidated financial statements were audited by Deloitte LLP.

Annually, the Audit Committee of the Board of Directors of NC KTZ JSC considers the issue of objectivity and independence of the external auditor, as well as the issue of remuneration to be paid to the external auditor. In 2020, Deloitte LLP did not provide non-audit services to the Group.

Deloitte LLP has informed the Audit Committee that it maintains independence vis-à-vis the Group in accordance with the Code of Ethics for Professional Accountants of the Council on International Ethics Standards for Accountants and ethical requirements applicable to the audit of the Group's consolidated financial statements.

 You can view the Consolidated Financial Statements of NC KTZ JSC for the year ended December 31, 2020 in the [Consolidated Financial Statements](#) section.

## OFFICE OF THE CORPORATE SECRETARY

In accordance with the Regulations on the Corporate Secretary, the position of the Corporate Secretary is introduced in order to ensure that the Company's bodies and officials comply with the rules and procedures of corporate governance that guarantee the implementation of the rights and interests of the Sole Shareholder of the Company.

The Corporate Secretary is accountable for his activities to the Board of Directors of the Company and is independent of the executive body of the Company.

To ensure that the Corporate Secretary performs his functions, the Company has created the Office of the Corporate Secretary.

The Office of the Corporate Secretary is a structural subdivision of the Company.

During the reporting period, the Corporate Secretary and employees of the Office of the Corporate Secretary ensured the implementation of a wide range of tasks and functions stipulated by the internal documents of NC KTZ JSC including tasks to ensure the effective operation of the Board of Directors, as well as clear and efficient interaction between the Board of Directors, the Sole Shareholder and the management of NC KTZ JSC.

Thus, as part of the implementation of the main functions and tasks in 2020, the Office of the Corporate Secretary:

- took prompt measures to organize the smooth operation of the Board of Directors and its committees in the context of restrictive measures taken in the country in order to prevent the spread of coronavirus infection. While it was scheduled to hold 6 meetings of the Board of Directors, in fact, there were 23 meetings of the Board of Directors, 47 meetings of its Committees, as well as hearings of the main subsidiaries, numerous working meetings, workshops, including in the format of videoconference;
- coordinated the implementation of the activities of the Plans to improve the corporate governance system of the Company;
- determined the approach and plan for self-assessment of the activities of the Board of Directors, in accordance with which the members of the Board of Directors were questioned on 13 components of activities based on the results of 2019-2020. According to the approved schedule, the deadline for the end of the self-assessment process of the Board of Directors for 2019-2020 is April 2021;
- discussed and worked out the draft Policy on management and interaction with subsidiaries of NC KTZ JSC;
- prepared a Report on Compliance with the Principles and Provisions of the Corporate Governance Code of NC KTZ JSC.







## INFORMATION ON THE COMPLIANCE OF CORPORATE GOVERNANCE PRACTICES WITH THE PRINCIPLES OF THE CORPORATE GOVERNANCE CODE

Control over the implementation of the provisions of the Code is entrusted to the Board of Directors of NC KTZ JSC.

In accordance with the provisions of the Code, the Office of the Corporate Secretary of NC KTZ JSC prepared a Report on Compliance/Non-compliance with the Principles and Provisions of the Corporate Governance Code. The Report was approved by the Board of Directors of NC KTZ JSC on April 29, 2021 (Minutes No. 7).

According to the results of the analysis, in practice, the Company complies with 83% of the provisions of the Code, another 9% of the provisions of the Code are partially complied with, 0.3% of the provisions are not complied\* with and 8% of the provisions of the Code are not applicable to the Company.

\* In the future, the work on the implementation of the provisions of the Corporate Governance Code will continue.

## INTERNAL AUDIT SERVICE

The Internal Audit Service is a body of NC KTZ JSC that controls the financial and economic activities of the Group of Companies of NC KTZ JSC, carries out assessment in internal control, risk management, execution of documents in corporate governance and consulting in order to improve the activities of the NC KTZ JSC Group.

The service is directly subordinate to the Board of Directors of NC KTZ JSC and reports to it on its work. Supervision of the activity of the Service is carried out by the Audit Committee.

The Service carries out its activities in accordance with the Regulations on the Internal Audit Service of NC KTZ JSC, approved by the Board of Directors of NC KTZ JSC on May 3, 2018 (Minutes No. 2), in compliance with the mandatory International Professional Practices Framework (IPPF).

In 2020, the Internal Audit Service completed all 16 audit assignments covering 18 audited entities provided for by the Annual Audit Plan for 2020 approved by the Board of Directors of NC KTZ JSC on November 28, 2019 (Minutes No. 19).

The audit covered such key business processes as investment activities, procurement activities, safety of fixed assets and inventories, accounts receivable management, audit of HR processes implementation, information technology and information security, diagnostics of corporate governance in NC KTZ JSC and its subsidiaries: Passenger Transportation JSC and KTZ Express JSC, the effectiveness of the internal control system in NC KTZ JSC was assessed.

Thus, the resources of the Internal Audit Service were concentrated on those business processes and areas of activity of NC KTZ JSC and its subsidiaries, which have risks of high and medium significance according to the Risk Register and Risk Map of NC KTZ JSC. Business processes not covered by the Risk Map (factor – risk exposure) were also audited to confirm the adequacy of the rating criteria and the correct identification of the risk group, as well as to ensure a comprehensive audit coverage.

Based on the results of the completed audit assignments, the Internal Audit Service issued appropriate recommendations and ensured that the audited entities adopted corrective action plans, the implementation of which is monitored by the Internal Audit Service on a quarterly basis.

In the reporting year, employees of the Internal Audit Service underwent advanced training and certification courses in the areas of internal audit and control, accounting, IFRS, management fundamentals and information technology.

The results of the activities of the Internal Audit Service on a quarterly basis are submitted to the Board of Directors of NC KTZ JSC.



## CORPORATE OMBUDSMAN

The Ombudsman of the Company is appointed by the Board of Directors.

In accordance with the Regulations on the Corporate Ombudsman of NC KTZ JSC, the main functions of the Ombudsman include:

- assistance in the prevention and resolution at the early stages of conflicts between employees, a group of employees, suppliers, customers of the Company and the Company itself, as well as the approval of the principles and rules of the Code of Business Conduct in the Company;
- assistance to the management of the Company and employees involved in the conflict in obtaining the necessary information;
- advising the parties to the conflict on issues related to conflict situations;
- submission to the Board of Directors of the Company and the Personnel and Remuneration Committee of the Board of Directors a report on the results of activities at least once a year;
- making proposals to the Personnel and Remuneration Committee of the Board of Directors on improving the policies and system of corporate management;
- analysis of local acts of the Company governing corporate governance issues in order to prevent conflicts, study and implementation of the best world practices of the institution of corporate ombudsmen.

During the reporting period, the Office of the Corporate Ombudsman of NC KTZ JSC received oral and written appeals from 88 persons (*including 41 hotline calls*), of which 81 were on labor, social and housing issues arising from labor relations and on issues corporate ethics.

All appeals were considered, 10 of them were redirected; out of 78 directly considered appeals, positive decisions were made on 66 appeals, which amounted to 84.5%.

In order to prevent conflict situations, work is being carried out to study and identify factors provoking employee-Company, client-Company contradictions, to advise and explain the current legislation. In 2020, this work was carried out by studying the state of affairs on disciplinary practice and compensation for harm to workers who received disabilities in the performance of their work duties, as well as sending written recommendations and explanations.

## COMPLIANCE SERVICE

In order to assist the Board of Directors of the Company in building and effective functioning of the compliance control system, the Compliance Service has been created in the NC KTZ JSC Group.

The main tasks of the Compliance Service are:

- defining regulatory requirements and assessing compliance risks;
- conducting educational events and trainings for employees of the Company and its subsidiaries on anti-corruption legislation of the Republic of Kazakhstan, ethics and behavior;
- development and implementation of compliance procedures;
- ensuring the proper functioning of channels of confidential information, including the hot line;
- conducting official investigations, as well as developing and ensuring the adoption of corrective measures.

In the reporting year, the Compliance Service implemented the following activities:

|  |  |  |
|--|--|--|
| 4<br>internal documents on compliance issues were developed and/or updated   | 26 000<br>employees of the Company Group were trained in anti-corruption legislation, ethics and behavior          | 2 000<br>employees of the Company Group were tested for knowledge of the Code. |
| 209<br>messages received via hot line were considered with the feedback to the applicants  | 10<br>internal investigations were carried out both by the Compliance Service itself and as part of working groups | on 40<br>internal documents of the Company, suggestions and comments were sent |
| a report on the assessment of corruption risks was developed, which includes a map, a register of corruption risks and a Plan for their minimization for 2021. |  |  |



# MANAGING CONFLICTS OF INTEREST

In compliance with the Anti-Corruption Law of the Republic of Kazakhstan (hereinafter referred to as the Law), on May 6, 2020 (Minutes No. 7), the Board of Directors of NC KTZ JSC approved a new Policy for the Prevention and Settlement of Conflicts of Interests of Officials and Employees of NC KTZ JSC, which provides for:

- requirements of the Law and internal documents of the Company on ethics and compliance issues;
- basic principles for managing conflicts of interest;
- mechanisms for the timely and complete identification of conflicts of interest;
- procedure and possible measures to resolve conflicts of interest;
- responsibility of officials and employees of the Company for failure to fulfill obligations to prevent conflicts of interest.

At the end of 2020, all necessary measures were taken to prevent potential or actual conflicts of interest of officials and employees of the NC KTZ JSC Group.

In the reporting year, there were no facts of conflict of interest.

to electronic tickets, which citizens can display on mobile devices without printing.

Through the above changes, **Passenger Transportation JSC saves 1 billion 500 million tenge** annually due to the abandonment of expensive ticket forms and equipment.

The problem of unavailability of tickets for persons with disabilities has been fixed. They currently have the ability to purchase tickets online without leaving their home.

At the same time, within the framework of digitalization and ensuring transparency, a pilot project is being implemented to buy railway tickets and board a train using biometrics, which provides for the identification and digitalization

of passenger data using special devices without the influence of the human factor.

In addition, it is planned to develop a mobile application for citizens to assess the services provided and the condition of the wagons.

The audit service of Passenger Transportation JSC was completely reorganized. Its independence and impartiality was increased by transferring control functions to the newly created mobile monitoring group in the structure of the Company's central office. The principle of zero tolerance is being introduced to the facts of transporting stowaways and unchecked baggage/freight luggage, which in previous years became a "medium" for the spread of everyday corruption.

## IN FREIGHT TRANSPORTATION

The transition to paperless paperwork in the Automated System of Contractual and Commercial Work eliminated direct contacts of customers when providing services.

Now registration of intrastation transportation can made electronically to prevent the facts of unauthorized supply (self-seizure) of wagons.

As part of the provision of services for the supply and cleaning of wagons:

1) the process was regulated by approving the relevant internal documents, taking into account the peculiarities of the stations;

2) a project is being implemented on paperless registration of lists for the supply and cleaning of wagons, as well as accumulation cards at test sites.

# COUNTERING CORRUPTION

At the end of 2020, the Company and its subsidiaries performed the following measures to combat corruption:

## IN PASSENGER TRANSPORTATION

OThe automation of passenger transportation processes was carried out; a mobile application of the [bilet.railways.kz](https://bilet.railways.kz) website was released, which made it possible to minimize the risks associated with an artificial shortage of tickets and their resale. Trains and ticket offices at railway stations are checked using the Mystery Shopper method.

The innovations made it possible to move away from paper tickets, which were previously subject to counterfeits, and switch completely

## RECRUITING AND HIRING PERSONNEL

The implemented project on transparent search and selection of personnel reduced corruption risks in personnel management. This project currently covers all branches of the Company, KTZ-Freight Transportation LLP, Passenger Transportation JSC, KTZ Express JSC, Kaztemirtrans JSC, thereby fully covering the main part of the Company (more than 100

thousand employees) in all regions. **More than 7,500 vacancies were closed in 2020.**

Supervisors of heads of road departments, backbone networks, deputy general directors and directors of branches/subsidiaries were evaluated using a polygraph. **In total, 53 heads of branches and subsidiaries were evaluated.** According to the results of evaluation, rotation of some regional leaders was made.



In order to make objective decisions on candidates, representatives of the Company's central office are included in the regional competition commissions. Audio and video recording of meetings of regional competition commissions is carried out; candidates are checked for the presence of committed offenses, including corruption.

## IN PROCUREMENT

- 1) in order to ensure transparency, purchases are carried out in premises with a video surveillance system and through online platforms with audio and video recording;
- 2) within the framework of the exclusion of provisions lobbying the interests of individual suppliers, draft technical characteristics of the tender documentation undergo an examination together with employees of the National Industrial Chamber of Kazakhstan;
- 3) the practice of mandatory declaration by employees and officials of the Company, the presence/absence of affiliation and conflict of interest has been introduced;

## PREVENTIVE ACTIONS

As part of the amendments to anti-corruption legislation introduced in 2019-2020, the Company carried out the following work:

- 1) the internal documents include a requirement on disciplinary responsibility of officials for failure to fulfill or improper fulfillment of official duties to prevent the commission of corruption offenses by subordinate employees;
- 2) the Policy for the prevention and settlement of conflicts of interest was approved;
- 3) the Algorithm of actions for the implementation of the institution of resignation and prosecution of managers for committing

A procedure for polling candidates for transparency in the conduct of competitive procedures, including for the presence of a corruption component, was ensured.

- 4) potential suppliers are checked for their reliability and possible affiliation with Company officials during their preliminary qualification selection using information services of a special service for checking counterparties (Compra), purchased in accordance with the established procedure;
- 5) evaluation of specialists of the procurement block of the central office and branches of the Company is carried out;
- 6) an anti-corruption clause is included in all transactions concluded by the Company.

corruption crimes by their subordinates and the Instruction of behavior for top managers in the event of an employee being detained by authorized state bodies were approved;

- 4) the Plan for the Prevention and Prevention of Corruption of NC KTZ JSC for 2021-2022 was approved;
- 5) procedures have been introduced to verify the civil solvency and business reputation of counterparties, including for possible affiliation with the responsible persons of the Company when purchasing goods, works and services.

## IN ORDER TO STRENGTHEN ANTI-CORRUPTION MEASURES IN THE REGIONS:

- 1) production meetings were organized with the participation of all regional leaders (heads of road departments, backbone networks, branch directors) and representatives of the Adal Zhol project office, at which specific instructions were given to form an anti-corruption culture;
- 2) the Action Plan for the prevention of corruption in the regional divisions of the Company and its subsidiaries for 2020-2021

was approved. The Plan provides for the introduction of the principles of openness and transparency and the involvement of all the leaders of the Company in interaction with citizens and public organizations to highlight the results of work. The report on the implementation of the Plan will be heard on a quarterly basis by the management of the Company.

## EDUCATIONAL ACTIVITIES

On an ongoing basis, the Compliance Service of the Company conducts training seminars on anti-corruption, ethics and behavior.

In 2020, more than **26 thousand employees** were trained, both on their own and with the involvement of the speakers of the Anti-Corruption Agency.

On November 30, 2020, a seminar on anti-corruption legislation of the Republic of Kazakhstan was organized for the officials of the Company and its subsidiaries with the invitation of representatives of the Anti-Corruption Agency. **The event was attended by over 100 officials.**

December 25, 2020 the head of the Compliance Service conducted training on the Code of Ethics and Conduct for the participants of the "100 young people of KTZ" project.

In addition, in order to ensure maximum coverage of employees of the NC KTZ JSC Group on anti-corruption, ethics and behavior, as well as the formation of an anti-corruption culture, the Company's Compliance Service:

- 1) an electronic online course has been developed, which will be placed in the distance learning and testing system. This system provides for the automation of checking the knowledge of students at the end of training with the exclusion of the human factor;

- 2) the Compliance module was integrated into the corporate mobile application, the users of which are **more than 111 thousand employees**, or 97% of the total number of employees of the NC KTZ JSC Group. The module contains internal documents and informational presentations on compliance issues, and access to the hotline.





## OTHER EVENTS:

1) an internal analysis of corruption risks in the activities of the Company and its subsidiaries was carried out.

Within the framework of this analysis, the main processes/business operations that are subject to the influence of corruption risks (procurement, provision of services in the field of railway transport, personnel management, investment activities, etc.) were considered.

2) in order to improve the efficiency of corruption prevention, it was decided to subordinate the Adal Zhol project office to

the Chairman of the Board of NC KTZ JSC, S. Mynbayev.

Summarizing the above, it can be noted that the ongoing anti-corruption measures have helped to reduce the number of criminal cases against employees of the Company and its subsidiaries.

In the reporting year, 17 employees were brought to disciplinary responsibility, of which 10 were officials. Materials were sent to law enforcement agencies on 4 reports.

## CORPORATE ETHICS

In order to form and maintain ethical standards and norms in the Company, the Board of Directors approved the Code of Ethics and Conduct of NC KTZ JSC and its subsidiaries (Minutes No. 14 of September 20, 2019).

The Code of Ethics and Conduct is aimed at improving the corporate culture and provides for the principles of conducting an open and honest business, standards and norms of ethics and behavior based on the declared values, as well as the mission and strategy of the Company.

***The provisions of the Code apply to all officers and employees of NC KTZ JSC and its subsidiaries, regardless of their position.***

***Business partners, customers, suppliers and other third parties who interact with the Company or represent the Company must adhere to the provisions of the Code.***

The Code is an open document and is posted for review by interested parties on the corporate website of the Company <http://www.railways.kz>.

The Code defines the following fundamental corporate values by which the Company forms its activities:

## Safety

We are responsible for the life, health and safety of each of our employees, passengers and freight. This is our top priority. Even the smallest mistake can have a very high cost.

## Leadership

It is important for us to work harmoniously, because we are part of a single system that works for the benefit of each of our clients and the country as a whole. We pass on the knowledge and experience accumulated over the years to the next generation. We respect and value everyone, regardless of the level of position, profession and personal interest.

## Ambition

We meet all difficulties and challenges with dignity; persistently overcome any obstacles on our way, because we know that the well-being of our clients depends on us, whose interests and needs are our main priority.

## Pride

We devote our whole life to the industry, since we deliver goods that are critical for the population, connect cities and states, and work even in the most remote regions of the country. We are proud of our profession and the fact that our grandfathers and fathers worked on the railway.

## Responsibility

We provide quality services for all our clients, because we are the flagship in the transport services market. We achieve results even in the most difficult situations, since we are professionals in our field and rely on experience and rich history.

As part of ensuring the implementation of corporate values and standards of conduct provided for by the Code of Ethics and Conduct of NC KTZ JSC and its subsidiaries, the Compliance Service conducted training events for employees of the Company and its subsidiaries in the reporting year.

The total number of trained employees was **more than 26 thousand people**.

In addition, more than 2,000 employees of the Company and its subsidiaries have been tested for knowledge of the Code. The average score for the subsidiaries of the Company was 87%, for the Company and its branches – 92%.

Also, as part of the formation of an anti-corruption culture in the NC KTZ JSC Group and in order to raise awareness of employees, the Compliance Service has developed an online training course on the topic: “Code of Ethics and Conduct”, which takes into account the specifics of the railway industry, and also provides training and passing testing in the state and Russian languages.

On a quarterly basis, the Compliance Service brings to the attention of the Board of

Directors of NC KTZ JSC information on the practice of compliance with the Code by employees of the NC KTZ JSC Group.



## ETHICS CONSULTATION MECHANISMS

The Company has developed mechanisms through which employees and others can seek advice on corporate ethics and/or report actual and alleged violations of corporate ethics, human rights, unequal conditions

of employment and work, theft, corruption violations committed by employees or officials of the Company, threats to health, safety and the environment.

Regarding these issues, employees of the Company should contact:

- to their immediate, superior manager;
- Head of Compliance Service of NC KTZ JSC;
- via the hotline: 8 800 080 30 30, what's app: 8 702 075 30 30 or by email: nysana@csc.kz;
- to the office of the Ombudsman of NC KTZ JSC (ombudsman@railways.kz or by phone: +7 (7172) 60 40 31) or the Ombudsman of the Fund (ombudsman@csc.kz) (on issues of violation of labor rights);

For other interested parties, appeals are accepted:

- via the ht line: 8 800 080 30 30, what's app: 8 702 075 30 30 or by email: nysana@csc.kz.

In addition, the management of the Company carries out personal reception of individuals and representatives of legal entities in accordance with the reception schedule.

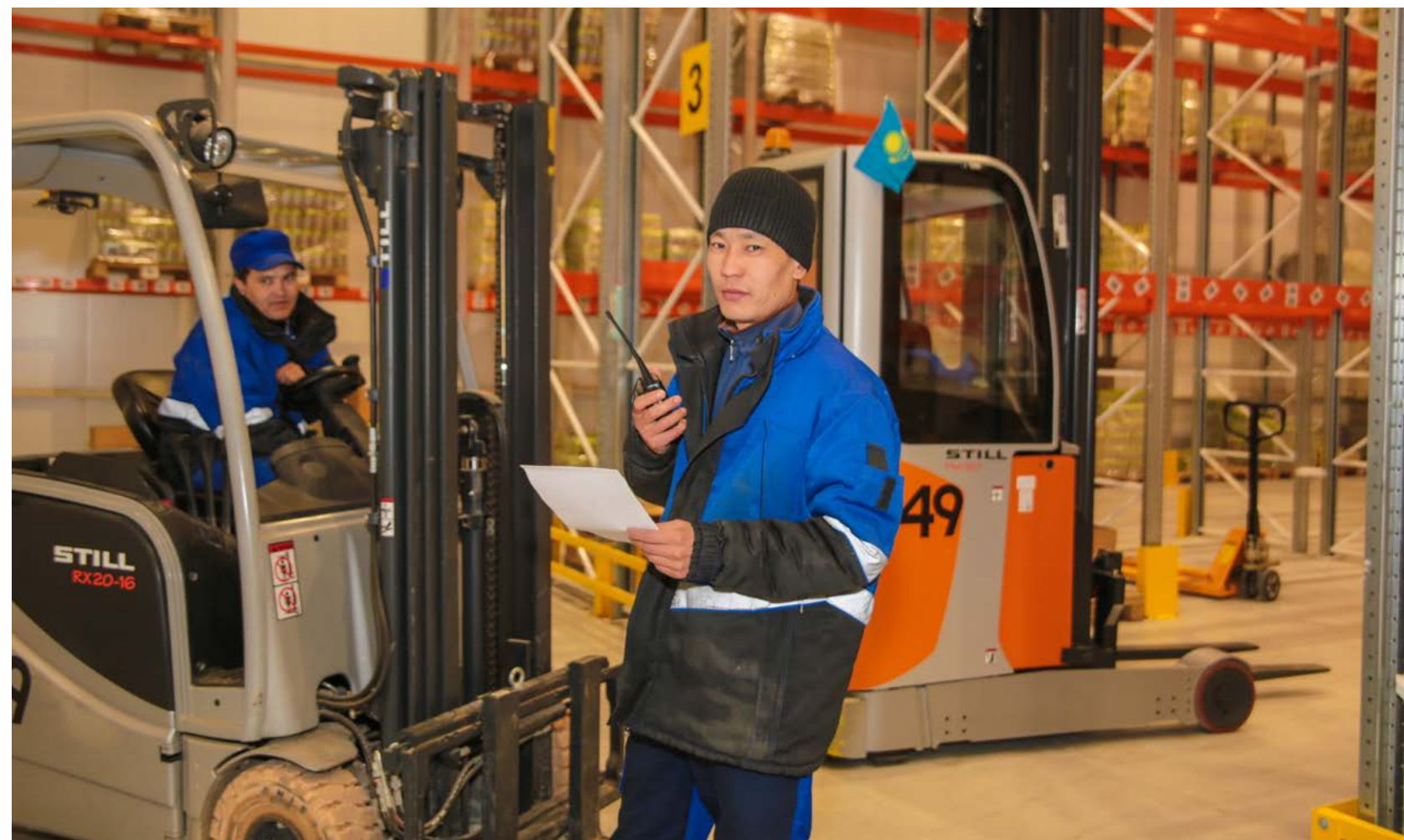
More detailed information about the schedule and procedure for admission can be found on the corporate website of the Company [www.railways.kz](http://www.railways.kz), in the Contacts section.

In 2020, the Compliance Service ensured the proper consideration of all messages received through confidential information channels, including the hotline, as well as the provision of feedback.

The total number of messages was 209, which is 2 times the number of messages received in 2019.

Informing about the work of the hotline is carried out through:

- placing banners on the corporate websites of the Company and its subsidiaries, in office and industrial premises;
- conducting training events;
- providing quick access to the hotline through the corporate mobile application.



## LABOR DISPUTES

The Company and its subsidiaries operate conciliation commissions. Conciliation commissions consider individual labor disputes between an employee and an employer before going to court.

As of the end of 2020, the number of conciliation commissions in the Group of the Company amounted to 178 units.

In the reporting year, the number of complaints received from employees was 264 (in 2019 - 118 units). All complaints and appeals were considered and satisfied by the conciliation commissions.



# RISK MANAGEMENT AND INTERNAL CONTROL

NC KTZ JSC recognizes the importance of risk management as a key component of the corporate governance system of the Company and its subsidiaries aimed at timely identification and taking measures to reduce the level of risks that can negatively affect its value and reputation.

The implementation of the corporate risk management system in the Company is carried out as part of the implementation of the recommendations of the Fund in accordance with the COSO model.

NC KTZ JSC has a structural unit responsible for risk management and internal control, which organizes the functioning of the risk management system, ensures the development and updating of local regulations in risk management and internal control, provides methodological support to other structural units in terms of identifying and assessing risks and provides recommendations.

The Company's internal control system is an integral part of the corporate governance system, covering all levels of management, all internal processes and operations of the Company. The structural unit responsible for risk management and internal control evaluates the design of internal controls of business processes.

The level of efficiency of the risk management system based on the results of the assessment carried out by the Internal Audit Service of the Company in 2019 was BBB. This means that the risk management system meets, in all material respects, most of the established criteria and

operates effectively. In 2020, the Internal Audit Service did not assess the effectiveness of the risk management system.

The level of efficiency of the internal control system based on the results of the assessment carried out by the Internal Audit Service of the Company in 2020 was BB, that is, the internal control system of the Company meets in all material aspects most of the established criteria, but there are no principles and/or they do not function, there is no sufficient confirmation that the system is working effectively.

In 2020, the work of the Management Board and the Board of Directors of the Company was aimed at further improving the corporate risk management system and bringing it in line with the best international practices.

The priority of NC KTZ JSC is the implementation of risk management and internal control elements into existing business processes, as well as the development of a risk management culture.

In order to increase the risk culture, meetings with risk managers and risk coordinators were organized in 2020.

NC KTZ JSC is aware of the importance of the current situation caused by the COVID-19 epidemic. The Company may be exposed to the following key risks that can negatively affect its activities and the achievement of strategic goals:

A decrease in the level of freight transportation and passenger turnover due to the instability of the economic situation, market volatility,

changes in oil prices and other negative factors caused by the COVID-19 epidemic.

Decrease in the level of passenger turnover due to the quarantine measures (suspension of passenger trains).

Deteriorating economic conditions can lead to a decrease in the volume of services provided

for the transportation of goods and passengers by rail, to a decrease in labor productivity, and to an increase in the cost of goods sold and services rendered, and negatively affect the performance of planned indicators. The Company is taking measures to improve the efficiency of its activities, increase

## Operational risks (traffic safety, labor protection and environmental risks)

The Company is the owner and operator of the railway infrastructure in Kazakhstan, as well as the largest owner and operator of passenger and freight rolling stock and locomotives in Kazakhstan. In this regard, the Company may be exposed to traffic safety risks, including collisions, derailments of rolling stock in freight and/or passenger trains on mainline, station and access tracks and/or during shunting operations with rolling stock at stations, natural disasters. To manage this risk, the Company

is implementing measures to strengthen preventive work to organize and ensure the safety of train traffic. As part of occupational injury risk management, the Company implements measures to ensure occupational safety and health, prevent occupational injuries and improve working conditions, and provides compulsory insurance of employees against accidents in the performance of their labor (official) duties.

## Currency risk

The Company is mainly exposed to the risk associated with changes in the exchange rate of the US dollar and Swiss franc, due to the fact that the Company attracts borrowings mainly in US dollars and Swiss francs and the weakening (devaluation) of the tenge against the US dollar and against the Swiss franc means an increase the cost of the exchange rate difference. As part of this risk management, the Company monitors changes in USD/KZT, CHF/KZT exchange rates

on a daily basis, and other indicators affecting changes in the exchange rate: USD/RUR, USD/EUR rates, oil prices, and raw materials. In order to reduce the impact of foreign exchange risk on the financial result of the Company, the financial market conditions are monitored, the foreign exchange distribution of the temporarily redundant cash is managed, and measures are taken to refinance loans in foreign currency.



## INFORMATION TECHNOLOGY RISKS

The Company uses telecommunication networks and computer systems to coordinate timetables and other aspects of its rail operations, as well as for accounting, passenger train ticket sales, tracking freight delivery, and many other functions. The equipment and software used by the Company can be potentially damaged as a result of operator error, natural disasters, power outages, sabotage, computer viruses and other circumstances. To reduce the risk of

information technology failure and information security breach, in order to comply with the requirements of local acts and corporate policy in information security and protection of official, commercial and other secrets protected by the legislation of the Republic of Kazakhstan, audits are carried out annually in the structural divisions of the Company.

## CORRUPTION RISKS

In order to respond to the manifestations of corruption phenomena and the occurrence of corruption situations, the Company develops and implements anti-corruption protective measures. These activities are aimed at determining regulatory requirements and assessing corruption risks, conducting training events and trainings for the Company's employees on the issues of anti-corruption legislation of the Republic of Kazakhstan. The

Company develops and implements procedures that ensure the prevention of corruption, increase the legal literacy and zero tolerance of the Company's employees to corruption in the Company's activities, ensure the proper functioning of confidential information channels, conduct internal investigations, provide timely communication and advice to the Company's officials and employees.



# SUSTAINABLE DEVELOPMENT REPORT





## SUSTAINABLE DEVELOPMENT REPORT

Ensuring sustainable development is the strategic goal of the Company defined by our Development Strategy 2029.

NC KTZ JSC providing uninterrupted and high-quality transportation, developing transport and logistics infrastructure and high-speed passenger traffic, realizing the transit and export potential of Kazakhstan, contributes to the sustainable development of the national economy and society.

The scale of the Company's activity has a significant impact on all aspects of the

country's socio-economic development, and the multiplicity of stakeholders imposes a huge responsibility on NC KTZ JSC.

Understanding and realizing the possible consequences of the decisions made today, in its development, the Company is guided by the achievement of a balance of economic, environmental and social components of development, guided by the principles of sustainable development.

In its activities, NC KTZ JSC strives to:

- ensure the growth of the national economy by developing the transit and export potential of Kazakhstan;
- improve the living conditions of the population of Kazakhstan creating new jobs, reducing the transport component, increasing the mobility of the population and implementing charitable projects;
- create the most favorable conditions for the life and work of their employees, providing them with a full "social package" and the opportunity to learn and improve professional skills;
- ensure traffic safety and labor protection;
- minimize the negative impact on the environment by introducing new technologies and modern rolling stock, developing railway transportation.

In 2011, NC KTZ JSC joined the UN Global Compact and supports the ten principles of the UN Global Compact in the field of human rights, labor relations, environmental protection and anti-corruption.



# SUSTAINABLE DEVELOPMENT MANAGEMENT

Implementation of a sustainable development management system in the Company is provided for by the NC KTZ JSC Sustainable Development Policy approved by the decision of the Board of Directors of NC KTZ JSC (dated October 24, 2018 (Minutes No. 7).

The Policy stipulates the responsibility of the management bodies of the Company and its subsidiaries for the implementation of the

principles of sustainable development in the Company.

In addition, in the reporting year, the Committee on Safety and Environmental Protection of the Board of Directors of NC KTZ JSC approved a mechanism for introducing sustainable development principles into the Company's processes.

The process of implementing the principles of sustainable development is carried out through the implementation of the following activities:

- assessing the effectiveness of sustainable development and identifying areas for improvement;
- implementation of the Plan of interaction between the Company and its subsidiaries with stakeholders;
- inclusion of indicators in sustainable development in the motivational KPIs (Key Performance Indicators) of the members of the Management Board of the Company and subsidiaries.

Evaluation of the effectiveness of sustainable development is carried out by comparing the indicators of the economic, environmental, social aspects of the Company's activities with the indicators of similar companies, socio-economic indicators in the Republic of Kazakhstan, historical indicators of the Company.

Information on the results of assessing the effectiveness of sustainable development is submitted to the Committee on Safety and Environmental Protection of the Board of Directors of NC KTZ JSC. According to

indicators with low ratings, recommendations are developed for their improvement and are communicated to the structural divisions and subsidiaries of the Company to take the necessary measures.

The next activity of the mechanism for developing the Stakeholder Engagement Plan is aimed at creating effective interaction between the Company and its subsidiaries with stakeholders and reducing risks in the field of sustainable development in the Company.

The inclusion of sustainable development indicators in the motivational KPIs of members

of the Management Board of the Company and subsidiaries is aimed at increasing the incentive of the heads of the Company and its subsidiaries in terms of the implementation of measures related to sustainable development. KPIs in sustainable development reflect the implementation of the Company's goals.

# COMMITMENT TO SUSTAINABLE DEVELOPMENT GOALS

In September 2015, the United Nations (UN) adopted a sustainable development program: "Transforming Our World: The 2030 Agenda for Sustainable Development". This agenda includes 17 Sustainable Development Goals (SDGs).

The SDGs focus on economic growth, improving the quality of life of people and ensuring the protection of our planet.







The Company declares its commitment to 17 UN Sustainable Development Goals. Out of 17 goals, the Company focuses on 5 sustainable development goals: SDGs No. 3, 8, 9, 12 and 13, which the Company can influence due to the specifics of its activities.

The Company has identified key performance indicators (KPIs) in the field of sustainable development for the implementation of these goals.

The following KPIs evaluate the implementation of these goals:

- The frequency of recorded incidents with loss of working time (LTIFR);
- level of social stability;
- level of employee engagement;
- transport safety level;
- \* implementation of the energy saving action plan;
- the level of environmental impact.

Every year, the Committee on Safety and Environmental Protection submits a report on the implementation of the Company's sustainable development goals.

## STAKEHOLDERS ENGAGEMENT

Interaction with stakeholders is an inseparable element of the activities of any Company. The dialogue between the Company and its stakeholders has a significant impact on

sustainable development. For this reason, we are committed to dialogue with stakeholders based on the principles:

- respect and consideration of interests, opinions and preferences of stakeholders;
- timely and regular informing of interested parties;
- responsible fulfillment of the assumed obligations.

| Stakeholders   | Interaction level                                      | Interaction methods  |
|--|--|--|
| Shareholder  | Cooperation  | Joint projects<br>Partnerships<br>Multilateral initiatives<br>Online feedback mechanisms   |
| Staff  | Cooperation  | Collaborative decision-making processes<br>Initiatives, rationalization proposals  |
| Trade unions   | Involvement  | Consulting on areas of activity  |
| Partners   | Involvement<br>Informing                               | Multi-stakeholder forums<br>Advisory commissions<br>Processes for reaching consensus<br>Collaborative decision-making processes<br>Focus groups<br>Online feedback systems<br>Business correspondence<br>Reports and website |
| Government agencies  | Negotiations<br>Consulting<br>Involvement<br>Informing | Collective bargaining<br>Questionnaire<br>Focus groups<br>Public meetings and seminars<br>Online feedback mechanisms   |
| Financial institutions,<br>including development<br>institutions | Negotiations<br>Consulting<br>Informing                | Collective bargaining<br>Questionnaire<br>Focus groups<br>Public meetings and seminars<br>Online feedback mechanisms   |



|            |   |  |
|------------|---|--|
| Suppliers  | Control   | Media and internet tracking<br>Interviewing  |
| Population | Integration<br>Negotiations<br>Consulting<br>Involvement<br>Informing | Collective bargaining<br>Questionnaire<br>Focus groups<br>Public meetings and seminars<br>Online feedback mechanisms |
| Media      | Negotiations<br>Consulting<br>Involvement<br>Informing                | Collective bargaining<br>Questionnaire<br>Focus groups<br>Public meetings and seminars<br>Online feedback mechanisms |
| Clients    | Negotiations<br>Consulting<br>Involvement<br>Informing                | Collective bargaining<br>Questionnaire<br>Focus groups<br>Public meetings and seminars<br>Online feedback mechanisms |

In addition, when interacting with suppliers and purchasing goods, works and services, the Company imposes requirements on suppliers to perform the necessary measures and comply with the regulatory legal acts of the Republic of Kazakhstan on safety, fire safety, labor protection and environmental protection.

The Company has adopted a corporate standard “Safety management when performing work by contractors at NC KTZ JSC and its subsidiaries”, which provides for:

- inclusion in contracts of contractors' obligations to comply with the requirements of legislative and local acts of the Company;
- holding a kick-off meeting with contractors;
- conducting introductory briefing on health and safety with contractors' personnel;
- monitoring the compliance of contractors' personnel with the requirements of legislative and local acts of the Company.

Within the framework of the Forum on Industrial Safety (December 2020), the Forum participants initiated the issue of creating a Club of Business Partners for interaction and coordination of the activities of stakeholders in order to achieve conditions of zero injuries and reduce adverse

environmental impact. The work plan of the said Club is formed for 2021.

In addition, as part of the further development of the Integrated System for Industrial Safety, it is planned to include the activities of contractors in the automation perimeter.

 **Integrated industrial safety system**

GRI 201-1

## SUSTAINABLE ECONOMIC DEVELOPMENT

### DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED

Direct economic value generated and distributed between 2018 and 2020.

| Indicators   | 2020    | 2019    | 2018    | Changes<br>2020/2019, % |
|--|---------|---------|---------|-------------------------|
| EBITDA, billion tenge  | 338,4   | 313,9   | 249,1   | 7,8                     |
| Operating income, billion tenge  | 1 173,3 | 1 139,1 | 1 044,2 | 3                       |
| Cost of sales, billion tenge   | 885,4   | 872,4   | 818,4   | 1,5                     |
| Operating profit, billion tenge <sup>1</sup>                                 | 181,6   | 159,1   | 122,2   | 14,1                    |
| Net profit attributable to the Sole Shareholder, for the year, billion tenge | 16,2    | -70,2   | -87,2   |                         |
| EBITDA margin, %   | 28,8    | 27,1    | 23,7    | 6,3                     |
| Operating efficiency (cost/sales revenue),%                                  | 75      | 77      | 78      | -2,6                    |

Note: 1 Adjusted data for 2018-2019 due to the calculation of the indicator excluding expenses from non-core activities.

### Expenses for ongoing operations, 2018-2020.

| Indicators                                  | 2020    | 2019    | 2018    | Changes<br>2020/2019, % |
|---|---------|---------|---------|-------------------------|
| Total revenue, million tenge                | 1 173,3 | 1 139,1 | 1 044,2 | 3                       |
| freight transportation, billion tenge       | 1062,5  | 959,8   | 849,0   | 10,7                    |
| passenger transportation, billion tenge     | 38,2    | 84,8    | 84,2    | -55                     |
| subsidies, billion tenge                    | 25,5    | 31,4    | 20,8    | -18,8                   |
| others, billion tenge                       | 47,1    | 63,2    | 90,2    | -25,5                   |
| Operating costs, billion tenge <sup>2</sup> | 991,7   | 980     | 927,6   | 1,2                     |
| Salaries and other payments, billion tenge  | 329,5   | 322,5   | 304,0   | 2,2                     |
| EBITDA, billion tenge                       | 338,4   | 313,9   | 249,1   | 7,8                     |

Note: 2 Adjusted data for 2018-2019 due to the calculation of the indicator taking into account the impairment of assets.



# ECONOMIC IMPACT IN THE REGIONS OF PRESENCE

The Company, carrying out its activities, has a direct and indirect economic impact on the regions of its presence.

The Company's impacts, determined by the number of jobs, taxes paid, employee wages and development, investments, environmental impacts and other direct investments, are **direct economic impacts**.

## TAX DEDUCTIONS

The amount of taxes and other mandatory payments paid by NC KTZ JSC and its subsidiaries to the budget of the Republic of Kazakhstan in the reporting year amounted to 108,629 million tenge.

### PAID TAXES AND OTHER OBLIGATORY PAYMENTS TO THE BUDGET OF THE REPUBLIC OF KAZAKHSTAN FOR 2020 BY REGIONS, THOUSAND TENGE

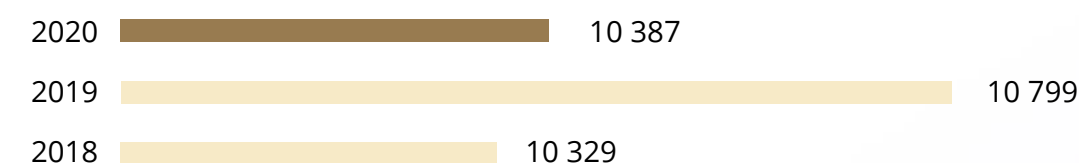
| Regions of presence     | Total, thous. tenge | Share, % |
|-------------------------|---------------------|----------|
| <b>TOTAL</b>            | 108 628 988         | 100      |
| Nur-Sultan              | 57 356 298          | 52,8     |
| Almaty                  | 3 814 974           | 3,51     |
| Shymkent                | 1 787 512           | 1,65     |
| Akmola Region           | 4 737 213           | 4,36     |
| Aktobe Region           | 6 305 264           | 5,8      |
| Almaty Region           | 3 736 587           | 3,44     |
| Karaganda Region        | 7 468 962           | 6,88     |
| Zhambyl Region          | 3 468 886           | 3,19     |
| West-Kazakhstan Region  | 189 617             | 0,17     |
| East Kazakhstan Region  | 2 881 826           | 2,65     |
| North-Kazakhstan Region | 201 633             | 0,19     |
| Atyrau Region           | 2 362 439           | 2,17     |
| Pavlodar Region         | 3 268 893           | 3,01     |
| Kyzylorda Region        | 2 501 381           | 2,3      |
| Turkistan Region        | 633 955             | 0,58     |
| Mangystau Region        | 4 823 359           | 4,44     |
| Kostanay Region         | 3 090 189           | 2,84     |

# SOCIAL SUPPORT

Expenses for social support of the Company's employees for the reporting period amounted to 10.3 billion tenge (in 2019 - 10.8 billion tenge), including expenses for vocational training and

advanced training, sanatorium rehabilitation of employees and pensioners, for a healthy lifestyle and promotion of sport among workers and so on.

### EXPENSES FOR SOCIAL SUPPORT OF EMPLOYEES BETWEEN 2018 AND 2020, MILLION TENGE



### DRINKING WATER SUPPLY

At some stations and crossings, which are served by employees of NC KTZ JSC, there is no access to clean drinking water.

The Company supplies those settlements with imported water both for the Company's

employees and for the population living in those regions.

In the reporting year, 14,884 people were provided with clean drinking water.

### NUMBER OF PEOPLE PROVIDED WITH IMPORTED WATER FROM NC KTZ JSC BY REGION, PEOPLE.

| Regions                    | Total, people |
|----------------------------|---------------|
| <b>TOTAL</b>               | 14 884        |
| Central and Easter regions | 2 290         |
| Southern region            | 2 805         |
| Northern region            | 3 353         |
| Western region             | 6 436         |



## INDIRECT ECONOMIC IMPACTS

Along with direct economic impacts, the Company also has indirect impacts on the regions of its presence.

Due to purchases and consumer spending of employees, the Company significantly influences other sectors and industries of the country. The Company ensures the creation of a certain number of additional jobs in contractor companies, which allows them to generate income and wages for their employees, as well as additional tax revenues to the country's budget.

By providing jobs, paying wages, and providing a social package to its employees, the Company

has an indirect economic impact on their family members.

The Company has adopted the Methodology for the Indirect Economic Impact of NC KTZ JSC on the regions of its presence.

This Methodology is aimed at identifying and studying the indirect impact of the Company on the regions of its presence, as well as the opportunity to demonstrate to the population specific economic and social benefits from the operation of the Company.

The Methodology provides indicators to assess the impact of the Company on the regions of operation. These include:

- The amount of contracts for the purchase of TCM, works and services;
- The number of new jobs after implementing infrastructure projects by the Company and opening new enterprises;
- The number of family members of employees of the Company.

Information on these indicators by region can be found in this section. However, no new jobs were created in the Company in the reporting year.

The total number of family members of employees of the Company and its subsidiaries is 271,721 people, including 138,523 children under the age of majority.

### NUMBER OF FAMILY MEMBERS OF EMPLOYEES OF NC KTZ JSC FOR THE REPORTING YEAR, PEOPLE

| Regions                    | Family members,<br>people | Including<br>children under adult age, person |
|----------------------------|---------------------------|---|
| <b>TOTAL</b>               | 271 721                   | 138 523                                       |
| Nur-Sultan                 | 21 011                    | 10 026  |
| Almaty                     | 14 785                    | 9 070   |
| Shymkent                   | 7 110                     | 4 356   |
| Akmola Region              | 14 244                    | 6 293   |
| Aktobe Region              | 27 759                    | 14 675  |
| Almaty Region              | 30 418                    | 14 009  |
| Karaganda Region           | 22 408                    | 9 270   |
| Zhambyl Region             | 24 061                    | 14 149  |
| Western Kazakhstan Region  | 3 473                     | 1 402   |
| Eastern Kazakhstan Region  | 11 182                    | 8 710   |
| Northern Kazakhstan Region | 2 070                     | 1 243   |
| Atyrau Region              | 16 892                    | 8 165   |
| Pavlodar Region            | 12 689                    | 7 676   |
| Kyzylorda Region           | 17 968                    | 9 396   |
| Turkistan Region           | 13 728                    | 7 415   |
| Mangystau Region           | 17 202                    | 8 055   |
| Kostanay Region            | 14 721                    | 4 613   |





## PROCUREMENT PRACTICE

When carrying out procurement activities, the Company is guided by the Procurement Management Rules of NC KTZ JSC and organizations fifty or more percent of voting shares (participation interests) of which are directly or indirectly owned by NC KTZ JSC on the basis of ownership or trust approved by the decision of the Management Board of NC KTZ JSC, the Procedure for Procurement Implementation of the Fund and organizations fifty and more percent of voting shares

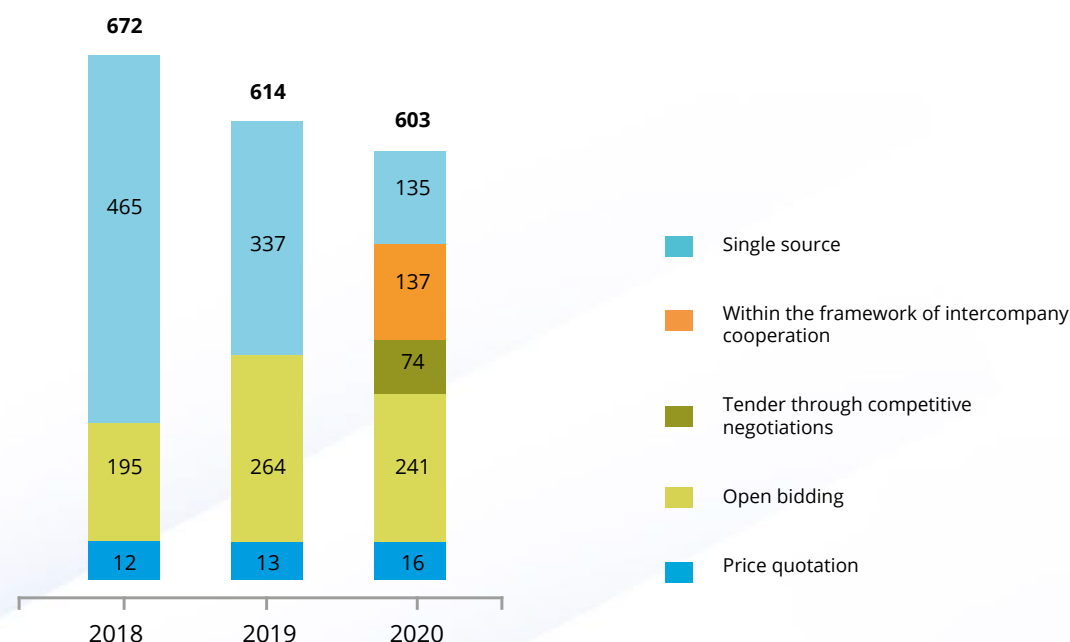
(participation interests) of which directly or indirectly belong to the Fund on the basis of ownership or trust approved by the decision of the Board of Directors of the Fund, and the Procurement Management Standard of the Fund and organizations fifty or more percent of voting shares (participation interests) of which are directly or indirectly owned by the Fund on the basis of ownership or trust management approved by the decision of the Board of the Fund.

All information about the procurement of NC KTZ JSC is posted on the corporate website of the Company: <http://www.railways.kz>, and on the specialized procurement portal: <http://www.zakup.sk.kz> and is available to all

potential suppliers. The e-procurement system has significantly increased the efficiency of the procurement process and made it more transparent.

In the reporting year, purchases were made in the amount of 603 billion tenge.

### PURCHASES OF NC KTZ JSC BETWEEN 2018 AND 2020, BILLION TENGE



### PURCHASES OF NC KTZ JSC BETWEEN 2018 AND 2020 IN THE CONTEXT OF REGIONS, MILLION TENGE

|                               | 2020                               |                           | 2019                               |                           | 2018                               |                           |
|-------------------------------|------------------------------------|---------------------------|------------------------------------|---------------------------|------------------------------------|---------------------------|
|                               | Amount of contracts, million tenge | Share of local content, % | Amount of contracts, million tenge | Share of local content, % | Amount of contracts, million tenge | Share of local content, % |
| <b>Total, million tenge</b>   | 667 916                            | 84                        | 671 827                            | 79                        | 614 345                            | 79                        |
| <b>Republic of Kazakhstan</b> | 644 597                            | 87                        | 661 049                            | 79                        | 575 743                            | 79                        |
| Nur-Sultan                    | 461 347                            | 95                        | 513 505                            | 85                        | 429 305                            | 86                        |
| Almaty                        | 18 966                             | 49                        | 60 328                             | 56                        | 60 162                             | 78                        |
| Shymkent                      | 1 810                              | 65                        | 2 819                              | 65                        | 4 934                              | 70                        |
| Akmola Region                 | 99 535                             | 72                        | 7 662                              | 48                        | 6 260                              | 75                        |
| Aktobe Region                 | 5 013                              | 68                        | 4 618                              | 79                        | 4 435                              | 79                        |
| Almaty Region                 | 8 270                              | 86                        | 7 931                              | 74                        | 7 703                              | 85                        |
| Atyrau Region                 | 993                                | 45                        | 5 243                              | 73                        | 2 223                              | 83                        |
| Eastern Kazakhstan Region     | 4 947                              | 66                        | 5 627                              | 63                        | 7 412                              | 73                        |
| Zhambyl Region                | 1 158                              | 86                        | 2 460                              | 65                        | 3 190                              | 78                        |
| Western Kazakhstan Region     | 863                                | 74                        | 956                                | 76                        | 518                                | 71                        |
| Karaganda Region              | 12 387                             | 80                        | 20 091                             | 70                        | 24 799                             | 65                        |
| Kostanay Region               | 1 786                              | 38                        | 2 403                              | 86                        | 1 984                              | 72                        |
| Kyzylorda Region              | 660                                | 81                        | 1 496                              | 87                        | 1 511                              | 83                        |
| Mangystau Region              | 1 773                              | 76                        | 3 454                              | 83                        | 4 083                              | 87                        |
| Pavlodar Region               | 6 896                              | 50                        | 11 355                             | 69                        | 12 235                             | 69                        |
| Northern Kazakhstan Region    | 8 118                              | 51                        | 10 002                             | 60                        | 2 971                              | 62                        |
| Turkistan Region              | 10 075                             | 15                        | 1 100                              | 69                        | 2 018                              | 61                        |
| <b>Nonresidents</b>           | 23 319                             | 0                         | 10 778                             | 1                         | 38 602                             | 2                         |

Note: The calculation of local content in the procurement of goods, works and services includes the volumes of carryover and long-term contracts.

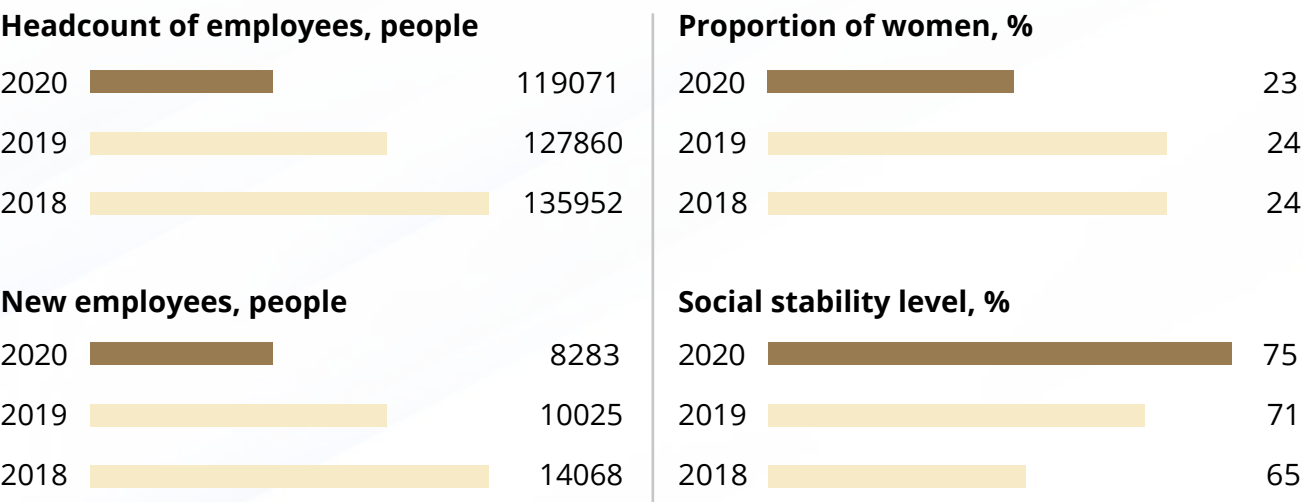
### SHARE OF LOCAL CONTENT IN THE PROCUREMENT OF GOODS, WORKS AND SERVICES BETWEEN 2018 AND 2020

| Indicator  | 2020 | 2018 | 2019 | Changes 2019/2018, % | Changes 2019/2018, % |
|--|------|------|------|----------------------|----------------------|
| Actual share of local content in purchases of goods, works and services, % | 84   | 79   | 79   | 0                    | 6                    |



# SOCIAL RESPONSIBILITY

## KEY INDICATORS



NC KTZ JSC is the largest employer and one of the most geographically widespread employers in the country. These circumstances impose

great social obligations on the Company, which the Company fulfills with great honor.

The Company follows the principles of social responsibility and strives to:

- create the most favorable conditions for the life and work of their employees, providing them with a full “social package” and the opportunity to learn and improve professional skills;
- improve the living conditions of the population of Kazakhstan, creating new jobs, reducing the transport component, increasing the mobility of the population and implementing charitable projects.

# SOCIAL STABILITY INDEX

Every year, the Center for Social Interaction and Communications of the Fund conducts a study of the social stability index in the Company and its subsidiaries in order to determine a real assessment of personnel, communication and social policies through the mood and opinions of employees.

At the end of 2020, the social stability index in NC KTZ JSC was 75%, which is 4% higher than the rating in 2019.

The personnel engagement index in comparison with the 2019 indicator increased by 22 points, the social peace index by 17 points. At the same time, the index of social well-being, reflecting

the material self-sufficiency of production workers, was in a critical zone. The reasons for this indicator were the consequences of the economic crisis and the current difficult situation in the country due to Covid-19 pandemic.

Despite this, the results of the study to determine the general well-being of the production personnel of NC KTZ JSC indicate a relatively favorable environment in the workforce of the Company. At the time of the survey, a significant part of the employees

positively assessed the actions of the Company's management regarding the issues of working conditions, communications, relationships and labor safety at production sites.

Based on the results of the research, the Company and its subsidiaries adopt Action Plans to improve the level of social stability and employee engagement for the coming year, which reflect the recommendations of experts from the Center for Social Interaction and Communications of the Fund.

# COMPANY PERSONNEL

Employees are the most valuable resource for the Company. To ensure favorable working conditions and personnel development, the Company implements a systematic social and personnel policy. The Personnel Policy of NC KTZ JSC for 2019-2029 approved by the Board of Directors in 2019 is a fundamental document that defines the main approaches, principles, requirements and directions for the development of the human resources management function in the Company and its subsidiaries until 2029.

HR Policy defines key performance indicators (KPI) with expected results.

Below is information on the performance of the KPI at the end of 2020.

| KPI of Personnel Policy                | 2020  |   |
|--|---|---|
|  | Plan  | Actual  |
| HR function satisfaction               | no planned target   | 93%   |
| Social stability and staff involvement | Not less than 60%   | Social stability, 75%<br>Employee engagement, 81% |
| Personnel costs                        | Wages fund<br>288,768,902 thousand tenge                    | Wages fund<br>286,586,206 thousand tenge          |
| Security level                         | 269,226 man-hours (threshold)<br>282,687 man-hours (target) | 286,860 man-hours                                 |
| Labor productivity                     | 2,524 thousand tons km/person                               | 2,511 thousand tons km/person                     |

Labor Productivity KPI did not reach the planned value due to the restriction of passenger rail

traffic due to the epidemiological situation in the country.

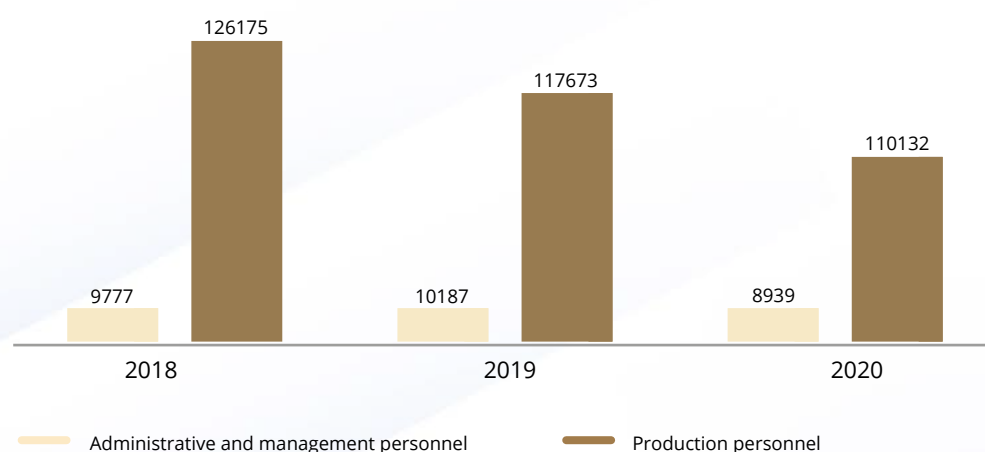


At the end of 2020, the headcount of the Company's employees amounted to 119,071 people.

## HEADCOUNT OF EMPLOYEES, BY SEX AND REGION AT THE END OF THE REPORTING PERIOD

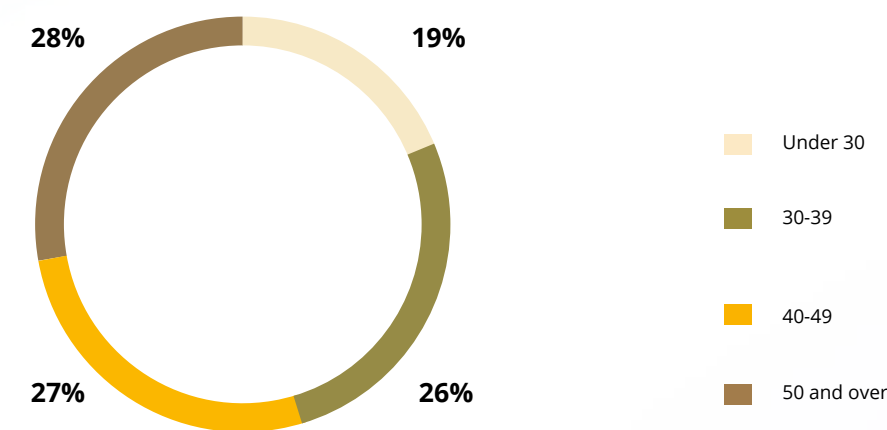
|                            | Total amount   | Including     |               |
|----------------------------|----------------|---------------|---------------|
|                            |                | women         | men           |
| <b>Total</b>               | <b>119 071</b> | <b>27 658</b> | <b>91 413</b> |
| Nur-Sultan                 | 15 346         | 5 139         | 10 207        |
| Almaty                     | 7 071          | 1 888         | 5 183         |
| Shymkent                   | 2 333          | 529           | 1 804         |
| Akmola Region              | 5 302          | 1 123         | 4 179         |
| Aktobe Region              | 11 787         | 2 787         | 9 000         |
| Almaty Region              | 8 889          | 1 782         | 7 107         |
| Atyrau Region              | 5 725          | 1 489         | 4 236         |
| Eastern Kazakhstan Region  | 7 573          | 1 710         | 5 863         |
| Zhambyl Region             | 8 746          | 1 348         | 7 398         |
| Western Kazakhstan Region  | 877            | 170           | 707           |
| Karaganda Region           | 12 426         | 2 894         | 9 532         |
| Kostanay Region            | 7 769          | 1 808         | 5 961         |
| Kyzylorda Region           | 6 303          | 976           | 5 327         |
| Mangystau Region           | 5 311          | 1 102         | 4 209         |
| Pavlodar Region            | 8 332          | 2 282         | 6 050         |
| Northern Kazakhstan Region | 1 087          | 118           | 969           |
| Turkistan Region           | 4 194          | 513           | 3 681         |

## HEADCOUNT OF EMPLOYEES, BY CATEGORY BETWEEN 2018 AND 2020



Production personnel out of the total number of employees are 110,132 people or 92.5%, administrative and managerial personnel – 8,939 people or 7.5% (in 2019, 92% and 8%, respectively).

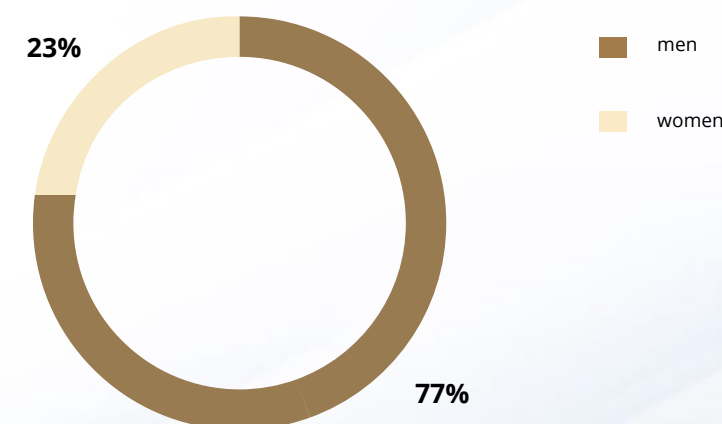
## PROPORTION OF EMPLOYEES, BY AGE FOR THE REPORTING PERIOD



Employees in the context of age groups: between 30 and 39, between 40 and 49, over 50 years old are evenly represented and have small differences in number. At the same time,

the share of young employees under the age of 30 is a minority, 19% of the total headcount.

## SHARE OF EMPLOYEES, BY GENDER, FOR THE REPORTING PERIOD



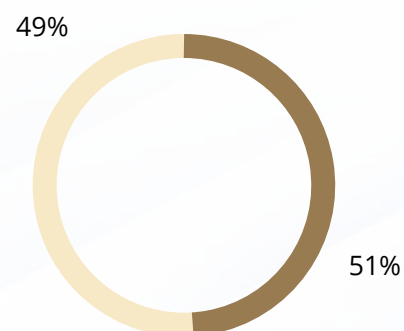
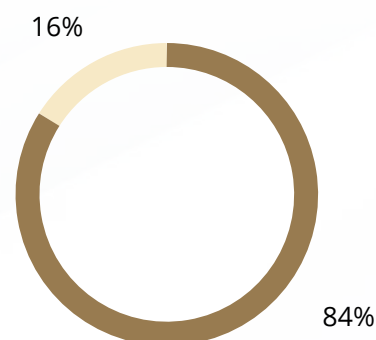
The structure of personnel by gender is represented by the majority of men due to the

specifics of the Company's activities. Men make up 77% of the total, women – 23%.

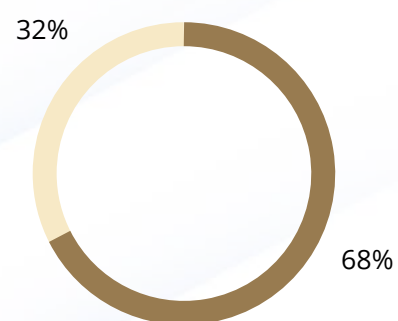


## THE STRUCTURE OF MANAGEMENT PERSONNEL BY GENDER FOR THE REPORTING PERIOD IN THE CENTRAL OFFICE OF THE COMPANY, BACKBONE NETWORK DIRECTORATE BRANCH NC KTZ JSC, AND KEY SUBSIDIARIES

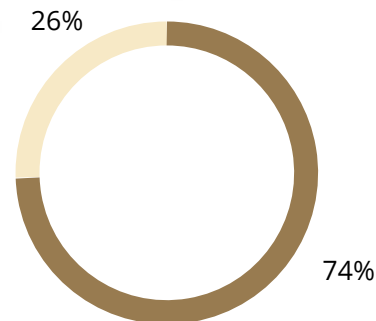
Central office of NC KTZ JSC

Mainline Network Directorate  
branch NC KTZ JSC

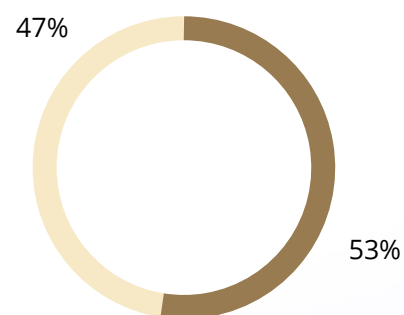
Passenger Transportation JSC



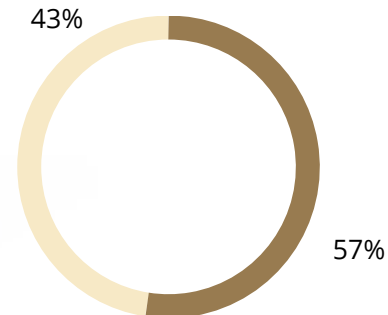
KTZ-FR Freight Transportation LLP



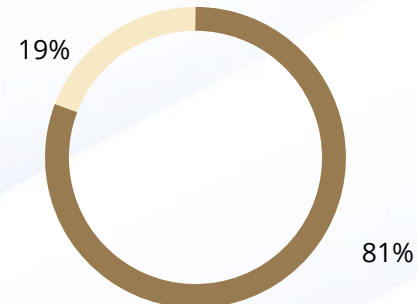
Kaztemirtrans JSC



KTZ Express JSC



Kedentransservice JSC



GRI 401-1

## NUMBER OF EMPLOYEES WHO LEFT THE COMPANY, BY CATEGORY

|   | 2020          | 2019          | 2018         | Changes<br>2019/2018, % | Changes<br>2020/2019, % |
|---|---------------|---------------|--------------|-------------------------|-------------------------|
| Administrative and managerial personnel, people | 1 055         | 835           | 760          | 9,86                    | 26,35                   |
| Production personnel, people                    | 14 545        | 11 045        | 9 183        | 20,27                   | 31,69                   |
| <b>TOTAL</b>                                    | <b>15 600</b> | <b>11 880</b> | <b>9 943</b> | <b>19,48</b>            | <b>31,31</b>            |

## NUMBER OF EMPLOYEES WHO LEFT THE COMPANY, BY GENDER

|               | 2020          | 2019          | 2018         | Changes<br>2019/2018, % | Changes<br>2020/2019, % |
|---------------|---------------|---------------|--------------|-------------------------|-------------------------|
| Women, people | 3 761         | 2 389         | 1 822        | 31,12                   | 57,43                   |
| Men, people   | 11 839        | 9 491         | 8 121        | 16,87                   | 24,74                   |
| <b>TOTAL</b>  | <b>15 600</b> | <b>11 880</b> | <b>9 943</b> | <b>19,48</b>            | <b>31,31</b>            |

## NUMBER OF EMPLOYEES WHO LEFT THE COMPANY, BY AGE

|                      | 2020          | 2019          | 2018         | Changes<br>2019/2018, % | Changes<br>2020/2019, % |
|----------------------|---------------|---------------|--------------|-------------------------|-------------------------|
| <b>Women, people</b> | <b>3 761</b>  | <b>2 389</b>  | <b>1 822</b> | <b>31,12</b>            | <b>57,43</b>            |
| under 30             | 574           | 1 502         | 956          | 57,11                   | -61,78                  |
| 30-50                | 1 863         | 706           | 762          | -7,34                   | 163,88                  |
| over 50              | 1 324         | 181           | 104          | 74,03                   | 631,49                  |
| <b>Men, people</b>   | <b>11 839</b> | <b>9 491</b>  | <b>8 121</b> | <b>16,87</b>            | <b>24,74</b>            |
| under 30             | 2 713         | 2 133         | 2 179        | -2,11                   | 27,19                   |
| 30-50                | 5 585         | 5 995         | 4 610        | 30,04                   | -6,84                   |
| over 50              | 3 541         | 1 363         | 1 332        | 2,32                    | 159,79                  |
| <b>TOTAL</b>         | <b>15 600</b> | <b>11 880</b> | <b>9 943</b> | <b>19,48</b>            | <b>31,31</b>            |

## NUMBER OF EMPLOYEES WHO LEFT THE COMPANY, BY REGION

|                               | 2020         | 2019         | 2018         | Changes<br>2019/2018, % | Changes<br>2020/2019, % |
|-------------------------------|--------------|--------------|--------------|-------------------------|-------------------------|
| <b>Women, people</b>          | <b>3 761</b> | <b>2 389</b> | <b>1 822</b> | <b>31,12</b>            | <b>57,43</b>            |
| <b>Republic of Kazakhstan</b> | <b>3 761</b> | <b>2 389</b> | <b>1 822</b> | <b>31,12</b>            | <b>57,43</b>            |
| Nur-Sultan                    | 807          | 625          | 445          | 40,44                   | 29,12                   |
| Almaty                        | 356          | 311          | 238          | 30,67                   | 14,47                   |
| Shymkent                      | 43           | 51           | 22           | 131,81                  | -15,69                  |
| Akmola Region                 | 176          | 98           | 128          | -23,43                  | 79,59                   |
| Aktobe Region                 | 361          | 110          | 81           | 35,80                   | 228,18                  |
| Almaty Region                 | 206          | 108          | 124          | -12,90                  | 90,74                   |
| Atyrau Region                 | 158          | 53           | 57           | -7,01                   | 198,11                  |
| Eastern Kazakhstan Region     | 270          | 97           | 157          | -38,21                  | 178,35                  |
| Zhambyl Region                | 141          | 200          | 56           | 257,14                  | -29,5                   |
| Western Kazakhstan Region     | 22           | 41           | 19           | 115,78                  | -46,34                  |
| Karaganda Region              | 290          | 211          | 151          | 39,73                   | 37,44                   |
| Kostanay Region               | 268          | 127          | 92           | 38,04                   | 111,02                  |
| Kyzylorda Region              | 97           | 20           | 16           | 25                      | 385                     |
| Mangystau Region              | 132          | 109          | 56           | 96,64                   | 21,1                    |
| Pavlodar Region               | 322          | 186          | 151          | 23,17                   | 73,12                   |
| Northern Kazakhstan Region    | 19           | 21           | 12           | 75                      | -9,52                   |

|                               |               |              |              |              |              |
|-------------------------------|---------------|--------------|--------------|--------------|--------------|
| Turkistan Region              | 93            | 21           | 17           | 23,52        | 342,86       |
| <b>Men, people</b>            | <b>11 839</b> | <b>9 491</b> | <b>8 121</b> | <b>16,87</b> | <b>24,74</b> |
| <b>Republic of Kazakhstan</b> | <b>11 839</b> | <b>9 491</b> | <b>8 121</b> | <b>16,87</b> | <b>24,74</b> |
| Nur-Sultan                    | 1 484         | 1 359        | 1 182        | 14,97        | 9,2          |
| Almaty                        | 811           | 615          | 434          | 41,70        | 31,87        |
| Shymkent                      | 225           | 296          | 166          | 78,31        | -23,99       |
| Akmola Region                 | 565           | 676          | 751          | -9,98        | -16,42       |
| Aktobe Region                 | 1 105         | 634          | 742          | -14,55       | 74,29        |
| Almaty Region                 | 1 032         | 726          | 423          | 71,63        | 42,15        |
| Atyrau Region                 | 497           | 370          | 364          | 1,64         | 34,32        |
| Eastern Kazakhstan Region     | 887           | 803          | 691          | 16,20        | 10,46        |
| Zhambyl Region                | 651           | 615          | 359          | 71,30        | 5,85         |
| Western Kazakhstan Region     | 124           | 170          | 137          | 24,08        | -27,06       |
| Karaganda Region              | 1 243         | 883          | 796          | 10,92        | 40,77        |
| Kostanay Region               | 989           | 936          | 693          | 35,06        | 5,66         |
| Kyzylorda Region              | 371           | 151          | 144          | 4,86         | 145,7        |
| Mangystau Region              | 346           | 261          | 283          | -7,77        | 32,57        |
| Pavlodar Region               | 1 004         | 754          | 773          | -2,45        | 33,16        |
| Northern Kazakhstan Region    | 152           | 97           | 73           | 32,87        | 56,7         |
| Turkistan Region              | 353           | 145          | 110          | 31,81        | 143,45       |

Staff turnover at the end of the reporting year was 8.2% (in 2019 - 8.9%).

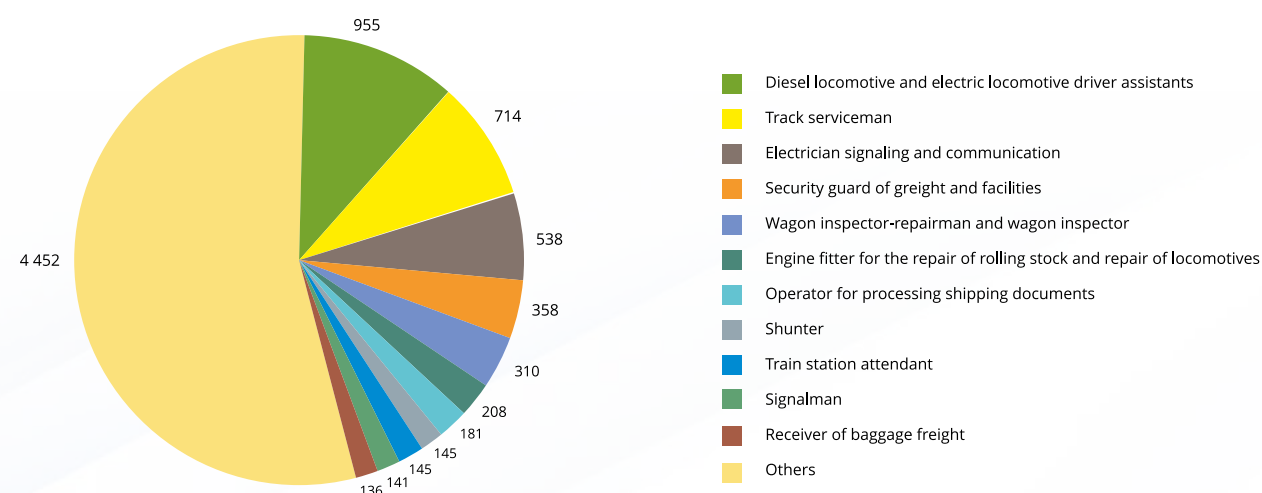
The share of employees who left the company due to retirement was 7.1% (in 2019 – 7.4%).

In the reporting year, the Company hired 8,283 new employees, of which 3,683 young specialists under the age of 30, or 45% of the total number of employees hired.

New employees include more than 900 diesel locomotive and electric locomotive driver assistants, about 700 track servicemen, as well as over 500 signaling and communication electricians.



## NUMBER OF EMPLOYEES HIRED BY THE COMPANY, BY POSITION, PEOPLE



The Company is taking measures to adapt new employees. The adaptation of a new employee is carried out using a set of measures aimed at developing the employee's involvement in the Company's production activities, familiarizing the employee with the corporate values of the Company and developing the corporate culture, helping the employee understand the social, organizational and economic working conditions in the Company, and promoting the establishment of long-term labor relations of an employee with the Company, reducing the percentage of employee turnover in the first year of work.

As part of the adaptation course, there is a program by which newly hired employees will be introduced (interactive), and also get acquainted with the Company as a whole.

The adaptation course program uses a lecture format for interacting with the audience. The heads of the Compliance Service, the departments for risk management and internal control, human resources, as well as the Business Transformation Center branch of NC KTZ JSC speak to the newly hired employees telling about the features of the Company and the history of the development of the railway of the Republic of Kazakhstan. The program includes a visit to the museum and library of NC KTZ JSC.

Currently, work is underway to improve and improve this process and update the Rules for the adaptation of personnel in NC KTZ JSC.

## NUMBER OF EMPLOYEES HIRED BY THE COMPANY, BY GENDER

|               | 2020         | 2019          | 2018          | Changes<br>2019/2018, % | Changes<br>2020/2019, % |
|---------------|--------------|---------------|---------------|-------------------------|-------------------------|
| Women, people | 1 156        | 2 615         | 4 029         | -35,09                  | -55,79                  |
| Men, people   | 7 127        | 7 410         | 10 039        | -26,18                  | -3,82                   |
| <b>TOTAL</b>  | <b>8 283</b> | <b>10 025</b> | <b>14 068</b> | <b>-28,73</b>           | <b>-17,38</b>           |

## NUMBER OF EMPLOYEES HIRED BY THE COMPANY, BY AGE

|                      | 2020         | 2019          | 2018          | Changes<br>2019/2018, % | Changes<br>2020/2019, % |
|----------------------|--------------|---------------|---------------|-------------------------|-------------------------|
| <b>Women, people</b> | <b>1 156</b> | <b>2 615</b>  | <b>4 029</b>  | <b>-35,09</b>           | <b>-55,79</b>           |
| under 30             | 456          | 1 122         | 1 327         | -15,44                  | -59,36                  |
| 30-50                | 573          | 1 272         | 2 039         | -37,61                  | -54,95                  |
| over 50              | 127          | 221           | 663           | -66,66                  | -42,53                  |
| <b>Men, people</b>   | <b>7 127</b> | <b>7 410</b>  | <b>10 039</b> | <b>-26,18</b>           | <b>-3,82</b>            |
| under 30             | 3 227        | 2 905         | 4 372         | -33,55                  | 11,08                   |
| 30-50                | 3 146        | 3 344         | 3 847         | -13,07                  | -5,92                   |
| over 50              | 754          | 1 161         | 1 820         | -36,20                  | -35,06                  |
| <b>TOTAL</b>         | <b>8 283</b> | <b>10 025</b> | <b>14 068</b> | <b>-28,73</b>           | <b>-17,38</b>           |

## NUMBER OF EMPLOYEES HIRED BY THE COMPANY, BY REGION

|                               | 2020         | 2019         | 2018          | Changes<br>2019/2018, % | Changes<br>2020/2019, % |
|-------------------------------|--------------|--------------|---------------|-------------------------|-------------------------|
| <b>Women, people</b>          | <b>1 156</b> | <b>2 615</b> | <b>4 029</b>  | <b>-35,09</b>           | <b>-55,79</b>           |
| <b>Republic of Kazakhstan</b> | <b>1 156</b> | <b>2 613</b> | <b>4 028</b>  | <b>-35,12</b>           | <b>-55,76</b>           |
| Nur-Sultan                    | 185          | 513          | 678           | -24,33                  | -63,94                  |
| Almaty                        | 112          | 320          | 430           | -25,58                  | -65                     |
| Shymkent                      | 8            | 33           | 60            | -45                     | -75,76                  |
| Akmola Region                 | 93           | 159          | 349           | -54,44                  | -41,51                  |
| Aktobe Region                 | 74           | 265          | 277           | -4,33                   | -72,08                  |
| Almaty Region                 | 97           | 78           | 189           | -58,73                  | 24,36                   |
| Atyrau Region                 | 55           | 105          | 180           | -41,66                  | -47,62                  |
| Eastern Kazakhstan Region     | 97           | 177          | 302           | -41,39                  | -45,2                   |
| Zhambyl Region                | 49           | 123          | 219           | -43,83                  | -60,16                  |
| Western Kazakhstan Region     | 6            | 22           | 20            | 10                      | -72,73                  |
| Karaganda Region              | 88           | 290          | 508           | -42,91                  | -69,66                  |
| Kostanay Region               | 140          | 168          | 249           | -32,53                  | -16,67                  |
| Kyzylorda Region              | 15           | 55           | 80            | -31,25                  | -72,73                  |
| Mangystau Region              | 20           | 54           | 130           | -58,46                  | -62,96                  |
| Pavlodar Region               | 104          | 189          | 280           | -32,50                  | -44,97                  |
| Northern Kazakhstan Region    | 3            | 48           | 67            | -28,35                  | -93,75                  |
| Turkistan Region              | 10           | 14           | 10            | 40                      | -28,57                  |
| <b>Men, people</b>            | <b>7 127</b> | <b>7 410</b> | <b>10 039</b> | <b>-26,18</b>           | <b>-3,82</b>            |
| <b>Republic of Kazakhstan</b> | <b>7 127</b> | <b>7 319</b> | <b>9 964</b>  | <b>-26,54</b>           | <b>-2,62</b>            |
| Nur-Sultan                    | 1 009        | 1 174        | 1 835         | -36,02                  | -14,05                  |

|                            |              |               |               |               |               |
|----------------------------|--------------|---------------|---------------|---------------|---------------|
| Almaty                     | 608          | 716           | 969           | -26,10        | -15,08        |
| Shymkent                   | 79           | 58            | 248           | -76,61        | 36,21         |
| Akmola Region              | 362          | 471           | 598           | -21,23        | -23,14        |
| Aktobe Region              | 544          | 532           | 533           | -0,18         | 2,26          |
| Almaty Region              | 618          | 380           | 515           | -26,21        | 62,63         |
| Atyrau Region              | 276          | 299           | 431           | -30,62        | -7,69         |
| Eastern Kazakhstan Region  | 557          | 639           | 609           | 4,92          | -12,83        |
| Zhambyl Region             | 475          | 275           | 460           | -40,21        | 72,73         |
| Western Kazakhstan Region  | 60           | 56            | 130           | -56,92        | 7,14          |
| Karaganda Region           | 895          | 749           | 896           | -16,40        | 19,49         |
| Kostanay Region            | 605          | 759           | 653           | 16,23         | -20,29        |
| Kyzylorda Region           | 64           | 93            | 401           | -76,80        | -31,18        |
| Mangystau Region           | 93           | 214           | 418           | -48,80        | -56,54        |
| Pavlodar Region            | 592          | 679           | 945           | -28,14        | -12,81        |
| Northern Kazakhstan Region | 132          | 58            | 111           | -47,74        | 127,59        |
| Turkistan Region           | 158          | 167           | 212           | -21,22        | -5,39         |
| <b>TOTAL</b>               | <b>8 283</b> | <b>10 025</b> | <b>14 068</b> | <b>-28,73</b> | <b>-17,38</b> |

The Company implements the Zhas Orken program for the development of young specialists; for students of colleges and universities there is an opportunity for internships, practice in the NC KTZ JSC Group.

The NC KTZ JSC Group annually attracts young specialists from the Zhas Orken projects (rotation for 5 months) and Digital Summer (for 2-month summer internships), organized under the auspices of the Fund.

In the period between 2019 and 2020, 17 young specialists were rotated in the NC KTZ JSC Group within the framework of the Zhas

Orken program, of which two graduates were employed.

As part of the Digital Summer internship program, 8 young specialists came for an internship in 2019 and 7 young specialists in 2020. Of these, 2 specialists were employed in 2019, and 3 specialists in 2020.

Also, on an annual basis, students from various universities and colleges undergo practical training in the NC KTZ JSC Group. In the reporting year, more than 100 students completed internships.

## HEADCOUNT OF EMPLOYEES BY TYPE OF EMPLOYMENT AT THE END OF 2020

|                        | Total amount | Including |        |
|------------------------|--------------|-----------|--------|
|                        |              | men       | women  |
| Headcount of employees | 119 071      | 91 413    | 27 658 |
| full-time employment   | 119 071      | 91 413    | 27 658 |
| part-time employment   | 0            | 0         | 0      |

## HEADCOUNT OF EMPLOYEES BY THE TERMS OF EMPLOYMENT AGREEMENT AT THE END OF 2020

|   | Total amount | Including |        |
|---|--------------|-----------|--------|
|   |              | men       | women  |
| Working under employment contracts for an indefinite period | 116 416      | 89 965    | 26 451 |
| Working under temporary employment contracts (urgent)       | 2 655        | 1 448     | 1 207  |

## HEADCOUNT OF EMPLOYEES BY FULL-TIME AND PART-TIME EMPLOYEES AT THE END OF 2020

|                    | Total amount | Including |        |
|--------------------|--------------|-----------|--------|
|                    |              | men       | women  |
| Full-time employee | 119 071      | 91 413    | 27 658 |
| Part-time employee | 0            | 0         | 0      |

## HEADCOUNT OF EMPLOYEES ON PARENTAL LEAVE AT THE END OF 2020

|                                   | Total amount | Including |       |
|-----------------------------------|--------------|-----------|-------|
|                                   |              | men       | women |
| Total employees on parental leave | 3 929        | 215       | 3 714 |

## HEADCOUNT OF EMPLOYEES WHO RETURNED FROM PARENTAL LEAVE AT THE END OF 2020

|  | Total amount | Including |       |
|--|--------------|-----------|-------|
|  |              | men       | women |
| Total employees returning from maternity/paternity leave | 894          | 85        | 809   |

The number of employees on parental leave at the end of 2020 was 3,929 people (in 2019, 4,121 people), with a large share of women, 94.5%. There are 3,714 women on maternity leave (in 2019, 4,064 women).

The number of employees who returned to work after the end of parental leave at the end of 2020 was 894 people (in 2019, 374 people).



## PERSONNEL ASSESSMENT

On December 14, 2017, the Management Board of the Fund approved the Corporate Standard for Human Resource Management of the Fund Group (Minutes No. 44/17).

In accordance with the Corporate Standard, the Company has adopted the Rules for assessing the activities of administrative and managerial employees of NC KTZ JSC and its subsidiaries.

In the reporting year, the Management Board of NC KTZ JSC made amendments and additions to these Rules (the decisions dated August 11 and October 2, 2020). The Rules provide for a process of regular comprehensive assessment of personnel performance according to the talent map (9 cell model).

Assessment of employee performance in the Company is carried out throughout the entire calendar year and includes: setting goals for employees for half a year, regular monitoring of the degree of achievement of goals based on the results of half a year, regular comprehensive assessment of goals and competencies in accordance with the current competency model, providing regular and constructive feedback to employees based on performance results.

Assessment of employee performance at the end of 2020 is carried out in all structural divisions and subsidiaries of NC KTZ JSC. The number of employees assessed in the reporting year was 2,651 people.

## EMPLOYEE SUCCESSION PROGRAM

On March 26, 2020, the Management Board of NC KTZ JSC approved the Rules for the formation and rotation of the personnel reserve of NC KTZ JSC.

In accordance with the Rules, employees assigned to cells 8 "Expert" and 9 "High Leadership Potential" of the talent map are considered enrolled in the talent pool of NC KTZ JSC or its subsidiaries.

Based on the results of the regular comprehensive assessment of activities for 2020, 214 people were enrolled in the talent

pool of the Company and its subsidiaries, of which 25 were promoted.

On July 3, 2020, the Board of Directors of NC KTZ JSC approved the Succession Plan for the Strategic Personnel Reserve of NC KTZ JSC (Minutes No. 3).

According to the Plan, seven strategic positions of the Company were identified, for which there were no vacancies in 2020. Thus, the strategic talent pool was implemented for 100%.

The goals of the formation of the personnel reserve are:

- ensuring the personnel protection of the Company and its subsidiaries due to the availability of potential candidates for appointment to positions, as well as ensuring the continuity of management;
- motivation of employees with the possibility of career growth and professional development;
- formation of an attractive image of the Company and its subsidiaries as an employer contributing to the attraction and retention of talents.

In 2020, for the development of reservists, individual development plans were developed and approved, as well as mentors were appointed who are responsible for identifying,

developing and effectively using the strengths of employees and hold meetings to discuss performance, strengths and areas for development.



## SOCIAL POLICY

The Company provides its employees with a social package that includes a wide range of benefits, creates all conditions for professional and personal development, pays special

attention to youth policy, promotion of a healthy lifestyle, and conducts a large-scale charitable campaign. Significant support is provided to retirees and employee families.

Thus, in the reporting year, the Company provided financial assistance to:

- retirees to improve and maintain health in the amount of 109 million tenge;
- employees for the birth of a child in the amount of 785 million tenge;
- employees raising disabled children alone in the amount of 45 million tenge;
- employees in for the registration of marriage in the amount of 72 million tenge, etc.

In 2020, the Company's social expenses exceeded the level of 2019 by 2% and amounted to 9.3 billion tenge.

## SOCIAL RESPONSIBLE LAYOFF PROGRAM

To achieve the goals of soft layoff of personnel without creating social tension, the Social Responsible Layoff Program was adopted in 2020.

The purpose of this Program is to ensure social stability in labor collectives through the most acceptable and economically justified tools for employees and the Company as part of the implementation of measures aimed at improving the efficiency of the NC KTZ JSC Group.

One such tool is the Early Retirement Program. The Early Retirement Program is aimed

at painless optimization of the number of employees through voluntary early retirement of the Company's employees. Employees who have 5 or less years left before the onset of retirement age, according to the legislation of the Republic of Kazakhstan, can become participants in the Program and receive compensation depending on their salary and length of service.

In total, 545 people were laid off under the Early Retirement Program in 2020.

## COLLECTIVE AGREEMENT

Social guarantees for the protection of labor rights, remuneration, labor protection, health improvement and recreation of employees and their children, as well as additional norms for improving the social status of employees are reflected in the Sectoral Agreement on Social and Labor Issues for 2018-2020 and the Collective Agreement for 2018-2020.

In accordance with the Collective Agreement, the Company has undertaken obligations to comply with the norms in social and labor relations, to provide financial support and social guarantees to employees, unemployed pensioners, disabled people in the Company, as well as victims of industrial accidents and occupational diseases. In addition, there are a number of obligations to provide social guarantees for young people, families of employees, including summer vacations and health improvement for the children of the Company's employees.

The Collective Agreement of the Company stipulates the obligations of the Company to send notifications to employees and their representatives about significant changes in

**77,4%**  
employees covered  
by collective  
agreements

the Company's activities that affect the working conditions of personnel. The deadline for notifying employees about the announcement of downtime is no later than fifteen calendar days. The Company undertakes to notify the relevant trade union bodies no later than a month in advance of its intentions to abolish the structural divisions of the Company, while including representatives of the Trade Union in the relevant commissions or working groups. Also, with an increase in the number of employees, it is envisaged to send notifications about available vacancies to employees dismissed due to staff reductions in the last six months, which is not provided for by the Labor Code of the Republic of Kazakhstan.

## FINANCIAL INCENTIVES

NC KTZ JSC takes all necessary measures to maintain social stability and improve labor and employee motivation.



## AVERAGE MONTHLY SALARY

|   | 2020    | 2019    | 2018    | Changes<br>2019/2018, % | Changes<br>2020/2019, % |
|---|---------|---------|---------|-------------------------|-------------------------|
| Average monthly salary of administrative personnel, tenge | 345 763 | 316 570 | 291 974 | 8,4                     | 9,2                     |
| production personnel, tenge                               | 192 649 | 175 436 | 164 143 | 6,9                     | 9,8                     |

The Company continues to practice rewarding employees of regional branches of NC KTZ JSC and subsidiaries who have shown the best results according to the results of the rating assessment by industry competition.

So, for 2020, bonuses were paid to employees of linear branches and subsidiaries of NC KTZ JSC for a total of 1.79 billion tenge.

On June 3, 2020, an order was issued on social support and incentives for workers in the creation of the Center for the Control of Train Traffic and Infrastructure of the Western Region in the city of Aktobe.

In 2020, 159 employees of the branches of the Backbone Network Directorate in the amount

of 7,978 thousand tenge were awarded for the active use of proactive tools during the conduct of Behavioral Dialogues in industrial safety and labor protection, according to the results of the performance results, industrial training masters were awarded in the amount of 25,300 thousand tenge.

In honor of the holiday International Women's Day, March 8, a one-time bonus was paid to female employees of NC KTZ JSC.

Also in 2020, the employees of the NC KTZ JSC Group were paid one-time bonuses for the Day of Transport Workers professional holiday and the Independence Day of the Republic of Kazakhstan.

## BASE SALARY FOR MEN AND WOMEN FOR THE REPORTING PERIOD

|                              | Administrative personnel <sup>1</sup> | Production personnel <sup>2</sup> |
|------------------------------|---------------------------------------|-----------------------------------|
| Base salary for women, tenge | 148 000                               | 52 529                            |
| men, tenge                   | 148 000                               | 52 529                            |

Notes: <sup>1</sup> manager of the central office of NC KTZ JSC (grade 13);  
<sup>2</sup> cleaning worker of KTZ-Freight transport LLP (grade 2).

## THE RATIO OF THE LEVEL OF THE MINIMUM WAGE OF EMPLOYEES BY GENDER TO THE LEVEL OF THE ESTABLISHED MINIMUM WAGE FOR THE REPORTING PERIOD

| Minimal salary            |        |
|---------------------------|--------|
| women, tenge <sup>1</sup> | 45 474 |
| men, tenge <sup>1</sup>   | 45 474 |
| minimum wage <sup>2</sup> | 42 500 |

Note: <sup>1</sup> the level of salary of the superintendent of the building of the Militarized Railway Guard JSC;  
<sup>2</sup> the minimum wage of the Republic of Kazakhstan is established by the Law "On the Republican Budget for 2021 – 2023" dated December 2, 2020 No. 379-VI.

## INCREASING THE LEVEL OF PROFESSIONAL KNOWLEDGE OF EMPLOYEES

NC KTZ JSC creates all conditions for professional and personal development and growth, continuous improvement of the level of corporate and managerial competencies of its employees.

accordance with production needs and strategic goals on the basis of NC KTZ JSC training centers, domestic and foreign educational institutions. On an ongoing basis, work is underway to train employees in the state and English languages.

The Company's personnel development system provides for advanced training programs in

In total, 26,757 employees of NC KTZ JSC and its subsidiaries were trained in 2020, including:

- 10,889 employees underwent advanced training in third-party organizations;
- 92 employees were trained in the state language;
- English language training, 134 employees.

Five training centers of the Training Centers for Railway Workers branch of NC KTZ JSC located in the regions of the country provided professional training for 15 642 employees, including:

- 2,414 employees, Pavlodar Training Center;
- 3,454 employees, Karaganda Training Center;
- 2,775 employees, Aktobe Training Center;
- 2,849 employees, Taraz Training Center;
- 4,150 employees, Nur-Sultan Training Center.

With the help of internal trainers of the Company, 96,500 people were trained on the topics: “Behavioral Safety Dialogue”, “Code of Business Ethics and Conduct”, and 9,308 employees on personal and business topics.

The cost of training the personnel of the NC KTZ JSC Group in 2020 amounted to more than 1.068 billion tenge.

### NUMBER OF TRAINED EMPLOYEES AND TRAINING COSTS BY GENDER OF EMPLOYEES FOR THE REPORTING PERIOD

|  | Including |         |
|--|-----------|---------|
|  | Women     | Men     |
| Number of trained employees, people                  | 2 736     | 24 021  |
| Training expenses, thousand tenge                    | 191 460   | 876 515 |
| Average annual number of training hours per employee | 35,8      | 34      |

### NUMBER OF EMPLOYEES TRAINED AND TRAINING COSTS BY EMPLOYEE CATEGORY FOR THE REPORTING PERIOD

|  | Including      |                      |                          |                      |
|--|----------------|----------------------|--------------------------|----------------------|
|  | Top management | Secondary management | Administrative personnel | Production personnel |
| Number of trained employees, people                  | 47             | 207                  | 9 344                    | 17 159               |
| Training expenses, thousand tenge                    | 17 732         | 24 600               | 489 645                  | 535 999              |
| Average annual number of training hours per employee | 3,8            | 16,5                 | 38,1                     | 23,7                 |

## CHARITY AND SPONSORSHIP

The implementation of a unified policy for the provision of charitable assistance to the Fund Group is carried out by the Samruk-Kazyna Trust Corporate Fund.

Along with this, through corporate volunteering, the Company implements the following

programs aimed at promoting a healthy lifestyle, implementing youth policy, providing assistance to vulnerable segments of the population, low-income citizens, and so on.

## CARING FOR RETIREES

The number of pensioners registered with the Company is more than 45 thousand people.

The Central Council of Railway Veterans of NC KTZ JSC, created in 2013, provides social support to unemployed pensioners by:

- home and hospital visits to sick and lonely pensioners;
- congratulations to those celebrating 70, 80, 90, 100 years old;
- provision of consulting, explanatory and practical assistance.

The main components of the social package for non-working pensioners of NC KTZ JSC are:

- annual free travel;
- health resort improvement;
- payment for dental prosthetics;
- financial assistance for burial;
- one-time financial assistance to those celebrating 70, 80, 90, 100 years old;
- financial assistance as decided by the commission for the consideration of social and domestic issues;
- financial assistance for the holidays of Transport Workers’ d\Day, Victory Day.

Expenses for sanatorium and resort rehabilitation and financial support for pensioners in the reporting period amounted to 624,833 thousand tenge.

It should be noted that NC KTZ JSC is the only national company and the industry as a whole

that has an advisory body from among the most experienced veterans of the industry – the Advisory Council – the guardian of the traditions of the railway industry, which is a worthy role model, especially for young people working for the Company.



## CARING FOR THE FUTURE GENERATION

NC KTZ JSC pays great attention to the younger generation, as the children of railway workers in the future may follow in the footsteps of their parents and make a significant contribution to the development of the railway industry.

The Company annually organizes events for children aimed at enhancing the image of an employee in the railway industry among the younger generation, including various contests with the participation of employees' children.

Children of employees of the NC KTZ JSC Group take an active part in corporate festive events dedicated to state and industry holidays. So, in 2020, 7 thousand children took part in various events and competitions organized by the Company.

Paying great attention to the development and health of children during school holidays, NC KTZ JSC provides workers' children with

vouchers to children's health centers in the country, while providing life insurance for children against accidents, and ensures the transportation of children by rail to places of rest and back.

However, in 2020, in order to ensure the safety of the health of workers' children during the coronavirus pandemic, it was decided to temporarily abandon the traditional children's health-improving recreation until the epidemiological situation in the country improves

## CARING FOR YOUNG WORKERS

Today NC KTZ JSC employs over 40 thousand young employees under the age of 35.

The key element in the development of the Company's human resources is the systematic implementation of the corporate youth policy.

The Youth Policy Program adopted for 2016-2021 consists of a set of programs aimed at improving professional skills, raising the corporate spirit, developing a system for attracting young people, effectively adapting and consolidating them in the Company, involving young people in solving corporate problems, developing international youth cooperation, spiritual, moral, patriotic education of young people, as well as the promotion of the values of a healthy lifestyle and sports among young people.

The Covid-19 pandemic has made its own adjustments to the organization of events within the framework of youth policy; however, there have been no qualitative changes due to restrictions.

The main programs being implemented within the framework of youth policy are the programs: "100 young persons of KTZ", "School of Corporate Bloggers", and "Zhas Uzdik Maman".

In 2019, as part of the implementation of youth policy, 10,000 employees took an active part in these programs.

## PROMOTION OF HEALTHY LIFESTYLE

The Company pays great attention to promoting a healthy lifestyle among its employees and their family members, non-working pensioners.

Despite the restrictive measures, the promotion of a healthy lifestyle and physical culture was actively implemented in the online format. Webinars were held in 10 sports disciplines, such as breathing, industrial gymnastics, board games (chess, checkers, and togyz kumalak) and others.

In the reporting year, more than 1,800 railway workers took part in 57 competitions.

During the pandemic, physical culture and sports clubs in the regions held more than 50 sports challenges through social networks.

Before the introduction of restrictive measures, a sports complex (gym and swimming pool) operated in the administrative building of NC

KTZ JSC, where sectional classes in volleyball, basketball, mini-football and swimming were held, where workers, after heavy physical and mental stress, could actively relax in their free from work time. In the first quarter of 2020, the complex was visited by over 4,000 people.

Being a Member of the International Union of Railroad Athletes (USIC), which includes 24 states, NC KTZ JSC takes an active part in the events of the USIC, as well as in the Congress of the Union.

## VOLUNTEERING

In support of the initiative of the Head of State K.-Zh. Tokayev on the announcement of 2020 as the Year of the Volunteer in Kazakhstan, NC KTZ JSC adopted the 2020 GOOD DEEDS program aimed at developing the volunteer movement.

The Company has adopted the ambitious goal of realizing 2020 GOOD DEEDS in 2020. Employees of the Company and its subsidiaries actively implemented good deeds and already in the first half of 2020 the number of noble deeds reached the target, by the end of the year the indicator reached more than 4,900 deeds.

The program made it possible to maximize the capabilities of employees, their leadership qualities, provided an opportunity for self-realization not only in the professional field,

but reinforced the desire of employees to implement volunteer activities within and under the auspices of the Company. Developing a spirit of social responsibility in employees, strengthening team-building ties, all this also affects the well-being of employees.

You can view videos about the good deeds of railway workers within the framework of the Program on the Youtube channel «The 2020 GOOD DEEDS».

## INDUSTRIAL SAFETY AND LABOR PROTECTION

The employees of the Company are its main value. Therefore, ensuring safe working

conditions for employees and protecting their health are tasks of particular importance.

## HEALTH CARE AND MEDICAL CARE

Employee health and medical care are among the top priorities of the social policy pursued by NC KTZ JSC.

In 2020, contracts for voluntary medical insurance were concluded for 71,264 employees of the NC KTZ JSC Group in the amount of 3,193 million tenge.

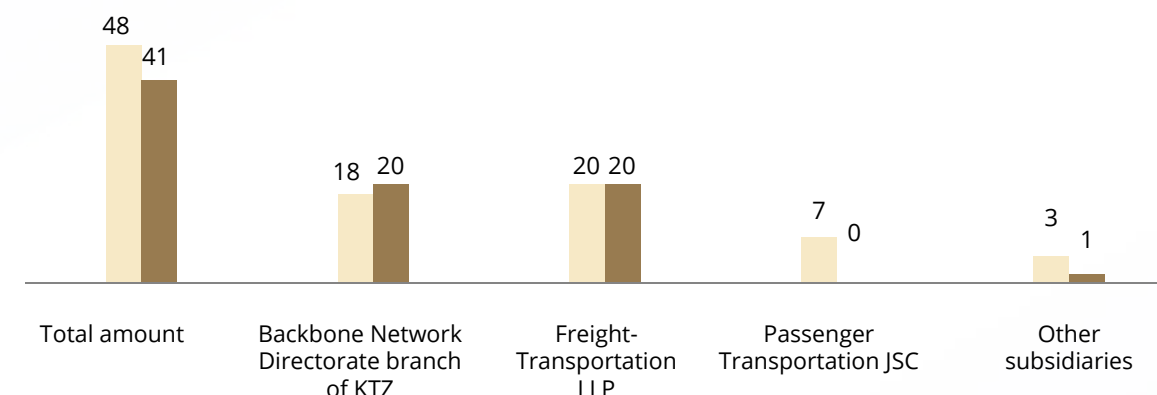
### DYNAMICS OF THE NUMBER OF DAYS OF SICKNESS-RELATED DISABILITY OF EMPLOYEES IN THE PERIOD BETWEEN 2018 AND 2020, DAYS.

|      |           |
|------|-----------|
| 2020 | 1 177 373 |
| 2019 | 1 236 288 |
| 2018 | 1 201 948 |

The number of sick days was 1,177,373 days, of which 257,272 days or 21.85% accounted for women; the number of sick days for men was 920,101 days or 78.15%.

In general, for the NC KTZ JSC Group, there was a decrease in sudden deterioration of health at workplace: 41 cases (in 2019, 48 cases).

### CASES OF SUDDEN DETERIORATION OF HEALTH BETWEEN 2019 AND 2020



The decrease in cases of sudden deterioration in health at the workplace of workers was due to the tightening of control over the providers of medical services, in particular, the introduction of daily monitoring of suspension from the shift based on the results of the pre-shift medical examination, the expansion of the contingent of workers subject to pre-shift medical examination; work has begun to automate the processes of medical examinations.

The number of deaths due to a sudden deterioration in health: 13 cases (in 2019, 16 cases), including in the Backbone Network Directorate branch of NC KTZ JSC: 8 cases; KTZ-Freight Transportation LLP: 5 cases. In all cases, the cause of death was cardiovascular diseases: heart attack and stroke.

In order to prevent morbidity and cases of sudden deterioration in health among the Company's employees, based on the results of the analysis of periodic medical examinations, it is planned to develop a set of health-improving and social measures for a decreed group of employees.

An important part of the Company's social policy, which makes it possible to purposefully and effectively carry out disease prevention and rehabilitation treatment for the Company's employees, is the organization of sanatorium and resort assistance.

During 2020, more than 3,000 employees and pensioners (more than 2.5% of the total headcount) received sanatorium-and-spa rehabilitation on preferential terms in the Company's group in sanatoriums (more than 2.5% of the total number), including more than 1,300 in the Saken Seifullin sanatorium-preventorium managed by KTZ-Freight Transportation LLP. Due to the current epidemiological situation in the country, the management of NC KTZ JSC decided to suspend the sanatorium and resort rehabilitation of employees and retirees in the Company Group from March to September 2020.



## OCCUPATIONAL SAFETY AND HEALTH

The management of industrial safety processes is carried out in accordance with the Guidelines for the Health and Safety Management System in NC KTZ JSC and its subsidiaries, which is developed in accordance with the requirements of the international standard ISO 45001:2018 (OHSAS 18001:2007) "Health Management Systems and Ensuring Occupational Safety", the interstate standard GOST 12.0.230 "Occupational Safety Standards System. Occupational Safety Management System. General Requirements of ILO OSH2001" and is the main document that regulates the activities of health and safety management in the NC KTZ JSC Group.

In the reporting year, the Company made a successful certification transition from the OHSAS18001:2007 standard to the international standard ISO45001:2018 "Occupational Health and Safety Management System. Requirements".

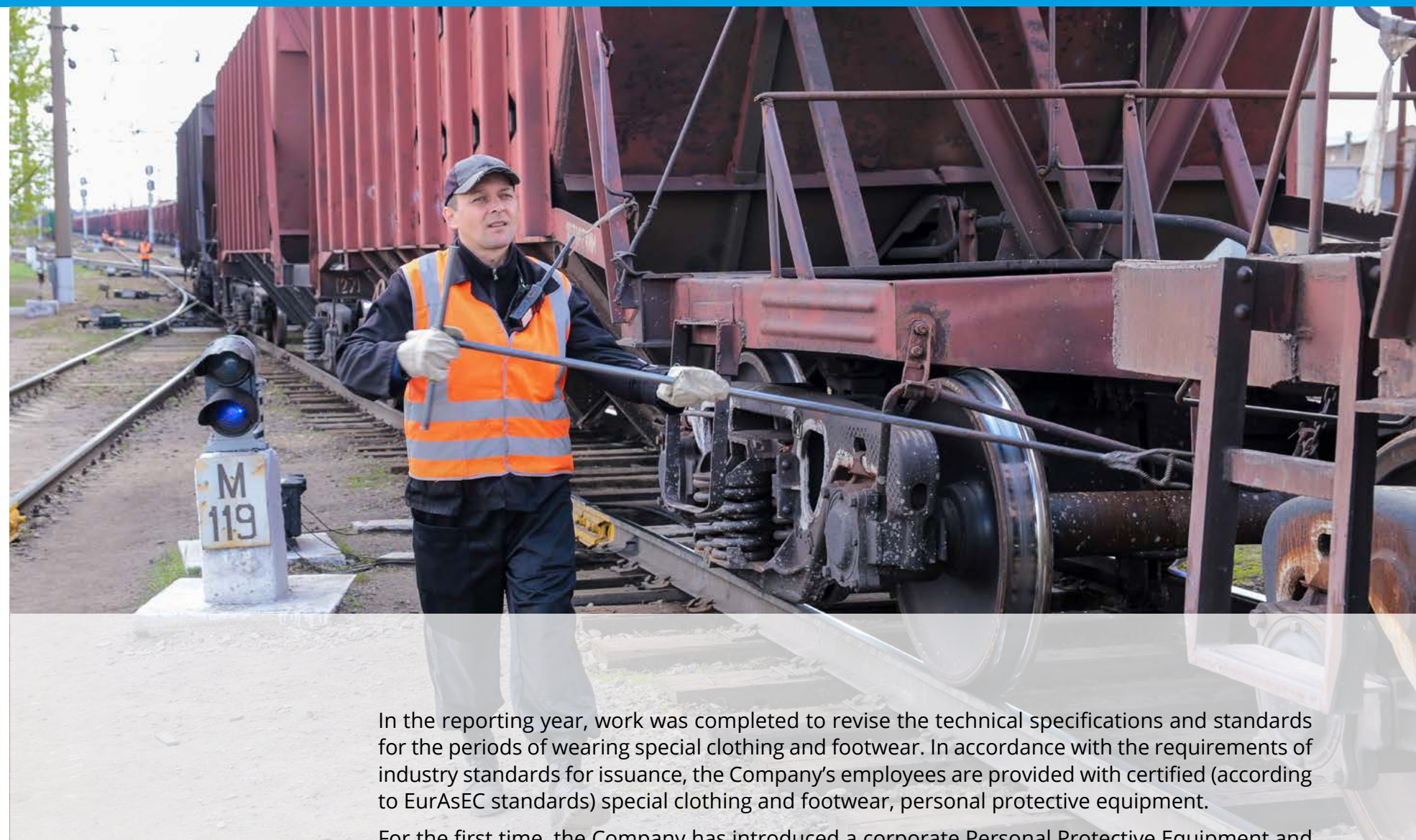
In accordance with the Health and Safety policy, as well as within the framework of the Collective Agreement, the Company in 2020 improved working conditions, prevent industrial injuries and occupational diseases.

For the implementation of measures to improve working conditions and labor protection for all sources of financing, 10.5 billion tenge was spent (including subsidiaries), including:

- 2.95 billion tenge for measures to improve labor conditions and safety for all sources of funding;
- 2.6 billion tenge for overalls, safety footwear and other personal protective equipment;
- 4.5 billion tenge for benefits and compensations for working conditions;
- 0.5 billion tenge for measures taken to combat Covid-19.

Expenses for measures to improve labor conditions and safety per employee on average for NC KTZ JSC amounted to 26.4 thousand tenge (in 2019, 22.5 thousand tenge).

In general, NC KTZ JSC has implemented 3,085 measures to create safe working conditions for employees at workplaces.



In the reporting year, work was completed to revise the technical specifications and standards for the periods of wearing special clothing and footwear. In accordance with the requirements of industry standards for issuance, the Company's employees are provided with certified (according to EurAsEC standards) special clothing and footwear, personal protective equipment.

For the first time, the Company has introduced a corporate Personal Protective Equipment and Uniforms for Employees of the Company Standard, which establishes uniform requirements and defines the main types of personal protective equipment and uniforms for employees of NC KTZ JSC and its subsidiaries.

As of the end of 2020, according to the results of evaluation of production facilities for working conditions, 23,277 jobs were established (in 2019, 21,509 jobs), where 45,930 workers or 41% of the total number of employees of NC KTZ JSC work in harmful, difficult and stressful working conditions.

During the reporting period, the largest share of the total number of jobs with harmful, difficult and stressful working conditions was occupied by jobs with the following production factors:

- The severity of labor, 18.5%;
- Noise, 16.9%;
- Stress, 4.4%;
- Electromagnetic radiation, 2.0%.



# THE NUMBER OF EMPLOYEES ENGAGED IN HEAVY WORK WITH HARMFUL (ESPECIALLY HARMFUL) AND (OR) HAZARDOUS WORKING CONDITIONS BY REGION, AGE AND GENDER AT THE END OF THE REPORTING PERIOD

| Total amount               |        | Including |        |          |        |       |         |
|----------------------------|--------|-----------|--------|----------|--------|-------|---------|
|                            |        | By sex    |        | By age   |        |       |         |
|                            |        | Women     | Men    | under 35 | 36-45  | 46-50 | over 50 |
| Republic of Kazakhstan     | 45,930 | 3,537     | 42,393 | 15,260   | 11,970 | 9,881 | 8,819   |
| Nur-Sultan                 | 38     | 30        | 8      | 9        | 10     | 8     | 11      |
| Almaty                     | 2      | 1         | 1      | 0        | 1      | 0     | 1       |
| Shymkent                   | 4,069  | 301       | 3,768  | 1,552    | 1,012  | 843   | 662     |
| Akmola Region              | 6,485  | 849       | 5,636  | 1,981    | 1,776  | 1,404 | 1,324   |
| Aktobe Region              | 4,081  | 62        | 4,019  | 1,375    | 1,082  | 825   | 799     |
| Almaty Region              | 1,494  | 6         | 1,488  | 711      | 169    | 515   | 99      |
| Atyrau Region              | 2,383  | 288       | 2,095  | 1,090    | 554    | 430   | 309     |
| Eastern Kazakhstan Region  | 4,215  | 120       | 4,095  | 1,095    | 1,141  | 1,027 | 952     |
| Zhambyl Region             | 487    | 16        | 471    | 153      | 120    | 80    | 134     |
| Western Kazakhstan Region  | 4,551  | 133       | 4,418  | 1,412    | 1,460  | 1,021 | 658     |
| Karaganda Region           | 4,040  | 256       | 3,784  | 1,295    | 1,251  | 741   | 753     |
| Kostanay Region            | 2,895  | 85        | 2,810  | 947      | 702    | 458   | 788     |
| Kyzylorda Region           | 2,366  | 171       | 2,195  | 938      | 690    | 349   | 389     |
| Mangystau Region           | 5,182  | 1,001     | 4,181  | 1,402    | 1,486  | 911   | 1,383   |
| Pavlodar Region            | 383    | 36        | 347    | 104      | 105    | 82    | 92      |
| Northern Kazakhstan Region | 3,259  | 182       | 3,077  | 1,196    | 411    | 1,187 | 465     |

# DYNAMICS OF THE NUMBER OF EMPLOYEES ENGAGED IN HEAVY WORK WITH HARMFUL (ESPECIALLY HARMFUL) AND (OR) DANGEROUS WORKING CONDITIONS BETWEEN 2018 AND 2020

|      |  |       |
|------|--|-------|
| 2020 |  | 45930 |
| 2019 |  | 50331 |
| 2018 |  | 47952 |

Employees exposed to harmful factors of the working environment and the labor process are provided with compensations and benefits provided for by the Labor Code of the Republic of Kazakhstan.

Automation of the process of attestation of production facilities for working conditions in an integrated industrial safety system will allow a full assessment of all existing harmful factors at all workplaces: standardize and unify data, reduce the likelihood of errors,

generate the required reporting options from a single database, reduce costs of collection, processing, control and analysis of information, optimize costs and simplify the procedure for assessment of production facilities for working conditions (similar workplaces) and minimize traumatic places.

One of the main preventive measures in the labor protection management system aimed at reducing the number of accidents at work is the training of managers, specialists and employees in labor safety and health requirements.

## INTEGRATED INDUSTRIAL SAFETY SYSTEM

In December 2020, the automated system Integrated Industrial Safety System was put into operation. The system includes modules for internal control, behavioral safety dialogues, management of incidents, emergencies, lightning and bulletins, environmental protection, evaluation of production facilities for working conditions.

On work with the Behavioral Security Dialogues module of the information system, 289,500 hours of training were conducted and more than 96 thousand people were trained. 8,730 hours of training were conducted on the

Internal Control module, 2,749 hours on the Incident Management module, and 3,825 hours on the Emergency Situations Management module.

More than 112 thousand people are registered in the mobile application.

Through the mobile application, each employee of the Company has the opportunity to exercise the right to stop work if he notices a potential danger to himself and his colleagues at the workplace.



The Integrated Industrial Safety System has received wide international recognition having won the 2nd place in the UIC DIGITAL AWARDS 2020 competition of the International Union of Railways in the Safety category.

## OCCUPATIONAL INJURIES

Improving the safety of people working at railway facilities and reducing injuries is one of the priority tasks facing the Company.

The indicators of industrial injuries in 2020 amounted to 34 accidents (in 2019, 35 cases), including 2 group cases (in 2019, 3 cases), 8 cases with a fatal outcome, 9 cases of injuries (in

2019, 4 cases), 4 cases that resulted in disability (in 2019, 7 cases). The average rate of incidence of registered incidents with loss of ability to work across the Company was 0.27 (in 2019, 0.24), financial damage amounted to 476,612 thousand tenge (in 2019, 416,636 thousand tenge).

*Note: The number of cases of injuries with a disability outcome for 2019 has been changed due to the fact that, according to the internal procedures of the Ministry of Health and Social Development of the Republic of Kazakhstan, the conclusions of the Medical Consulting Commission on the assignment of disability are issued at least 6 months later, in this regard, documents on disability were provided only in 2020.*

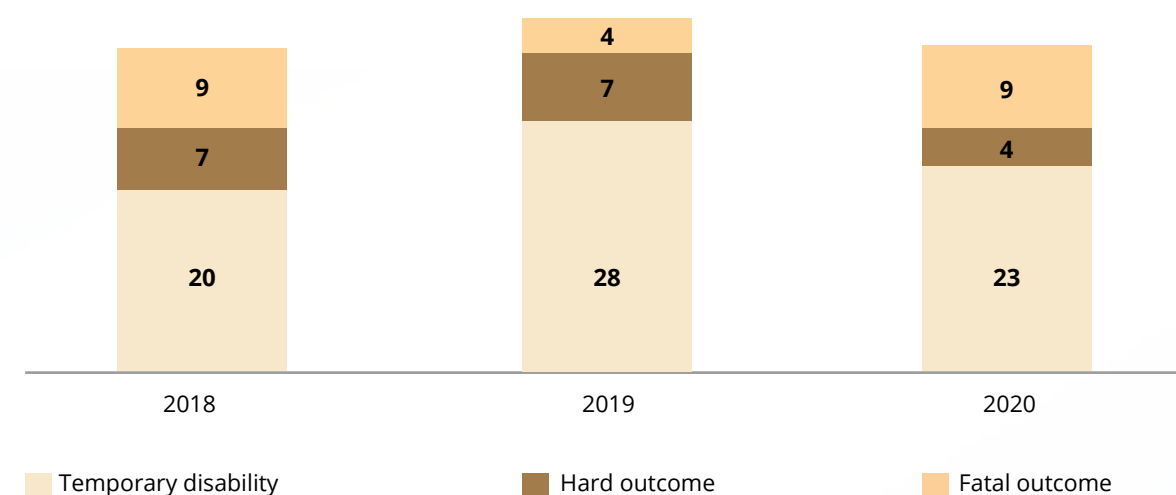
*The amount of financial damage for 2019 was changed due to an increase in the costs of KTZ-Freight Transportation LLP in the post-reporting period.*



## THE LEVEL OF INDUSTRIAL INJURIES BY SEX, REGIONS, LEVEL OF INJURIES (TEMPORARY DISABILITY, SEVERE, FATAL); BY REGION, AGE AND GENDER AT THE END OF THE REPORTING PERIOD

| Total amount                      |    | Including |     |          |       |       |         |
|-----------------------------------|----|-----------|-----|----------|-------|-------|---------|
|                                   |    | By sex    |     | By age   |       |       |         |
|                                   |    | Women     | Men | under 35 | 36-45 | 46-50 | over 50 |
| Injury rate: temporary disability |    |           |     |          |       |       |         |
| Republic of Kazakhstan            | 23 | 4         | 19  | 10       | 4     | 3     | 6       |
| Nur-Sultan                        | 3  | 3         | 0   | 0        | 0     | 1     | 2       |
| Aktobe Region                     | 1  | 0         | 1   | 1        | 0     | 0     | 0       |
| Almaty Region                     | 3  | 1         | 2   | 1        | 0     | 0     | 2       |
| East Kazakhstan Region            | 2  | 0         | 2   | 0        | 1     | 1     | 0       |
| Zhambyl Region                    | 2  | 0         | 2   | 1        | 0     | 0     | 1       |
| Karaganda Region                  | 1  | 0         | 1   | 1        | 0     | 0     | 0       |
| Kostanay Region                   | 2  | 0         | 2   | 1        | 1     | 0     | 0       |
| Kyzylorda Region                  | 2  | 0         | 2   | 2        | 0     | 0     | 0       |
| Mangistau Region                  | 3  | 0         | 3   | 0        | 2     | 1     | 0       |
| Pavlodar Region                   | 3  | 0         | 3   | 2        | 0     | 0     | 1       |
| Turkistan Region                  | 1  | 0         | 1   | 1        | 0     | 0     | 0       |
| Injury rate: severe               |    |           |     |          |       |       |         |
| Republic of Kazakhstan            | 4  | 0         | 4   | 2        | 0     | 1     | 1       |
| Aktobe Region                     | 1  | 0         | 1   | 0        | 0     | 0     | 0       |
| Almaty Region                     | 1  | 0         | 1   | 1        | 0     | 0     | 1       |
| Karaganda Region                  | 1  | 0         | 1   | 1        | 0     | 0     | 0       |
| Kyzylorda Region                  | 1  | 0         | 1   | 0        | 0     | 1     | 0       |
| Injury rate: fatality             |    |           |     |          |       |       |         |
| Republic of Kazakhstan            | 9  | 0         | 9   | 5        | 2     | 0     | 2       |
| East Kazakhstan Region            | 1  | 0         | 1   | 1        | 0     | 0     | 0       |
| Zhambyl Region                    | 3  | 0         | 3   | 2        | 1     | 0     | 0       |
| Karaganda Region                  | 2  | 0         | 2   | 1        | 0     | 0     | 1       |
| Kostanay Region                   | 1  | 0         | 1   | 1        | 0     | 0     | 0       |
| Kyzylorda Region                  | 1  | 0         | 1   | 0        | 1     | 0     | 0       |
| Mangistau Region                  | 1  | 0         | 1   | 0        | 0     | 0     | 1       |

## DYNAMICS OF INDUSTRIAL INJURIES IN THE PERIOD FROM 2018 TO 2020



In the reporting year, the Company took measures aimed at reducing occupational injuries, including:

- working groups involved in resolving the issue of safety when working with increased danger (work at height; work in a confined space; and others) have developed profile instructions and preventive memos for production personnel;
- the Action Plan to prevent rolling stock collisions with transport workers was formed and is being implemented;
- the second Forum on industrial safety of the Company was held, due to which the practice of leading companies in Kazakhstan and foreign partners was studied;
- by the decision of the Management Board dated June 4, 2020 (Minutes 02/18), amendments were made to the Labor Remuneration Rules for the Company's branches in order to encourage employees to use proactive safety tools;
- the corporate standard "Incident Management with the Determination of their Root Causes" has been updated, which makes it possible to determine the circumstances and conditions of occurrence of the immediate causes of an accident.

### PRODUCTION SAFETY FORUM

In 2020, the second Forum on industrial safety of NC KTZ JSC was held, the motto of which was the direction voiced in October 2020 at the World Congress from Safety to "Safety, Health and Wellbeing". Within the framework of the

Forum, a decision was made to create a "Club of Business Partners", which will operate on a permanent basis. The club format will allow sharing the best practices of partners in the field of health and safety.

# COVID-19

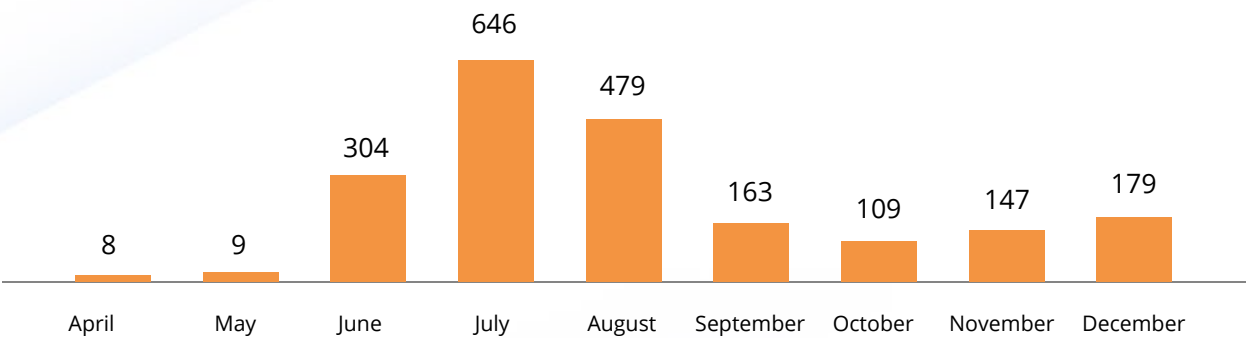
Along with the Company's measures to provide employees with a safe and healthy working environment, measures were taken in the reporting year to contain the spread of coronavirus infection (COVID-19).

The outbreak of the coronavirus pandemic has caused the need to respond quickly to changes, take preventive measures to protect the health of employees and ensure the continuity of the Company's production activities.

As of January 1, 2021, 2046 confirmed cases with a diagnosis of COVID-19 and pneumonia were registered in the NC KTZ JSC Group. The incidence rate was 1.6% of the headcount of employees.

A sharp increase in the incidence was observed in July 2020, when the increase in sick workers was 646 people.

DYNAMICS OF THE INCIDENCE OF COVID-19+PNEUMONIA OF EMPLOYEES OF THE NC KTZ JSC GROUP FROM APRIL TO DECEMBER 2020, PEOPLE



In order to proactively respond to changes in the epidemiological situation in the country and in the Company, an Emergency Management Headquarters was formed due to the COVID-19 pandemic.

During 2020, the Company took the following measures to contain the spread of coronavirus disease among its employees:

- Since March 19, 2020, the Company has been monitoring employees who have fallen ill with COVID-19 and pneumonia;
- Monitoring of the health status of employees is carried out based on the results of pre-shift medical examinations and preventive medical examinations, as well as daily monitoring of the staff coming to work with the identification of the reasons for their absence, with an emphasis on ARVI, influenza and other viral diseases; for 21 key industrial professions, statistics of sick leave with diagnoses of COVID-19 and pneumonia are kept;
- non-contact thermometry of employees was organized in the offices, social distancing marks were applied, sanitizers were installed, the frequency of wet cleaning was increased, as well as the frequency of replacement of ventilation filters, mats impregnated with a disinfectant solution were installed at the entrances to the building;
- in each office, zones are organized for employees with signs of COVID-19;
- personnel who often interact with passengers are provided with personal protective equipment (masks, gloves);
- during the quarantine period, the administrative and managerial staff was transferred to a remote mode as much as possible, work was carried out to transfer part of the functions to freelancing (search and selection of personnel, aggregate remuneration);
- limiting the secondment of workers within the territory of the country and abroad;
- holding meetings, workshops, training courses, seminars, trainings in online format;
- regulating the issue of labor vacations and ensuring the prompt transfer of workers to busy areas to ensure the continuity of the production process;
- on a regular basis, outreach work is carried out among staff, instructing on COVID-19 prevention measures and an algorithm for action upon detection of a case suspicious of COVID-19.

In addition, measures were taken to support the Company's employees:

- in the context of limiting passenger traffic, part of the employees of the passenger economy were reassigned to other jobs without changing wages, and some were directed to downtime with the payment of 50% of the average monthly salary (this is more than provided for by the terms of the Collective Agreement).
- for social protection purposes, the Company pays 100% for sick leave with diagnoses of coronavirus and pneumonia and 50% for other diagnoses.



In the NC KTZ JSC Group, the following local acts have been approved that provide for sanitary and quarantine measures, which are aimed both at preventing illness among personnel and at preventing spread among passengers:

- Regulation of the sanitary and epidemiological regime aimed at ensuring the continuity and restoration of the activities of NC KTZ JSC and its subsidiaries in the post-quarantine period for COVID-19;
- Regulations for conducting sanitary and quarantine measures by NC KTZ JSC when resuming regular internal rail services in the Republic of Kazakhstan;
- Response Plan of NC KTZ JSC and its subsidiaries in case of another outbreak of COVID-19;
- COVID-19 Training for Workers, briefing on SAQBOL mobile app.

Also in the reporting year, the Integrated Industrial Safety System (ISPB) was introduced, which allows to minimize direct contacts of personnel.

## ENVIRONMENTAL RESPONSIBILITY

### KEY INDICATORS

| Greenhouse gas emissions into the atmosphere from stationary installations, thousand tons |        | Emissions to the environment, thousand tons |      |
|---|--------|---|------|
| 2020  | 117,1  | 2020  | 82,8 |
| 2019  | 118,45 | 2019  | 95,5 |
| 2018  | 123,38 | 2018  | 98,4 |

| Waste volumes, tons |       | Environmental protection costs, million tenge |       |
|---------------------|-------|---|-------|
| 2020                | 75860 | 2020  | 817,3 |
| 2019                | 86876 | 2019  | 701,6 |
| 2018                | 89100 | 2018  | 678,5 |



The railway mode of transport is the most environmentally friendly mode of transport in the world. Despite this, the Company is aware of the importance of carrying out its activities without harming the environment, ecology and the quality of life of the next generation.

The Company carries out environmental activities in accordance with the legislation of the Republic of Kazakhstan – the Environmental Code of the Republic of Kazakhstan, the Railway Transport Law, and other regulatory legal acts and international treaties and agreements ratified by the Republic of Kazakhstan, including under the Kyoto Protocol to the United Nations Framework Convention about climate change. At the same time, it makes its feasible contribution to the development of the “green economy”.

The Company is constantly improving its environmental management system taking into account the best international experience. The management system of NC KTZ JSC is certified for compliance with international standards ISO 9001:2015-Quality Management System, ISO 14001:2015-Environmental Management System, ISO 14001:2018-Health and Safety Management System, and ISO 50001:2011-Energy Management System.

Environmental sustainability is one of the Company’s initiatives under the NC KTZ JSC Development Strategy 2029.

Minimization of negative impact on the environment is achieved by the Company through rational consumption of natural resources, consistent reduction of emissions, discharges of pollutants, reduction of waste generation and its reuse, as well as the use of energy-saving technologies.

The role of railway transport in solving environmental problems is highlighted by a document signed by NC KTZ JSC together with members of the International Union of Railways (UIC) on the responsibility of railways to reduce carbon dioxide emissions into the atmosphere. The document was adopted following the results of the global train to Paris campaign.

At the same time, NC KTZ JSC takes an active part in interstate projects in the field of ecology. For example, in the work of the International Center for Environmental Safety in Railway Transport opened at Russian Railways JSC in 2017 in Yaroslavl. Railway companies from Russia, Armenia, Estonia, Kyrgyzstan, Georgia and Ukraine are involved in the work of this Center.







### DYNAMICS OF EXPENDITURES FOR ENVIRONMENTAL PROTECTION IN THE PERIOD FROM 2018 TO 2020, MILLION TENGE



### DYNAMICS OF GREENHOUSE GAS EMISSIONS INTO THE ATMOSPHERE FROM STATIONARY UNITS IN THE PERIOD FROM 2018 TO 2020, THOUSAND TONS



Note: the data for 2019 compared to the data indicated in the Integrated Annual Report of NC KTZ JSC for 2019 have been adjusted (it includes indicators of NC Aktau Commercial Sea Port JSC, Kuryk Port LLP, and Kedentransservice JSC).

### DYNAMICS OF EMISSIONS INTO THE ENVIRONMENT IN THE PERIOD FROM 2018 TO 2020, THOUSAND TONS

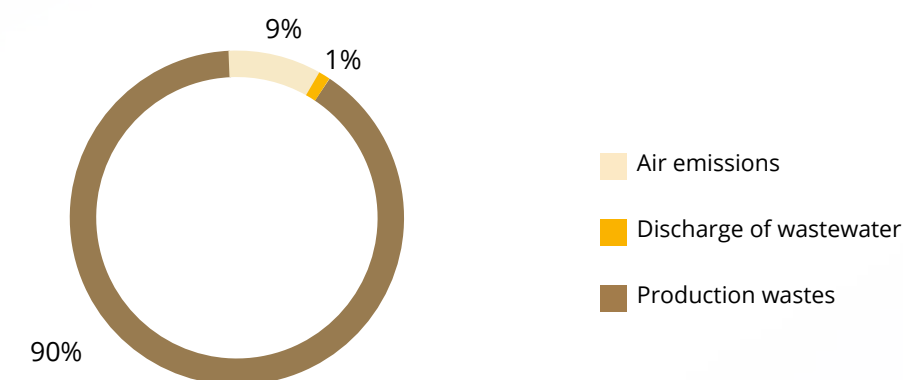


Note: the data for 2019 compared to the data indicated in the Integrated Annual Report of NC KTZ JSC for 2019 have been adjusted (it includes indicators of NC Aktau Commercial Sea Port JSC, Kuryk Port LLP, and Kedentransservice JSC).

In 2020, the “Implementation of an integrated information system for managing emissions of pollutants into the atmosphere from stationary sources” project was implemented, which corresponds to the best world practices in the field of environmental protection. Automation

of the process of calculating environmental emissions of pollutants makes it possible to carry out accurate calculations, eliminate the risk of paying fines, reducing the human factor, and more.

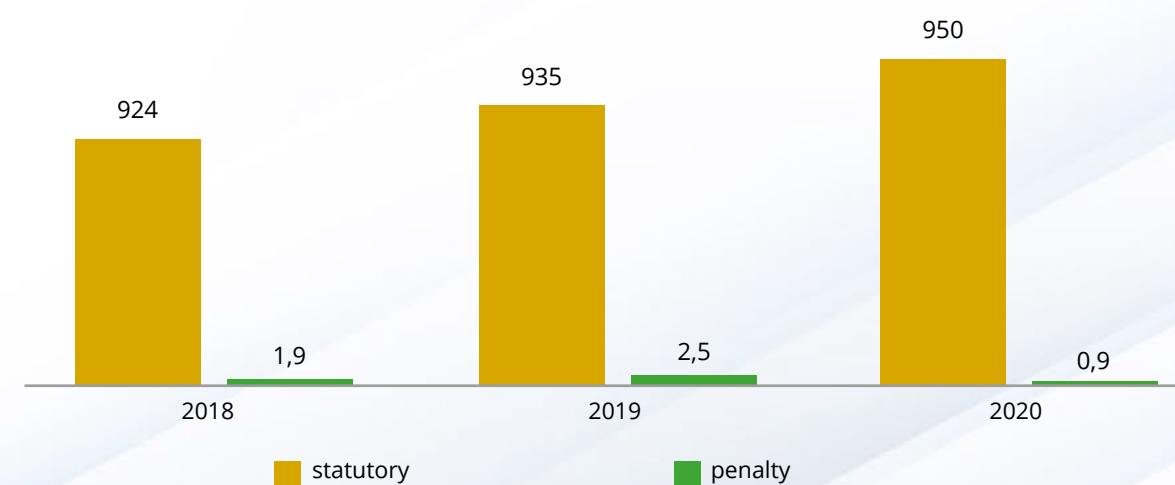
### SHARE OF POLLUTANT EMISSIONS



#### Measures to reduce emissions:

- Introduction of diesel locomotives of EVOLUTION series, which have a reduced emission of pollutants, which will reduce emissions into the air by more than 2.2 times compared to diesel locomotives of old models.
- Purchase of new passenger cars equipped with closed-type toilets, which will eliminate bacterial contamination of railway tracks with fecal microflora.
- Conversion of boiler houses from solid to gaseous fuels, connection of heating of industrial buildings to the city central heating supply, which helps to reduce air pollution from stationary sources.

### DYNAMICS OF ENVIRONMENTAL PAYMENTS IN THE PERIOD FROM 2018 TO 2019, MILLION TENGE



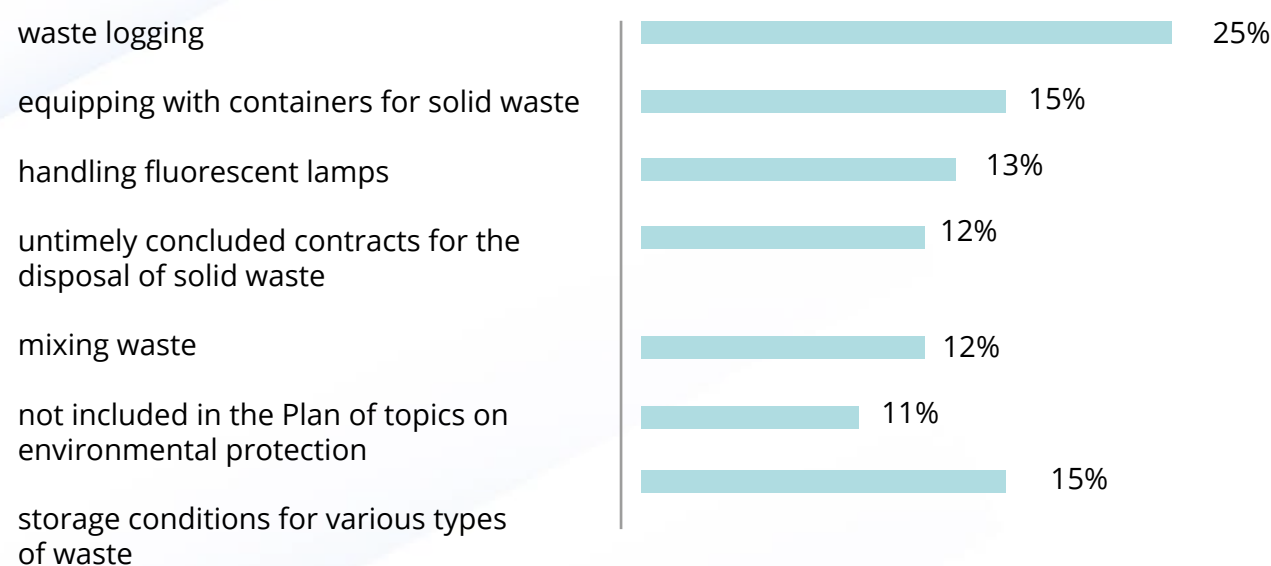
### DYNAMICS OF ECONOMIC PENALTIES FOR ENVIRONMENTAL VIOLATIONS, IN THE PERIOD FROM 2018 TO 2020, MILLION TENGE



### THE NUMBER OF THE COMPANY'S VIOLATIONS OF THE REQUIREMENTS OF STANDARDS AND NORMS IN ENVIRONMENTAL PROTECTION REVEALED AND ELIMINATED IN THE COURSE OF INTERNAL CONTROL (INSPECTION)



### STRUCTURE OF THE COMPANY'S VIOLATIONS OF REQUIREMENTS IDENTIFIED DURING THE COURSE OF INTERNAL CONTROL (INSPECTION), %



A prerequisite for successful environmental management is the process of continuous improvement of environmental knowledge and culture of personnel. Thus, in the reporting

year, internal trainers conducted online training on environmental safety and trained 3,704 employees.

### THE NUMBER OF TRAINED EMPLOYEES OF ENVIRONMENTAL SAFETY IN THE PERIOD FROM 2018 TO 2020, PEOPLE



## WASTE MANAGEMENT

In the reporting year, the volume of the Company's waste decreased by 11,016 tons compared to the level of 2019 and amounted to 75,860 tons.

### WASTE VOLUMES IN THE PERIOD FROM 2018 TO 2020, TONS



Note: the data for 2019 compared to the data indicated in the Integrated Annual Report of NC KTZ JSC for 2019 have been adjusted (it includes indicators of NC Aktau Commercial Sea Port JSC, Kuryk Port LLP, and Kedentransservice JSC).

To reduce waste disposed of at the landfill and reduce the impact on the environment, the Company is working on separate waste collection with further disposal and delivery to interested organizations.

In order to improve the work on environmental safety in the structural divisions and subsidiaries of the Company, the Separate Waste Collection System was introduced.

The Company organized technical classes, unscheduled briefings on the study of the System for the Separate Collection of Solid Waste, established control over the implementation of the separate collection of solid household waste by employees: glass, plastic, paper and unsorted solid waste, and for the removal of separately collected waste.



In 2020, 143 tons of waste were sold for processing and reuse across the Company in the amount of 5,516.6 thousand tenge. In the reporting year, the following were transferred:

- waste paper, 71 tons for a total amount of 663.5 thousand tenge;
- plastic, 15.9 tons for a total amount of 510.2 thousand tenge;
- glass, 2 tons for the amount of 9.8 thousand tenge;
- spent storage batteries, 53.8 tons for the amount of 4,333.1 thousand tenge.

As part of the environmental campaigns as A Month without Plastic and Ecosaqshy aimed at organizing a system for separate waste collection in the Company:

- leaflets, posters, campaign materials were distributed;
- explanatory conversations, briefings were held;
- employees of the branches carried out environmental control, as inspectors, and revealed 573 non-conformities. All comments were eliminated in a timely manner.

## WATER CONSUMPTION

The Company is aware of the importance of respecting natural resources and strives for their rational use. In the reporting year, water consumption in comparison with the level of 2019 decreased by 173 thousand m<sup>3</sup>.

### DYNAMICS OF WATER CONSUMPTION BY THE COMPANY IN THE PERIOD FROM 2018 TO 2020, THOUSAND M<sup>3</sup>.

|      |                                    |      |
|------|------------------------------------|------|
| 2020 | <div style="width: 7384px;"></div> | 7384 |
| 2019 | <div style="width: 7557px;"></div> | 7557 |
| 2018 | <div style="width: 7721px;"></div> | 7721 |

Note. The perimeter of the Company includes data on water consumption of the Administration and Maintenance Department branch of NC KTZ JSC, the central office of KTZ Express JSC, and Temirzholsu JSC.

## Collision with livestock on railway tracks

Unsupervised livestock grazing on railway tracks is the reason for the disruption of the normal operation of railway transport. Grazing livestock close to railroad tracks increases the risk of rail

collisions with livestock, killing the animal. In total, in the period from 2018 to 2020, there were 10 cases of cattle collisions recorded by the Company.

## ENERGY EFFICIENCY AND ENERGY CONSERVATION

### ENERGY MANAGEMENT SYSTEM

The results of the recertification audit of NC KTZ JSC, carried out in 2020 by the auditors of Intercertification – TÜV LLC together with TÜV Thuringian, confirmed the compliance of the Company's Energy Management System with the requirements of the international standard ISO 50001:2018 "Energy Management Systems".



## ENERGY EFFICIENCY

NC KTZ JSC is a significant energy consumer. In this regard, the Management Board of the Company approved the NC KTZ JSC Energy Saving Program for the period up to 2020, which defines the task of saving 1.942 million tons of fuel equivalent in the amount of about

152 billion tenge in the period from 2013 to 2020.

During the period of the NC KTZ JSC Energy Saving Program, 1.913 million tons of fuel equivalent was saved in the amount of about 224 billion tenge.

At the end of 2020, the consumption of fuel and energy resources (hereinafter referred to as FER) in general in NC KTZ JSC amounted to 1,237.3 thousand tons of fuel equivalent in the amount of 158.2 billion tenge, including:

- traction of trains was 1,134 thousand tons of fuel equivalent or 91.7%;
- non-traction needs were 103.3 thousand tons of fuel equivalent or 8.3%.

Traction of trains consumed 25.8% of electricity and 74.2% of diesel fuel consumed by the Company, or in total, in conventional terms, up to 91.8% of the consumption of all types of fuel and energy resources.

### FER CONSUMPTION FOR OPERATIONAL AND PRODUCTION (NON-TRACTION) NEEDS IN THE PERIOD FROM 2018 TO 2020

| Indicator  | 2020      | 2019      | 2018      | Change in 2020/2019, % |
|--|-----------|-----------|-----------|------------------------|
| Electricity, thousand kWh                        | 325 196,7 | 332 086,7 | 321 256,6 | - 2,1                  |
| Coal, tons                                       | 30 839,2  | 31 410,2  | 33 399    | - 1,8                  |
| Natural gas, thousand m <sup>3</sup>             | 1 894,4   | 1 869,1   | 1 872,6   | 1,4                    |
| Gasoline, tons                                   | 6 847,6   | 7 104,3   | 7 362,1   | - 3,6                  |
| Diesel fuel, tons                                | 21 771,3  | 20 695,1  | 22 522,5  | 5,2                    |
| Heating oil, tons                                | 0         | 0         | 0         |                        |
| FER consumption, tons of fuel equivalent         | 103 292,3 | 103 289,5 | 106 241,6 | 0,02                   |
| FER cost, million tenge (including VAT)          | 11 868,6  | 13 305,2  | 13 576,9  | - 10,8                 |
| FER cost, thousand tenge/tons of fuel equivalent | 114,9     | 128,8     | 127,8     | - 10,8                 |

The increase in energy consumption in monetary terms is explained by the annual increase in energy prices, while consumption in physical terms is decreasing.

### FER CONSUMPTION FOR TRACTION NEEDS (HEAT AND ELECTRIC TRACTION) IN THE PERIOD FROM 2018 TO 2020

| Indicator  | 2020    | 2019  | 2018    | Change in 2020/2019, % |
|--|---------|-------|---------|------------------------|
| Scope of work, bln gross t.km.   | 4 29,1  | 423,8 | 421,9   | 1,3                    |
| FER consumption for traction of trains, thousand tons of fuel equivalent | 1 134,2 | 1 157 | 1 186,6 | -2                     |
| Energy intensity, kg of fuel /10 t. gross t.km.                          | 26,4    | 27,3  | 28,1    | -3,1                   |

### THE EFFECTIVENESS OF THE IMPLEMENTATION OF THE NC KTZ JSC ENERGY SAVING PROGRAM IN THE PERIOD FROM 2018 TO 2020

| Energy resource type | Indicator                                   | 2020     | 2019     | 2018     | Change in 2020/2019, % |
|----------------------|---|----------|----------|----------|------------------------|
| Electricity          | Electricity saving, thousand kW             | 65 531   | 22 698   | 53 809   | 188,7                  |
|                      | Energy cost savings, million tenge          | 910,4    | 336,3    | 949,4    | 170,7                  |
| Diesel fuel          | Saving diesel fuel, tons                    | 376 396  | 169 592  | 168 813  | 122                    |
|                      | Saving costs for diesel fuel, million tenge | 82 748,6 | 38 844,8 | 36 073,7 | 113                    |
| Petrol               | Saving petrol tons                          | 0        | 0        | 0        | 0                      |
|                      | Savings on petrol costs, million tenge      | 0        | 0        | 0        | 0                      |
| Total, million tenge |   | 83 659   | 39 181,1 | 37 023,1 | 113,5                  |

### EFFICIENCY OF SPECIFIC CONSUMPTION OF FER PER UNIT OF WORK IN THE PERIOD FROM 2018 TO 2020, KG OF FUEL EQUIVALENT/10 THOUSAND TONS OF GROSS KM

| Indicator  | 2020  | 2019  | 2018  |
|--|-------|-------|-------|
| Efficiency of specific consumption of FER per unit of work, kg of fuel equivalent/10 thousand tons of gross km | 28,84 | 29,70 | 30,64 |

As part of the fulfillment of the requirements of the Law of the Republic of Kazakhstan "On Energy Saving and Improving Energy Efficiency", as well as being a subject of the State Energy Register, NC KTZ JSC undergoes a mandatory energy audit at least once every five years, as a result of which measures are developed to save and improve energy efficiency, and contribute to reduction of annual costs for fuel and energy resources.

In 2020, as a result of an energy audit, NC KTZ JSC adopted measures to improve energy efficiency. Potential of energy saving measures (in equivalent fuel) will amount to about 3,160 tons of fuel equivalent or 2.6% of the total consumption of fuel and energy resources in relation to 2018. The total savings in monetary terms will amount to about 955 million tenge. These measures are planned to be implemented in the period between 2021 and 2024.





## CONSOLIDATED FINANCIAL STATEMENTS

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## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Management of Kazakhstan Temir Zholy National Company JSC (the "Company") is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the Company and its subsidiaries (collectively – the "Group") as at 31 December 2020, and the consolidated results of its operations, consolidated cash flows and consolidated changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

In preparing the consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRSs;
- maintaining statutory accounting records in compliance with local legislation and IFRSs;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2020 were approved for issue by management on 12 March 2021, pre-approved by the Audit Committee of the Board of Directors of the Company and subject to further approval by the Board of Directors and the Shareholder.

On behalf of the Group's management:

  
Kanat Almagambetov  
Acting Chairman of the  
Management Board  
12 March 2021

  
Sholpan Omarbekova  
Finance Director  
12 March 2021

  
Yelena Stankova  
Chief Accountant  
12 March 2021

# Deloitte.

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and the Shareholder of Kazakhstan Temir Zholy National Company JSC

### Opinion

We have audited the consolidated financial statements of Kazakhstan Temir Zholy National Company JSC (the "Company") and its subsidiaries (together - the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRSs").

### Basis for Opinion

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

### Key Audit Matters

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

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#### Why the matter was treated as a key audit matter?

##### Assessment of recoverability of property, plant and equipment

The Group's property, plant and equipment, which is mainly represented by infrastructure and rolling stock, comprises 84% of the Group's total assets. Due to the existence of impairment indicators, in particular, slower Kazakhstan economy growth rate that impact freight transportation volume, the Group performed an impairment assessment for its property, plant and equipment. In performing impairment test, management defined that the Group represents a single cash-generating unit, which required significant management judgement.

The recoverable amount of the property, plant and equipment was determined through assessing its value in use based on the Group's Development Plan. The value in use reflects management's estimations of the future cash flows derived from the assets use, the expectations about the amount or timing of those future cash flows, and other assumptions, which are subjective in nature. The value in use is sensitive to small changes in key assumptions.

Based on the above, we determined the impairment of property, plant and equipment to be a key audit matter. Please refer to Notes 4 and 6.

##### Liquidity and the going concern principle

As at 31 December 2020, the Group's current liabilities exceeded its current assets by 96,656 million tenge. Current liabilities include borrowings of 171,664 million tenge payable due within 12 months after the reporting date.

As disclosed in Note 15, the terms of the long-term loans received from EBRD and HSBC France with a carrying value of 16,459 million tenge and 62,115 million tenge, respectively, include certain covenants,

#### How the matter was addressed during the audit?

We performed the following procedures:

- > evaluating whether the methodology applied and the model used to calculate the value in use are in line with the requirements of IAS 36 *Impairment of Assets*,
- > evaluating appropriateness of the management's identification of a single cash-generating unit,
- > challenging assumptions used in the determining the discount rate and recalculating it with the assistance of our valuation specialists,
- > evaluating contradictory information and evidence obtained in relation to significant assumptions used in the impairment model including the discount rate, projected foreign exchange rates, tariffs growth, freight turnover growth, as well as expected capital expenditures for assets' maintenance and replacement,
- > challenging projected cash flows, including revenue and operating profit growth assumptions, based on historical data, market forecasts, the Group's Development Plan and long-term strategy. We also analysed the accuracy of the management's preceding forecasts, appropriateness of the assumptions used in the forecasts, and their consistency with the plans approved by the Board of Directors,
- > assessing the completeness and adequacy of disclosures in the consolidated financial statements.

Our audit procedures in respect of the going concern were mainly focused on a critical evaluation of the key assumptions made and conclusions reached by management and included the following:

- > examining the correctness of classification of assets and liabilities as current and non-current,
- > analysing management's evaluation of the going concern principles and their plans to settle current liabilities,
- > analysing current and expected events and conditions, including financial and operating

#### Why the matter was treated as a key audit matter?

whereby non-compliance may result in the loans becoming payable on demand.

Management had prepared forecasts of the expected financial position and financial results for 2020 and concluded that the Group would not be able to meet certain financial covenants, so that, prior to 31 December 2020, management had received letters from its creditors waiving their right to request early repayment because of the breach of financial covenants.

Due to the above matters, critical judgement is required by management in respect of the sufficiency of the Group's liquid assets and its ability to settle the current obligations in a due course. Management's plans in respect of this matter are disclosed in Notes 2 and 33.

Given the pervasiveness of the effect of the going concern conclusion to the consolidated financial statements, this is considered to be a key audit matter.

#### How the matter was addressed during the audit?

- indicators, which could cast doubts on the Group's ability to continue as a going concern,
- > examining the reliability of data and reasonableness of assumptions applied in preparing cash flow forecasts, including the consistency of input data to other tests, such as impairment, the actuarial valuation and hedge effectiveness testing,
- > analysing downside scenarios affecting the Group's liquidity and its ability to settle obligations, including the ability to generate a sufficient level of cash flows from operating activities to serve and settle its borrowings, as well as the impact of possible exchange rate fluctuations on liabilities and revenue amounts,
- > examining the documents supporting the availability of financing sources, including credit agreements, negotiations with financial institutions, and Board of Directors' minutes,
- > analysing the terms of the loan agreements and related financial and non-financial covenants,
- > recalculating financial covenants as at reporting date for mathematical accuracy,
- > examining waivers received from creditors with respect to non-application of clauses resulting from the breach of financial covenants as at 31 December 2020,
- > evaluating external matters that could be an indicator of adverse events and conditions, which may impact the Group's operations, and
- > assessing the completeness and adequacy of information disclosed in the consolidated financial statements.

#### Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report, but does not include the consolidated financial statements and our auditor's report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## Responsibilities of Management and Those Charged With Governance for the Consolidated Financial Statements

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

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

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

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

  
Alua Yessimbekova  
Engagement partner  
Certified Public Accountant  
New Hampshire, USA  
Certificate No. 07348  
dated 12 June 2014

  
Azama Abat  
Qualified auditor  
of the Republic of Kazakhstan  
Qualification certificate  
No.MF-0001157  
dated 21 August 2020

  
Zhangir Zhilyshbayev  
General Director  
Deloitte LLP  
State license on auditing  
in the Republic of Kazakhstan  
No.0000015, type MFU-2,  
issued by the Ministry of Finance  
of the Republic of Kazakhstan  
dated 13 September 2006

Nur-Sultan, Republic of Kazakhstan  
12 March 2021



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

(in millions of Tenge)

|  | Notes | 31 December<br>2020 | 31 December<br>2019 |
|--|-------|---------------------|---------------------|
| <b>ASSETS</b>  |       |                     |                     |
| <b>Non-current assets</b>                                    |       |                     |                     |
| Property, plant and equipment                                | 6     | 2,836,417           | 2,779,962           |
| Goodwill   | 27    | 15,520              | -                   |
| Intangible assets  |       | 9,931               | 7,774               |
| Investments in joint ventures                                | 7     | -                   | 17,389              |
| Investments in associates                                    | 7     | 21,218              | 16,164              |
| Deferred tax assets  | 18    | 81                  | 501                 |
| Other non-current assets                                     | 8     | 139,363             | 129,784             |
| <b>Total non-current assets</b>                              |       | <b>3,022,530</b>    | <b>2,951,574</b>    |
| <b>Current assets</b>  |       |                     |                     |
| Cash and cash equivalents                                    | 9     | 155,407             | 151,581             |
| VAT recoverable  |       | 69,005              | 29,137              |
| Inventories  | 10    | 37,119              | 37,282              |
| Trade accounts receivable                                    | 11    | 11,317              | 13,244              |
| Contract assets  |       | 7,158               | 2,795               |
| Prepaid income tax   |       | 3,974               | 2,295               |
| Other current assets   | 12    | 53,927              | 47,603              |
|  |       | <b>337,907</b>      | <b>283,937</b>      |
| Assets held for sale and for distribution to the Shareholder | 13    | 6,760               | 106,352             |
| <b>Total current assets</b>                                  |       | <b>344,667</b>      | <b>390,289</b>      |
| <b>Total assets</b>  |       | <b>3,367,197</b>    | <b>3,341,863</b>    |
| <b>EQUITY AND LIABILITIES</b>                                |       |                     |                     |
| <b>Equity</b>  |       |                     |                     |
| Share capital  | 14    | 1,082,299           | 1,082,299           |
| Hedging reserve  | 14    | (52,820)            | (37,600)            |
| Foreign currency translation reserve                         |       | 8,788               | 6,461               |
| Retained earnings  |       | 88,858              | 78,697              |
|  |       | <b>1,127,125</b>    | <b>1,129,857</b>    |
| Equity attributable to the Shareholder                       |       | <b>11,480</b>       | <b>25,647</b>       |
| <b>Total equity</b>  |       | <b>1,138,605</b>    | <b>1,155,504</b>    |

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020 (CONTINUED)


(in millions of Tenge)

|  | Notes | 31 December<br>2020 | 31 December<br>2019 |
|--|-------|---------------------|---------------------|
| <b>Non-current liabilities</b>                                 |       |                     |                     |
| Borrowings   | 15    | 1,398,515           | 1,395,536           |
| Deferred tax liabilities                                       | 18    | 279,954             | 254,968             |
| Employee benefit obligations                                   | 17    | 36,669              | 39,278              |
| Lease liabilities  | 16    | 30,687              | 20,325              |
| Other non-current liabilities                                  | 21    | 41,444              | 28,287              |
| <b>Total non-current liabilities</b>                           |       | <b>1,787,269</b>    | <b>1,738,394</b>    |
| <b>Current liabilities</b>                                     |       |                     |                     |
| Borrowings   | 15    | 171,664             | 90,570              |
| Trade accounts payable   | 19    | 85,056              | 116,912             |
| Contract liabilities   | 20    | 71,409              | 61,662              |
| Other taxes payable  |       | 30,390              | 22,231              |
| Lease liabilities  | 16    | 19,499              | 6,238               |
| Employment benefit obligations                                 | 17    | 6,787               | 5,101               |
| Constructive obligation for the benefit of the Shareholder     |       | 104                 | 1,164               |
| Other current liabilities                                      | 21    | 52,905              | 58,431              |
|  |       | <b>437,814</b>      | <b>362,309</b>      |
| Liabilities associated with assets classified as held for sale | 13    | 3,509               | 85,656              |
| <b>Total current liabilities</b>                               |       | <b>441,323</b>      | <b>447,965</b>      |
| <b>Total liabilities</b>                                       |       | <b>2,228,592</b>    | <b>2,186,359</b>    |
| <b>Total equity and liabilities</b>                            |       | <b>3,367,197</b>    | <b>3,341,863</b>    |

On behalf of the Group's management:

  
 Kenat Almagambetov  
 Acting Chairman of the Management  
 Board "HK "KTJ"  
 12 March 2021

  
 Sholpan Omarbekova  
 Finance Director  
 12 March 2021

  
 Yelena Stankova  
 Chief Accountant  
 12 March 2021

The notes below are an integral part of these consolidated financial statements.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020 (in millions of Tenge)

|   | Notes  | 2020             | 2019             |
|---|--------|------------------|------------------|
| Continuing operations   |        |                  |                  |
| Revenue and other income  |        |                  |                  |
| Revenue from freight transportation   | 22     | 1,062,524        | 959,801          |
| Revenue from passenger transportation   | 22     | 38,178           | 84,781           |
| Government grants   |        | 25,546           | 31,406           |
| Other revenue   | 23     | 47,086           | 63,150           |
| <b>Total revenue and other income</b>   |        | <b>1,173,334</b> | <b>1,139,138</b> |
| Cost of sales   | 24     | (885,388)        | (872,366)        |
| <b>Gross profit</b>   |        | <b>287,946</b>   | <b>266,772</b>   |
| General and administrative expenses   | 25     | (85,898)         | (96,619)         |
| Finance income  | 26     | 46,897           | 5,529            |
| Finance costs   | 26     | (167,378)        | (176,090)        |
| Foreign exchange loss   | 33     | (52,647)         | (11,592)         |
| Share of the profit of associates and joint ventures  | 7      | 11,111           | 8,013            |
| Revaluation to fair value of a previously held interest in a joint venture                                | 27     | 9,035            | -                |
| Gain from the disposal of shares in associates and subsidiaries not qualifying as discontinued operations |        | 10,000           | 59               |
| Assets impairment   |        | (20,399)         | (11,062)         |
| Other profit or losses, net   |        | (1,674)          | (17,735)         |
| <b>Profit/(loss) before income tax</b>  |        | <b>36,993</b>    | <b>(32,725)</b>  |
| Income tax expenses   | 18     | (20,700)         | (24,218)         |
| <b>Profit/(loss) for the year from continuing operations</b>  |        | <b>16,293</b>    | <b>(56,943)</b>  |
| Discontinued operations   |        |                  |                  |
| Loss for the year from discontinued operations  | 13     | (188)            | (13,382)         |
| <b>Profit/(loss) for the year</b>   |        | <b>16,105</b>    | <b>(70,325)</b>  |
| Other comprehensive (loss)/income net of tax:   |        |                  |                  |
| Items that will not be subsequently reclassified to profit or loss:                                       |        |                  |                  |
| Remeasurement of employee benefit obligations   |        | 2,057            | (579)            |
| Items that may be reclassified to profit or loss in subsequent periods:                                   |        |                  |                  |
| Net fair value loss on cash flow hedging instruments  | 14     | (15,220)         | (26)             |
| Reclassification of the loss on cash flow hedging instruments to the loss for the period                  | 14, 22 | -                | 19,005           |
| Foreign exchange difference on translation of foreign operations  |        | 2,327            | 569              |
| <b>Other comprehensive (loss)/income for the year</b>   |        | <b>(10,836)</b>  | <b>18,969</b>    |
| <b>Total comprehensive income/(loss) for the year</b>   |        | <b>5,269</b>     | <b>(51,356)</b>  |
| Profit/(loss) for the year attributable to:   |        |                  |                  |
| The Shareholder   |        | 16,233           | (70,233)         |
| Non-controlling interests   |        | (128)            | (92)             |
| <b>Total comprehensive income/(loss) attributable to:</b>   |        | <b>16,105</b>    | <b>(70,325)</b>  |
| The Shareholder   |        | 5,396            | (51,314)         |
| Non-controlling interests   |        | (127)            | (42)             |
| <b>Total comprehensive income/(loss) attributable to:</b>   |        | <b>5,269</b>     | <b>(51,356)</b>  |
| Profit/(loss) per share from continuing and discontinued operations, in tenge                             | 29     | 33               | (141)            |
| Profit/(loss) per share from continuing operations, in tenge  | 29     | 33               | (115)            |

On behalf of the Group's management:

Kanat Almagambetov  
Acting Chairman of the Management Board

12 March 2021

Sholpan Omarbekova  
Finance Director

12 March 2021

Yelena Stankova  
Chief Accountant

12 March 2021

The notes below are an integral part of these consolidated financial statements.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020 (in millions of Tenge)

|  | Notes  | 2020             | 2019             |
|--|--------|------------------|------------------|
| Cash flows from operating activities:  |        |                  |                  |
| Profit/(loss) for the year   |        | 16,105           | (70,325)         |
| Income tax expenses recognised in profit or loss, including discontinued operations                    | 13, 18 | 20,894           | 25,322           |
| Adjustments for:   |        |                  |                  |
| Depreciation and amortisation  |        | 136,508          | 124,942          |
| Finance costs  | 13, 26 | 167,851          | 183,527          |
| Assets impairment reserve  |        | 20,391           | 10,809           |
| Finance income   | 13, 26 | (46,910)         | (6,462)          |
| Post-employment employee benefits and other long-term employee benefits expenses                       |        | 4,553            | 12,346           |
| Share of the profit of associates and joint ventures   | 7      | (11,111)         | (8,013)          |
| Allowance for expected credit losses of accounts receivable and impairment of short-term advances paid |        | 521              | 12,942           |
| Foreign exchange loss  |        | 52,614           | 11,646           |
| Reclassification of the loss on cash flow hedging instruments to the loss for the period               | 14, 22 | -                | 19,005           |
| (Reversal)/accrual of provisions   |        | (5,090)          | 15,733           |
| Gain from disposal of shares in associates and subsidiaries not qualifying as discontinued operations  |        | (10,000)         | (59)             |
| Revaluation to fair value of previously held interest in joint venture                                 | 27     | (9,035)          | -                |
| Other  |        | 12,585           | 19,790           |
| <b>Operating income before changes in working capital and other balances</b>                           |        | <b>349,876</b>   | <b>351,262</b>   |
| Change in trade accounts receivable  |        | (3,092)          | (11,519)         |
| Change in inventories  |        | 4,577            | 1,120            |
| Change in other current and non-current assets (including long-term VAT recoverable)                   |        | (3,091)          | (2,283)          |
| Change in trade accounts payable   |        | (11,402)         | 13,717           |
| Change in other taxes payable  |        | (38,130)         | (6,647)          |
| Change in other liabilities  |        | 37,907           | 5,145            |
| Change in employee benefit obligations   |        | (3,539)          | (3,286)          |
| <b>Cash generated from operations</b>  |        | <b>333,206</b>   | <b>347,509</b>   |
| Interest paid  |        | (121,039)        | (97,122)         |
| Interest received  |        | 5,718            | 3,113            |
| Income tax paid  |        | (2,068)          | (920)            |
| <b>Net cash flows from operating activities</b>  |        | <b>215,817</b>   | <b>252,580</b>   |
| Cash flows from investing activities:  |        |                  |                  |
| Purchase of property, plant and equipment, including advances paid for property, plant and equipment   |        | (203,479)        | (173,315)        |
| Proceeds from the sale of property, plant and equipment  |        | 295              | 18,352           |
| Proceeds from the sale of other non-current assets   |        | 4,337            | 1,553            |
| Dividends received from associates and joint ventures  |        | 6,635            | 6,725            |
| Net cash inflow on disposal of subsidiaries  |        | 742              | 3,515            |
| Net cash outflow on acquisition of subsidiary  | 27     | (26,499)         | -                |
| Capital contribution in associates   | 7      | (4,120)          | -                |
| Proceeds from sale of shares in associates   | 7      | 10,000           | -                |
| Other  |        | 71               | (779)            |
| <b>Net cash flows from investing activities</b>  |        | <b>(212,018)</b> | <b>(143,949)</b> |



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)  
(in millions of Tenge)

|   | Notes | 2020      | 2019      |
|---|-------|-----------|-----------|
| Cash flows from financing activities:   |       |           |           |
| Share capital contribution  | 14    | -         | 19,225    |
| Proceeds from borrowings  |       | 186,422   | 461,863   |
| Repayment of borrowings   |       | (154,882) | (431,897) |
| Dividends and distributions paid  |       | (1,065)   | (20,665)  |
| Bonds early extinguishment premium and fees paid  | 26    | (24,221)  | (45,236)  |
| Repayment of lease liabilities  |       | (10,907)  | (5,012)   |
| Other   |       | (1,493)   | (1,036)   |
| Net cash flows from financing activities  |       | (6,146)   | (22,758)  |
| Net (decrease)/increase in cash and cash equivalents  |       | (2,347)   | 85,873    |
| Cash and cash equivalents at the beginning of the year  | 9     | 151,867   | 68,223    |
| Effect of changes in foreign exchange rates on cash and cash equivalents<br>balances held in foreign currency |       | 5,879     | (2,222)   |
| Effect of changes in allowance for expected credit losses   |       | 8         | (7)       |
| Cash and cash equivalents at the end of the year  | 9     | 155,407   | 151,867   |
| Non-cash transactions:  |       |           |           |
| Purchase of property, plant and equipment from borrowed funds by direct<br>bank transfer to the supplier      |       | 5,729     | 12,438    |

On behalf of the Group's management:

  
 Kanat Almagambetov  
 Acting Chairman of the Management  
 Board  
 12 March 2021

  
 Sholpan Omarbekova  
 Finance Director

12 March 2021

  
 Yelena Stankova  
 Chief Accountant

12 March 2021

The notes below are an integral part of these consolidated financial statements.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020 (in millions of Tenge)

|  | Share capital    | Additional paid-in capital | Hedging reserve | Foreign currency translation reserve | Retained earnings | Equity attributable to the Shareholder | Non-controlling interests | Total equity     |
|--|------------------|----------------------------|-----------------|--------------------------------------|-------------------|--|---------------------------|------------------|
| <b>As at 1 January 2019</b>                    | <b>1,062,635</b> | <b>290</b>                 | <b>(56,579)</b> | <b>5,892</b>                         | <b>102,243</b>    | <b>1,114,481</b>                       | <b>26,354</b>             | <b>1,140,835</b> |
| Loss for the year                              | -                | -                          | -               | -                                    | (70,233)          | (70,233)                               | (92)                      | (70,325)         |
| Other comprehensive income/(loss) for the year | -                | -                          | 18,979          | 569                                  | (629)             | 18,919                                 | 50                        | 18,969           |
| Total comprehensive income/(loss) for the year | -                | -                          | 18,979          | 569                                  | (70,862)          | (51,314)                               | (42)                      | (51,356)         |
| Dividends                                      | -                | -                          | -               | -                                    | -                 | -                                      | (774)                     | (774)            |
| Other contributions (Note 14)                  | -                | -                          | -               | -                                    | 47,316            | 47,316                                 | -                         | 47,316           |
| Share issue (Note 14)                          | 19,664           | (290)                      | -               | -                                    | -                 | 19,374                                 | -                         | 19,374           |
| Disposal of subsidiaries                       | -                | -                          | -               | -                                    | -                 | -                                      | 109                       | 109              |
| <b>As at 31 December 2019</b>                  | <b>1,082,299</b> | <b>-</b>                   | <b>(37,600)</b> | <b>6,461</b>                         | <b>78,697</b>     | <b>1,129,857</b>                       | <b>25,647</b>             | <b>1,155,504</b> |
| <b>As at 1 January 2020</b>                    | <b>1,082,299</b> | <b>-</b>                   | <b>(37,600)</b> | <b>6,461</b>                         | <b>78,697</b>     | <b>1,129,857</b>                       | <b>25,647</b>             | <b>1,155,504</b> |
| Profit/(loss) for the year                     | -                | -                          | -               | -                                    | 16,233            | 16,233                                 | (128)                     | 16,105           |
| Other comprehensive (loss)/income for the year | -                | -                          | (15,220)        | 2,327                                | 2,056             | (10,837)                               | 1                         | (10,836)         |
| Total comprehensive (loss)/income for the year | -                | -                          | (15,220)        | 2,327                                | 18,289            | 5,396                                  | (127)                     | 5,269            |
| Other contributions (Note 14)                  | -                | -                          | -               | -                                    | 16,686            | 16,686                                 | -                         | 16,686           |
| Other distributions (Note 14 and 28)           | -                | -                          | -               | -                                    | (24,814)          | (24,814)                               | -                         | (24,814)         |
| Disposal of subsidiary (Note 14)               | -                | -                          | -               | -                                    | -                 | -                                      | (14,040)                  | (14,040)         |
| <b>As at 31 December 2020</b>                  | <b>1,082,299</b> | <b>-</b>                   | <b>(52,820)</b> | <b>8,788</b>                         | <b>88,858</b>     | <b>1,127,125</b>                       | <b>11,480</b>             | <b>1,138,605</b> |

On behalf of the Group's management:

  
Kanat Almagambetov  
Acting Chairman of the Management Board  
12 March 2021

  
Sholpan Omarbekova  
Finance Director  
12 March 2021

  
Yelena Stankova  
Chief Accountant  
12 March 2021

The notes below are an integral part of these consolidated financial statements.



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (in millions of Tenge, unless stated otherwise)

#### 1. GENERAL INFORMATION

Kazakhstan Temir Zholy National Company JSC (the “Company”) was created in Kazakhstan in accordance with Resolutions of the Kazakhstan Government (the “Ultimate Shareholder”) to establish a holding company for state railway industry assets management. The Company was registered on 15 May 2002. The consolidated financial statements include the results of the operations of the Company and its wholly controlled subsidiaries (collectively, the “Group”). The address of the Company’s registered office is 6 D. Kunayev Street, Nur-Sultan 010000, Republic of Kazakhstan.

Samruk-Kazyna Sovereign Welfare Fund JSC (the “Shareholder”) is the Company’s sole shareholder.

The Group operates a nationwide railway system providing freight and passenger transportation, mainline railway services, providing operation, maintenance and modernisation of railway infrastructure in Kazakhstan. As part of rail industry regulation in Kazakhstan, the government sets the tariffs the Group charges for its railway network services, as well as for railway freight transportation services (according to the Kazakhstan Entrepreneurial Code) and passenger transportation on socially important routes, costs of which it partially subsidises through government grants. These regulated tariffs differ based on the type of freight to be transported. The government does not regulate international transit and container freight transportation tariffs.

The Committee for the Regulation of Natural Monopolies of the Ministry of the National Economy of the Republic of Kazakhstan (“CRNM”) has approved railway network tariffs for 2016-2020 with annual average growth of 4%. Starting from 5 July 2019, the CRNM agreed an 11.1% increase of tariff for locomotive haulage services. As a result, an average freight transportation tariff increase in 2019 was 7.2%. Tariffs for locomotive haulage services did not change in 2020.

In November 2020, the CRNM approved tariffs for railway network services for 2021-2025. Starting from 1 January 2021, for freight transportation services, differentiated tariffs for mainline railway network services are introduced: for diesel locomotives on non-electrified track sections and for electric locomotives on electrified track sections; as well as for locomotive haulage services: division into diesel traction and electric traction. As a result of differentiation, the tariffs for freight transportation in carriages and containers in 2021 will increase by 13% on average.

On 5 March 2020, the authorised body, represented by the Ministry of Industry and Infrastructure Development, agreed a 7% increase in passenger transportation tariffs for a number of interdistrict routes (2019: 10%).

#### Operating environment

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly and are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the government’s fiscal and monetary policies, together with developments in the legal, regulatory and political environment.

Kazakhstan produces and exports large volumes of oil and gas, therefore, its economy is particularly sensitive to the price of oil and gas on the world market. In March 2020, global oil prices dropped by more than 40%, which resulted in immediate weakening of the tenge against the major currencies.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

In addition to that, starting from early 2020, the novel strain of coronavirus (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organisation in March 2020. The measures taken by many countries to contain the spread of COVID-19 had resulted in significant operational disruption for many companies and had a significant impact on global financial markets. COVID-19 has had a significant effect on business of many companies across a wide range of sectors, including, but not limited to, disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in capital raising.

The introduction of the state of emergency and quarantine in Kazakhstan had a significant impact on passenger transportation. In 2020, running of the most of passenger and suburban routes belonging to the subsidiary Passenger Transportation JSC were suspended and gradually reintroduced based on public demand and depending on the epidemiological situation in the regions. Starting from 2 November 2020, following the tightening of quarantine regime in Kazakhstan, the frequency of passenger trains running in five regions of Kazakhstan has been reduced.

Despite this, during 2020, the government continued to subsidise passenger transportation in accordance with financing plan. Moreover, amendments were made to the Rules for long-term subsidising of the carrier’s expenses related to the transportation of passengers on socially important routes, specifically, the list of subsidised expenses was supplemented with expenses on wages and social contributions during the period of the state of emergency and (or) force majeure circumstances associated with compulsory suspension of passenger and suburban trains.

At the same time, restrictive measures to close state borders associated with the quarantine regime did not have a significant impact on freight transportation in Kazakhstan and a number of other countries, since freight railway transportation had not been stopped. Nevertheless, the slowdown in economic growth in Kazakhstan in 2020 had an impact on a slight decrease in the volume of freight transportation on domestic routes.

In the second half of 2020, the People’s Republic of China introduced a number of quarantine measures in the transit zone on the border with Kazakhstan. Additional checks and quarantine measures affected the train throughput in import, export and transit routes in both directions. In addition, as described in Note 34, in March 2021 the Group introduced a temporary ban on the reception and transportation of goods, except for the freight in containers, in the direction of China via Dostyk crossing station in order to reduce the volume of idle cargo. The Group jointly with representatives of Kazakhstan state institutions are taking a number of emergency measures aimed at the prompt restoration of throughput capacity and uninterrupted transportation through the borders of two states.

Despite the situation described above, during 2020 there was an increase in the volume of transit freight transportation compared to the same prior period.

The Company’s management is monitoring the evolvement of the situation related to COVID-19, however, at current moment, it does not expect pandemic to have a significant impact on the future operations of the Group. The significance of the impact of COVID-19 on the Group’s operations is highly dependent on the duration and extent of the impact of the coronavirus on the global and Kazakhstani economies.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

The State controls the Group structure and is responsible for long-term railway industry strategy in Kazakhstan. Since 1997, the Kazakhstan national railway industry has been undergoing restructuring, which includes segregating freight transportation and infrastructure, change of regulatory environment and establishing investment-friendly environment.

Under the Group's Development Strategy until 2029, work was continued in 2020 to improve performance, develop transit traffic, optimise corporate portfolio structure in accordance with the state privatisation programme, ensure financial sustainability of the Group, increase the clients' satisfaction, guarantee safety of train traffic and ensure sustainable development of the Group.

## 2. BASIS FOR THE PREPARATION OF FINANCIAL STATEMENTS

### Statement of compliance

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

### Going concern

The Group's consolidated financial statements have been prepared on a going concern basis. This assumes the sale of assets and settlement of liabilities in the normal course of business for the foreseeable future. As at 31 December 2020, current liabilities exceeded its current assets by 96,656 million tenge (31 December 2019: 57,676 million tenge). As at 31 December 2020, current liabilities include borrowings of 171,664 million tenge that are payable within 12 months after the reporting date. In addition, in early 2020, a new strain of coronavirus (COVID-19) began to spread very rapidly around the world. The impact of these events on the Group's operations is described in Note 1. However, profit for the year ended 31 December 2020 amounted to 16,105 million tenge (2019: loss of 70,325 million tenge), and cash inflows from operating activities amounted to 215,817 million tenge (2019: 252,580 million tenge).

Group management has assessed the Group's needs for cash, including its scheduled debt repayments and development plans as well. Historically, the Group financed major investment projects using funds from the government and through borrowings, in addition to cash from operating activity. During 2020, the Group took measures to reduce the foreign exchange burden, including refinancing portion of US Dollars denominated debt through issuing bonds in tenge, which allowed to decrease foreign currency risks in case of depreciation of national currency. With the aim to realize transit potential of the Republic of Kazakhstan, the Group continues to take measures to attract additional transit volumes and expand the sphere of influence in the market of multimodal transportation. In assessing its going concern basis, management also considered the Group's financial position, expected future performance and cash flows from operations, its borrowings, available credit facilities, its capital expenditure commitments, expected tariffs growth, building transit capacity, foreign currency exchange rates and other risks facing it. After completing the relevant analysis, management concluded that the Group has adequate resources to continue in operational existence and settle its liabilities (Note 33) and that the going concern basis is appropriate in preparing these consolidated financial statements.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

### Basis for measurement

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at revalued amounts or fair values as at the reporting date.

### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and entities controlled by it and by the subsidiaries listed in Note 31. The Group's investments in which it has significant influence are accounted for using the equity method. All intragroup transactions, balances, and unrealised gains and losses are eliminated on consolidation.

### Functional and presentation currency

The Group's consolidated financial statements are presented in Kazakhstan tenge ("tenge"). The assets and liabilities of foreign operations, where the functional currency is different to tenge, are translated into tenge at the exchange rate prevailing on the reporting date, while profit and loss items are translated into tenge at the weighted-average exchange rate for the year, unless exchange rates fluctuate significantly during that year, in which case the exchange rates at the date of transactions are used. Exchange rate differences arising on translation are recorded directly to other comprehensive income. Upon disposal of a foreign operation, all accumulated exchange differences related to that specific foreign operation are recognised in profit or loss.

Tenge is not a fully convertible currency outside of the Republic of Kazakhstan. Transactions in currencies other than the Group's functional currency (foreign currencies) are recorded at the market rate effective at the transaction date using market rates set by the Kazakhstan Stock Exchange ("KASE"). For foreign currencies not quoted by KASE, exchange rates are set by the National Bank using cross-rates to the US Dollar ("US\$") in accordance with quotations received from Reuters.

Monetary assets and liabilities denominated in foreign currencies are remeasured to the entity's functional currency at the exchange rate effective at the reporting date with all differences arising from a change in exchange rates subsequent to the transaction date recognised in profit or loss. Non-monetary items carried at fair value and denominated in foreign currencies are remeasured at the rates prevailing at the date when fair value was determined. Non-monetary items measured in terms of historical cost in a foreign currency are not remeasured. Foreign exchange gains or losses in profit or loss are presented separately in the consolidated statement of profit or loss and other comprehensive income.

The following table presents foreign currency exchange rates to tenge:

|                 | 31 December<br>2020 | 31 December<br>2019 | The weighted<br>average rate for<br>2020 | The weighted<br>average rate for<br>2019 |
|-----------------|---------------------|---------------------|--|--|
| US\$            | 420.91              | 382.59              | 412.95                                   | 382.75                                   |
| Euros           | 516.79              | 429.00              | 471.44                                   | 428.51                                   |
| Swiss Francs    | 477.60              | 395.16              | 440.52                                   | 385.24                                   |
| Russian Roubles | 5.62                | 6.16                | 5.73                                     | 5.92                                     |



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

#### 3. SIGNIFICANT ACCOUNTING POLICIES

##### Adoption of revised IFRSs, Interpretations and amendments to existing IFRSs effective from 1 January 2020

A number of amendments to Standards, as well as a new edition of Conceptual Framework for Financial Reporting became effective from 1 January 2020:

- A new edition of Conceptual Framework for Financial Reporting. In particular, new definitions of assets and liabilities and refined definitions of income and expenses;
- Amendments to IFRS 9, IFRS 7 and IAS 39 – Interest Rate Benchmark Reform. The adopted amendments present relief of some of the hedge accounting requirements, the fulfilment of which can bring to discontinuation of hedge accounting due to uncertainty, affected by interest rate benchmark reform;
- Amendments to IAS 1 and IAS 8 – New definition of material;
- Amendments to IFRS 3 – The adopted amendments clarify the determination of the business as an integrated aggregate of activities and assets, that must include input and fundamentally significant process as a minimum, that together to a large extent can promote provision of output. At the same time it is clarified that business does not necessarily need to include all inputs and processes required for provision of output.

Amendment to IFRS 16 became effective from 1 June 2020 and provides practical expedient to account for COVID-19 related rent concessions as if they were not lease modifications.

New edition of Conceptual Framework for Financial Reporting and mentioned amendments did not impact the Group's consolidated financial statements.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

#### New or revised standards issued but not yet effective

A number of new standards, interpretations and amendments to standards are effective for annual periods beginning on or after 1 January 2021. Specifically, the Group did not apply early the following standards, interpretations and amendments to the standards:

- IFRS 17 *Insurance Contracts* (effective for annual reporting periods beginning on or after 1 January 2023);
- Amendments to IFRS 10 and IAS 28 regarding sale or contribution of assets between an investor and its associate or joint venture (effective date has yet to be set);
- Amendments to IAS 1 regarding classification of liabilities as current or non-current (effective for annual reporting periods beginning on or after 1 January 2023);
- Amendments to IFRS 3 regarding references to the Conceptual Framework in IFRS Standards (effective for annual reporting periods beginning on or after 1 January 2022);
- Amendments to IAS 16 *Property, Plant and Equipment* regarding proceeds before intended use (effective for an annual reporting period beginning on or after 1 January 2022);
- Amendments to IAS 37 regarding onerous contracts: cost of fulfilling a contract (effective for an annual reporting period beginning on or after 1 January 2022);
- Annual Improvements to IFRS Standards 2018-2020 Cycle effective for an annual reporting period beginning on or after 1 January 2022 (Amendment to IFRS 1 when a subsidiary is a first-time adopter of IFRS; Amendments to IFRS 9 regarding accounting for commissions in the "10% test" for derecognition of financial liabilities; Amendment to IFRS 16 regarding removal of the illustration on the reimbursement of leasehold improvements; Amendment to IAS 41 regarding accounting for tax payments in fair value measurements;
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform (Phase 2) (effective for annual periods beginning on or after 1 January 2021);
- Amendments to IAS 1 regarding disclosure of accounting policies (effective for annual reporting periods beginning on or after 1 January 2023);
- Amendments to IAS 8 regarding definition of accounting estimates (effective for annual reporting periods beginning on or after 1 January 2023).

Group management expects that the application of the standards and amendments will not have a significant effect on the Group's consolidated financial statements when such standards and amendments become effective.

#### Significant accounting policies

##### Property, plant and equipment

Property, plant and equipment is stated at historical cost less subsequent accumulated depreciation and impairment losses. Depreciation is charged once the asset becomes available for its intended use.

##### Subsequent costs

The costs of the day-to-day servicing incurred during an asset's useful life (regular maintenance to ensure the asset remains in a working condition) and repair expenses (technical inspections, maintenance contracts, etc.) are recorded in profit or loss when incurred.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) *(in millions of Tenge, unless stated otherwise)*

Costs are capitalised only if those costs qualify for recognition as assets in accordance with IAS 16 *Property, Plant and Equipment*.  
*Construction-in-progress*

Construction-in-progress comprises costs directly related to the acquisition and construction of property, plant and equipment, including the appropriate allocation of directly attributable variable overheads incurred during construction. The carrying value of construction-in-progress is regularly reviewed for impairment.

#### Leases

##### *The Group as lessee*

For the lease contracts (or separate components of the contracts), under which the Group is granted the right to control the use of an identified asset (as defined by IFRS 16 *Leases*) for a certain period of time in exchange for consideration, the Group recognizes a right-of-use asset and a corresponding lease liability at the inception of the contract. Non-lease components of the contracts are accounted for in accordance with other relevant standards.

In accordance with IFRS 16 *Leases*, the Group applies practical expedient for not recognising the lease for the lease contracts with lease term of less than 12 months at lease inception and without purchase option, for the leases with variable lease rates that do not depend on an index or rate and for the leases of low value assets (less than 2 million tenge). The Group recognizes short-term leases and leases of low value assets as expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. Lease payments are discounted by using the Group incremental borrowing rate, except when the rate is implicit in the lease and can be readily determined.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

At the commencement date, the Group measures the right-of-use asset at cost that includes the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs incurred by the lessee. The right-of-use asset is subsequently measured according to the accounting policy that is applied for own assets, including for depreciation and amortization and impairment measurement.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) *(in millions of Tenge, unless stated otherwise)*

The recognised right-of-use asset is depreciated over the shorter period of expected useful life of the underlying asset or lease term.

The Group presents lease liabilities in the consolidated statement of financial position as a separate line (Note 16), while right-of-use assets are presented within the same line item as that within which the corresponding underlying assets would be presented if they were owned, i.e. within property, plant and equipment (Note 6) and intangible assets.

##### *The Group as lessor*

The Group enters into lease agreements as a lessor with respect to some of its property, plant and equipment items (Notes 6 and 23).

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

#### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The acquisition date is the date on which the Group obtains effective control over the acquiree.

The cost of the acquisition is measured as the sum of the consideration transferred, measured at fair value at the acquisition date, and the non-controlling interest in the acquiree. For each business combination, the Group decides how to measure the non-controlling interest in the acquiree, either at fair value or at a proportionate share in the acquiree's identifiable net assets. Acquisition-related costs are recognised in general and administrative expenses as they are incurred.

When a business combination is achieved in stages, the Group's previously held interests (including joint operations) in the acquired entity are remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss.

Goodwill is initially measured at cost, estimated as the excess of the consideration transferred and non-controlling interest recognised and share previously held by the Group over the fair value of the identifiable net assets acquired by the Group and liabilities assumed. If the aggregate amount of the consideration transferred and the non-controlling interest recognised and share previously held by the Group are less than the fair value of the net identifiable assets and liabilities assumed, the difference is recognised in profit or loss for the period.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purposes of impairment testing of goodwill acquired in a business combination, goodwill, from the date the Group acquires a subsidiary, is allocated to the cash-generating units that are expected to benefit from the business combination, whether or not they are attributed other assets or liabilities of the acquired subsidiary to specified units.

The Group assesses whether it has control over an investee when facts and circumstances indicate a change in one of the three components of control.



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)  
*(in millions of Tenge, unless stated otherwise)***Borrowing costs**

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets as part of the cost of that asset.

The Group capitalises borrowing costs on general purpose borrowings to the extent they are used to obtain a qualifying asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the Group's borrowings that are outstanding during the period and used to construct and produce a qualifying asset, other than borrowings received specifically for the purpose of obtaining a qualifying asset. Moreover, if the loan remains outstanding after the relevant qualifying asset is ready for the intended use, then in calculating the capitalization rate, such a loan is included in general borrowing pool.

Investment income generated on a temporary investment of specific borrowings pending their use on qualifying assets is deducted from borrowing costs eligible for capitalisation.

Borrowing costs also include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. As a result, the capitalised borrowing costs denominated in foreign currencies, adjusted for exchange differences, cannot exceed the borrowing costs that would have been capitalised if the borrowing had been denominated in the functional currency. Any excess over exchange difference is recognised in profit or loss.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Inventories**

Inventories are valued at the lower of cost or net realisable value. Costs comprise of charges incurred to bring the inventory to its present location and condition for its intended use. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and costs necessary to make the sale. Inventory is valued on a weighted-average cost basis.

**Financial instruments**

Financial assets and liabilities are recognised in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value.

All recognised financial assets are measured subsequently either at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)  
*(in millions of Tenge, unless stated otherwise)***Wherein:**

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI); and
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

In the current year, the Group has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are further evaluated for impairment (Note 4).

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

Gains or losses on insubstantial modification of financial liabilities at amortised cost are recognised in profit or loss. A gain or loss is determined as the difference between the carrying value at the date of modification and the present value of the estimated future cash flows discounted using an initial effective interest rate of the financial instrument.

**Non-current assets held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable within 12 months since classification date and the asset (or disposal group) is available for immediate sale in its present condition. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

When the non-current asset ceased to be classified as held for sale, the Group includes any required adjustment to the carrying amount of the asset in profit or loss from continuing operations in the period in which the classification criteria are no longer met. If the disposal group or non-current asset that ceases to be classified as held for sale is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate, the Group amends retrospectively the financial statements for the periods since classification as held for sale.

**Equity****Share capital**

Common shares are classified as equity. Costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from equity proceeds. All non-cash contributions to share capital are assessed at fair value as at the date of the contribution by an independent appraiser.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

Consideration received for common shares yet to be legally registered is recognised as additional paid-in capital until they are registered, when any proceeds are transferred to share capital.

#### Other contributions

The Group enters into equity transactions with the Shareholder, such as asset transfers, adjustments for below market interest loans and others that would not relate to the acquisition of additional equity interest in the Group. The Group recognises such transactions through equity in retained earnings.

#### Other distributions

Distributions are recognised in equity when the Group has irrevocably committed to transfer cash or non-monetary assets to its Shareholder/Ultimate Shareholder free of charge and the amount of the commitment can be reliably measured. Distributions are recognised in equity net of any related deferred tax effects, where appropriate.

#### Hedge accounting

The Group designates certain hedging instruments, which include derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of a hedge relationship, an entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

#### Cash flow hedges

The effective portion of changes in the fair value of financial instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. A gain or loss relating to the ineffective portion is recognised immediately in profit or loss for the reporting period, and is included in the 'finance costs' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item.

Hedge accounting is discontinued when:

- a) the Group revokes the hedging relationship,
- b) the hedging instrument expires or is sold, terminated, or exercised, or
- c) it no longer qualifies for hedge accounting.

Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

#### Government grants

Government grants are recognised when there is reasonable assurance that the subsidy will be received, and all corresponding conditions will be met.

The government grants are recognised in profit or loss on a regular basis simultaneously with recognition in profit or loss of expenses that are intended to be compensated by subsidies. Particularly, the government authorises the Group to receive subsidies in the form of government grants to partially cover the cost of transporting passengers on socially important routes in Kazakhstan. Government grants are recognised regularly during reporting periods as the subsidies are used to cover carrier costs to transport passengers on socially important routes.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

#### Revenue

The Group recognises revenue to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue is recognised less VAT and rebates.

#### Revenue from freight transportation services

##### Domestic, international import, international export and international transit routes

Revenue from freight transportation services is recognised over time. The extent of completion of the freight transportation process is calculated as the ratio of transportation volumes provided as at the reporting date to the total transportation volumes.

The Group provides services on monthly 100% prepayment terms, as agreed in contracts with customers. Prepayments received from customers for transportation services not yet rendered are typically short-term and recognised as advances received within contract liabilities at the date of receipt.

Advances received from customers for domestic, international import, international export and international transit freight transportation services are recognised as deferred income within contract liabilities once transportation has started. Deferred income is credited to revenue of the reporting period as the services are provided.

There is no significant financing component in the contracts with the Group's customers due to the short time elapsed between the transfer of the promised services to the customer and the moment the customer pays for these services.

Pursuant to the CRNM Order *On the Approval Of a Temporary Decreasing Coefficient For Railway Freight Transportation Tariffs*, certain contracts envisage discounts dependent on the volumes of services consumed. Revenue from these services is recognised based on contractual prices less estimated discounts. The Group uses the expected value method to estimate the discount amount.

As at 31 December 2020 and 31 December 2019, The Group has no obligations to counterparties associated with provision of discounts.



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

#### Revenue from handling rolling stock

The Group discloses revenue from handling services within revenue from freight transportation services and recognises by the extent of completion of the services at the reporting date, as the performance obligation is satisfied over time and the customer simultaneously receives and consumes the benefits of the Group's performance. The extent of completion of the services is calculated as the ratio of transportation volume, provided as at the reporting date to the total transportation volumes.

Rolling stock handling services are provided, as a rule, based on prepayments, which are recognised as advances received within contract liabilities.

#### Revenue from passenger transportation services

Revenue from passenger transportation services is recognised over time by the extent of completion of transportation at the reporting date. Proceeds from ticket sales are recognised as deferred income, which is transferred to revenue from the time of departure of a passenger. Prepayments received from customers for transportation services not yet rendered are recorded within advances at the time of their receipt. Upon receipt of applications for passenger transportation and issuing tickets, advances approximating the expected estimated revenue from the services are transferred to deferred income. Deferred income is similarly transferred to revenue as passengers depart.

Passenger transportation services are generally completed within several hours/days. An analysis of past experience has shown that passenger transportation in progress at the reporting date is insignificant.

#### Other revenue

Other revenue includes penalties received, revenues from the sale of goods, materials, scrap metal, loading and unloading services and vehicle servicing.

Other revenue from the provision of services is recognised over time as the services are provided. When a performance obligation is satisfied at a certain period of time (sale of goods, materials and scrap metals), revenue is recognised when 'control' of the goods underlying the particular performance obligation is transferred to the customer.

The Group when accounting for significant contracts under which the period between the transfer of the promised goods or services to the customer and the respective payment exceeds one year, adjusts the transaction price for the time value of money.

#### Sale and lease back transactions

The Group accounts for a transfer of an asset in a sale and leaseback transaction as a sale only if the transfer meets the requirements of IFRS 15 *Revenue from contracts with customers*.

Under IFRS 15, if a sale is to be recognised by the seller-lessee, then the right-of-use asset leased back is measured at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. The seller-lessee recognises only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

If the transfer of an asset by the seller-lessee does not satisfy the requirements of IFRS 15 to be accounted for as a sale of the asset, the seller-lessee continues to recognize the transferred asset and recognizes a financial liability equal to proceeds for the transfer by applying IFRS 9 *Financial Instruments*.

#### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the consolidated financial statements in compliance with IFRSs requires Group management to make judgements and use estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on historical experience and other factors that are considered to be relevant, events or actions may mean that actual results ultimately differ from those estimates.

##### Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

##### Control assessment

Subsidiaries are those entities controlled by the Group. The Group controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. Losses are attributed to non-controlling interests in full, even if this results in a debit balance ("deficit") (Note 31).

Under the trust management agreement with the Shareholder, the Company recognised Aktau Sea Commercial Port National Company JSC as a subsidiary because of the extensive authority given to the Group by the Shareholder. The trust management agreement of 100% shares gives it the practical ability to manage the relevant activities of the entity unilaterally. The Company is also entitled to receive residual returns in the entity.

##### Loans at a rate below the market interest rate

The Group receives loans from the Shareholder/Ultimate Shareholder at a rate below the market rate for similar loans in arm's length transactions. These loans are initially recognised at the fair value of the consideration received less directly attributable transaction costs. The Group calculates the fair value (amortised cost) of these loans using market rates on governmental long-term treasury bonds with comparable maturities, given the Group's status as a monopolist in the Kazakhstan railway industry and 100% state ownership, and recognises an adjustment to the loan value (less the related deferred tax) within equity. When no comparable maturities exist, the Group extrapolates the most comparable market rates to the life of the loan received by the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

The benefit from government loans with an interest rate below the market, where the Group, upon receipt of loans, qualifying under certain criteria established by the State for all market participants, is recognised by the Group as a government grant. In other cases, the Group considers these loans as transactions with the ultimate Shareholder and accounts for the fair value adjustments of the loans received at a rate below market through equity.

#### Assets classified as held for sale

The Government of the Republic of Kazakhstan approved the "Comprehensive Privatization Plan for 2016-2020" and "Comprehensive Privatization Plan for 2021-2025" (hereinafter referred to as the "Plans"), in 2015 and 2020, respectively. In accordance with the Plans, the Group management approves the list of subsidiaries, associates and joint ventures of the Group to be disposed. IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* requires management judgment regarding the high probability of the sale of an asset. As at the reporting date, the Group's Management has reviewed the status of implementation of the Plans and has classified certain assets and liabilities as disposal groups held for sale related to the entities that meet the criteria of IFRS 5 (Note 13).

#### Cash-generating unit identification

Group management considered all segments as a single cash-generating unit (CGU) for impairment testing purposes as under the Group's current operating model cash flows for each segment are not considered to be sufficiently independent. Railway infrastructure is integral and is not differentiated for freight and passenger transportation lines. Accordingly, there is no objective allocation of infrastructure assets for cash flows from freight and passenger transportation. Due to the specifics of tariff regulation for freight transportation and the need to cross-subsidise passenger transportation, railway infrastructure cannot generate independent cash flows. Accordingly, the Group is treated as one cash-generating unit in impairment testing.

The Government of the Republic of Kazakhstan, as the Company's Ultimate Shareholder, has approved a privatisation plan for certain Group entities, which, if implemented, would result in a new interaction mechanism among its various business units. As the Group's restructuring processes have not been completed, these possible developments were not taken into account for current year impairment testing purposes. Subsequent changes in the identification of CGUs may affect the carrying value of the Group's assets.

#### Accounting of finance lease agreements with Industrial Development Fund JSC (former - DBK-Leasing JSC)

The Group, represented by Passengers Transportation JSC and Tulpar Wagon Construction Company LLP, entered into a number of three-side purchase-sale and finance lease arrangements with Industrial Development Fund JSC, which is under common control of ultimate Shareholder, to renew passenger wagon fleet. According to these arrangements, Industrial Development Fund JSC finances on a 100% prepayment basis the construction of passenger wagons by Tulpar Wagon Construction Company LLP for acquiring them to ownership with further leasing out to Passenger Transportation JSC under finance lease.

The Group's management concluded that the transaction between Tulpar Wagon Construction Company LLP and Industrial Development Fund JSC does not meet the requirements of IFRS 15 *Revenue from contracts with customers* to account for the asset sale at the Group level, as the

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

control over passenger wagons is not transferred to Industrial Development Fund JSC, but left with the Group.

Industrial Development Fund JSC finances the construction of the wagons, but is limited in its ability to direct the subsequent use of and obtain all of the remaining benefits from the asset. Accordingly, the Group recognises the obligation to Industrial Development Fund JSC as financial liability (borrowing) according to IFRS 9 *Financial Instruments* and recognises passenger wagons and work-in-progress as property, plant and equipment items and construction in progress in accordance with IFRS 16.103 *Leases* (Note 3).

Since financing was provided at preferential interest rates and such terms were provided solely to finance the renewal of passenger car fleet of Passenger Transportation JSC based on a separate Decree of the Government of the Republic of Kazakhstan, the Group considers these transactions as transactions with ultimate Shareholder and recognises fair value adjustments of the loans received at below market rate through the equity within retained earnings as other contributions (Notes 14 and 15).

#### Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period for which there is a significant risk they may cause a material adjustment to the carrying amounts of assets and liabilities during the next financial year.

#### Impairment of property, plant and equipment, intangible assets and goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that they have suffered an impairment loss. In addition, the Group tests the goodwill for impairment at each reporting date.

The assessment of whether there is an indication of assets impairment is based on a number of factors, such as a change in growth expectations in the railway industry, future cash flow estimates, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances.

If any such indication exists, the recoverable amount of the asset is estimated and compared to its carrying amount. If the carrying amount exceeds the recoverable amount, impairment is recorded. The recoverable amount is the greater of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate (adjusted WACC) that management believes reflects the current market assessment of the time value of money and the risks specific to the assets. The change in the estimated recoverable amount may result in an additional impairment or a reversal of the impairment and thus an impairment reversal being recognised in future periods.

Due to existing impairment indicators, the Group performed an impairment test for property, plant and equipment, intangible assets and goodwill as at 31 December 2020.

A number of subjective factors, both operational and financial, using the best evidence available, had been used to estimate cash flows.



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

The Group applied the cash flows forecast period of 10 years, as the Group prepares its Development Strategy for 10-year period and makes forecasts within the framework of this strategy, projecting an increase in freight turnover based on the GDP growth rates of the Republic of Kazakhstan and neighbouring regions, since such dependence was noted in the past. Given the availability of forecasts for GDP growth rates over a 10-year horizon, the Group's management believes it can reliably forecast its cash flows over a 10-year period. The level of tariffs for access to the mainline railway network used in the forecast period is based on the tariffs approved by the CRNM for 2021-2025, while in subsequent periods the tariffs were adjusted taking into account the forecasted inflation rate. The transit rates have been adjusted based on the forecasted Swiss Franc to tenge exchange rate. Long-term growth rate in terminal period is 4%.

The operational assumptions used in the test reflect expected volumes of transportation services, including transit volumes, based on projected demand and historical growth dynamic of transit freight transportations volumes.

Financial assumptions include significant estimates associated with tariff forecasts and growth rates, discounts, and projected tenge to Swiss Franc exchange rates, in which the revenue from transit freight transportation is denominated. The discount rate (WACC) used in calculating the value in use of the Group amounted to 11.44% (2019: 10.5%).

As at 31 December 2020, no impairment has been identified based on the estimated value in use of the Group's property, plant and equipment, intangible assets and goodwill. However, the value in use estimate is sensitive particularly to the following assumptions:

- transit freight transportation volumes; and
- the discount rate (WACC).

The Group performed a sensitivity analysis and concluded that when using the following justifiably possible changes in the key assumptions on an individual basis, while keeping other parameters constant, no impairment will occur:

- *Transit freight transportation volumes* – A decrease of the volumes by 10% compared to budget;
- *Discount rate (WACC)* – An increase of the discount rate from 11.44% to 12.44%.

However, with more significant changes in each of the above key assumptions or simultaneous adverse impact of several factors, the carrying value of the Group's non-current assets may become higher than their recoverable amount, which may result in the need to recognise impairment in the future.

#### Recoverability of VAT

As at each reporting date, the Group assesses the recoverability of VAT arising on international transportation sales. The Group cannot charge VAT onwards to these customers, and accordingly can only receive these amounts through recovery from the tax authorities. To assess VAT recoverability, the Group considers information from its internal tax department regarding projected VAT collection, correspondence with government tax authorities, and historical recovery experience. The actual amount of VAT recovered could differ materially from the Group's estimate and this could materially affect future operating results. As at 31 December 2020, VAT recoverable of 69,005 million tenge was classified as current assets. The Group expects that the given amount will be reimbursed by tax authorities during 2021.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

#### Depreciation of property, plant and equipment and amortisation of intangible assets

Property, plant and equipment and intangible assets are depreciated and amortised using the straight-line method over estimated useful lives. The estimates of useful lives, residual values and depreciation methods are reviewed at each reporting date, and adjusted if appropriate. Any changes are accounted for prospectively as a change in accounting estimates. Estimates of the useful lives and residual value of these assets are based on expected economic use, repair and maintenance programmes, and activity levels, technological advancements and other business conditions. A change in these assumptions could result in significantly different depreciation amounts than those previously recognised.

The estimated useful lives applied by the Group are as follows (in years):

|                              |        |
|------------------------------|--------|
| Buildings and structures     | 10-140 |
| Railway track infrastructure | 5-100  |
| Machinery and equipment      | 3-35   |
| Vehicles                     | 4-40   |
| Other                        | 2-50   |
| Intangible assets            | 1-10   |

#### Taxation

Kazakhstan legislative acts and regulations are not always clearly written. Instances of inconsistent opinions between local, regional and national tax authorities are possible. Where additional taxes are imposed by the tax authorities, penalties and interest applied are significant; penalties are generally assessed at 80% of the additional taxes accrued, and interest is assessed at 11.25% of additional accruals or overdue taxes. As a result, penalties and interest can exceed the amount of additional accrued taxes.

Because of the uncertainties disclosed above, the ultimate amount of taxes, penalties and interest, if any, imposed may be in excess of the amount expensed to date and accrued as at 31 December 2020. Any difference between the estimated amount and the actual amount paid, if any, could have a significant impact on future operating results (Note 30).

#### Significant increase in credit risk

The Group recognizes allowance for expected credit losses for financial instruments in the amount equal to 12-month expected credit losses for stage 1 assets, or lifetime expected credit losses for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

The Group also recognizes expected credit losses allowance under financial guarantee agreements for 12 months or lifetime, depending on the change in credit risk since initial recognition. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

For the purpose of internal credit risk management, the Group considers the following to be a default, as past experience has shown that a financial asset that meets one of the following criteria is generally non-recoverable:

- overdue: more than 90 days overdue on the counterparty's obligations (except when the Group has reasonable and substantiated information demonstrating that it is more appropriate to use the default criterion with a long delay in payment);
- downgrade of the external credit rating of the counterparty to the default "D";
- inability to fulfil obligations as a result of financial difficulties of the counterparty (suspension of interest accrual or decrease in the interest rate on the financial asset, write-off of the principal amount, extension of maturity of the financial asset, restructuring, leading to a decrease or write-off of the loan amount or debt forgiveness, etc.); or
- information generated internally or obtained from external sources indicates that the debtor is unlikely to make full payments to creditors, including the Group (not taking into account the collateral held by the Group).

## 5. SEGMENT INFORMATION

The Group's operating segments are based on services provided. It has two reportable segments, namely freight transportation and passenger transportation. All other operating segments, including mainly utilities, loading and unloading services, and vessel servicing, which in aggregate do not exceed quantitative thresholds for disaggregation, are thus not separately disclosed and combined into "Other".

Group management tracks a number of segment profitability elements, such as pre-tax profit, profit for the year from continuing operations and gross profit. However, profit for the year from continuing operations is the primary measure used by Group management to allocate resources and assess segment performance.

During 2020, the Group changed the segments presentation format due to revision of internal reports that are presented to Chief Executive (the Chief Operating Decision Maker (CODM)). Intragroup transactions between the Group's reportable segments and others, as well as consolidation adjustments, are now disclosed in the "Consolidation" column. Previously, intragroup transactions between reportable segments were eliminated in determining segment results for the year. Accordingly, comparative information for the year ended 31 December 2019 was restated.

The Group does not have a specific pricing policy for inter-segmental sales.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

|  | For the year, ended 31 December 2020 |                          |                     |          |               |           |
|--|--------------------------------------|--------------------------|---------------------|----------|---------------|-----------|
|  | Freight transportation               | Passenger transportation | Reportable segments | Other    | Consolidation | Total     |
| Key operating indices  |                                      |                          |                     |          |               |           |
| Revenue and other income   |                                      |                          |                     |          |               |           |
| Transportation revenue from third parties  | 1,062,524                            | 38,178                   | 1,100,702           | -        | -             | 1,100,702 |
| Transportation revenue from intersegment transactions  | 10,959                               | 2,644                    | 13,603              |          | (13,603)      | -         |
| Government grants  | -                                    | 25,546                   | 25,546              | -        | -             | 25,546    |
| Other revenue from third parties   | 33,750                               | 2,676                    | 36,426              | 10,660   | -             | 47,086    |
| Other revenue from intersegment transactions   | 3,759                                | 393                      | 4,152               | 5,277    | (9,429)       | -         |
| Total revenue and other income   | 1,110,992                            | 69,437                   | 1,180,429           | 41,285   | (23,032)      | 1,173,334 |
| Cost of sales  | (816,821)                            | (75,034)                 | (891,855)           | (15,253) | 21,720        | (885,388) |
| Gross profit/(loss)  | 294,171                              | (5,597)                  | 288,574             | 684      | (1,312)       | 287,946   |
| General and administrative expenses  | (74,536)                             | (8,673)                  | (83,209)            | (3,365)  | 676           | (85,898)  |
| Finance income   | 48,898                               | 1,591                    | 50,489              | 697      | (4,289)       | 46,897    |
| Finance costs  | (163,096)                            | (4,736)                  | (167,832)           | (3,440)  | 3,894         | (167,378) |
| Foreign exchange (loss)/gain   | (53,303)                             | 226                      | (53,077)            | 74       | 356           | (52,647)  |
| Share of the profit of associates and joint ventures   | 11,111                               | -                        | 11,111              | -        | -             | 11,111    |
| Revaluation to fair value of previously held interest in a joint venture                                 | 9,035                                | -                        | 9,035               | -        | -             | 9,035     |
| Gain from the disposal of share in associates and subsidiaries not qualifying as discontinued operations | 500                                  | -                        | 500                 | 9,500    | -             | 10,000    |
| Assets (impairment)/impairment reversal  | (19,879)                             | 23,570 <sup>1</sup>      | 3,691               | (331)    | (23,759)      | (20,399)  |
| Other profit and loss, net   | 7,101                                | (8,961)                  | (1,860)             | 373      | (187)         | (1,674)   |
| Profit/(loss) before income tax  | 60,002                               | (2,580)                  | 57,422              | 4,192    | (24,621)      | 36,993    |
| Income tax (expense)/benefit   | (20,723)                             | 2,268                    | (18,455)            | (168)    | (2,077)       | (20,700)  |
| Profit/(loss) for the year from continuing operations  | 39,279                               | (312)                    | 38,967              | 4,024    | (26,698)      | 16,293    |
| Other key segment information  |                                      |                          |                     |          |               |           |
| Capital expenditures   | 218,406                              | 248                      | 218,654             | 561      | 3,122         | 222,337   |
| Depreciation of property, plant and equipment  | 126,298                              | 7,875                    | 134,173             | 2,240    | (8)           | 136,405   |

<sup>1</sup> Assets (impairment)/impairment reversal includes a reversal of impairment for advances for non-current assets paid within the Group of 23,805 million tenge, which were returned.



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)  
(in millions of Tenge, unless stated otherwise)

|   | For the year ended 31 December 2019 (restated) |                             |                        |                |                 |
|---|--|-----------------------------|------------------------|----------------|-----------------|
|   | Freight<br>transportation                      | Passenger<br>transportation | Reportable<br>segments | Other          | Consolidation   |
| Key operating indices   |  |                             |                        |                |                 |
| Revenue and other income  |  |                             |                        |                |                 |
| Transportation revenue from third parties   | 959,801  | 84,781                      | 1,044,582              | -              | -               |
| Transportation revenue from intersegment transactions   | 23,598   | 2,734                       | 26,332                 | -              | (26,332)        |
| Government grants   |  | 31,406                      | 31,406                 | -              | -               |
| Other revenue from third parties  | 49,309   | 3,934                       | 53,243                 | 9,907          | -               |
| Other revenue from intersegment transactions  | 6,528  | 661                         | 7,189                  | 5,525          | (12,714)        |
| <b>Total revenue</b>  | <b>1,039,236</b>                               | <b>123,516</b>              | <b>1,162,829</b>       | <b>15,432</b>  | <b>(39,046)</b> |
| Cost of sales   | (791,590)                                      | (109,321)                   | (900,988)              | (12,316)       | 40,861          |
| <b>Gross profit</b>   | <b>247,646</b>                                 | <b>14,195</b>               | <b>261,841</b>         | <b>3,116</b>   | <b>1,815</b>    |
| General and administrative expenses   | (87,387)                                       | (7,822)                     | (95,209)               | (2,969)        | 1,559           |
| Finance income  | 7,163  | 2,286                       | 9,449                  | 324            | (4,244)         |
| Finance costs   | (174,616)                                      | (4,019)                     | (178,635)              | (3,116)        | 5,661           |
| Foreign exchange loss   | (11,304)                                       | (50)                        | (11,354)               | (238)          | -               |
| Share of the profit of associates and joint ventures  | 8,013  | -                           | 8,013                  | -              | -               |
| Gain from the disposal of shares in associates and subsidiaries not qualifying as discontinued operations | -  | -                           | -                      | 59             | -               |
| Assets (impairment)/impairment reversal   | (6,397)  | (10,247)                    | (16,644)               | (2,847)        | 8,429           |
| Other profit or losses, net   | (20,004)                                       | 206                         | (19,798)               | 2,202          | (139)           |
| <b>(Loss)/profit before income tax</b>  | <b>(36,886)</b>                                | <b>(5,451)</b>              | <b>(42,337)</b>        | <b>(3,469)</b> | <b>13,081</b>   |
| Income tax expense  | (19,606)                                       | (1,546)                     | (21,152)               | (262)          | (2,804)         |
| <b>(Loss)/profit for the year from continuing operations</b>  | <b>(56,492)</b>                                | <b>(6,997)</b>              | <b>(63,489)</b>        | <b>(3,731)</b> | <b>10,277</b>   |
| Other key segment information   |  |                             |                        |                |                 |
| Capital expenditures  | 156,137  | 790                         | 156,927                | 13,614         | 3,076           |
| Depreciation of property, plant and equipment   | 112,274  | 8,428                       | 120,702                | 2,051          | (10,044)        |

## Geographical information of the Group

The Group generates its revenue from customers in multiple geographical regions. The table below shows revenue based on customer country of domicile for each of the years ended 31 December:

| Customer location | 2020             | 2019             |
|-------------------|------------------|------------------|
| Kazakhstan        | 1,137,941        | 1,084,627        |
| Russia            | 22,127           | 40,738           |
| Other             | 13,266           | 13,773           |
|                   | <b>1,173,334</b> | <b>1,139,138</b> |

Mainly, all of the Group's non-current assets are located in the Republic of Kazakhstan.



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

#### 6. PROPERTY, PLANT AND EQUIPMENT

|   | Rail track infrastructure | Buildings and constructions | Machinery and equipment | Vehicles       | Land         | Other         | Construction-in-progress | Total            |
|---|---------------------------|-----------------------------|-------------------------|----------------|--------------|---------------|--------------------------|------------------|
| <b>Carrying amount as at 1 January 2019</b>   | <b>1,097,362</b>          | <b>322,615</b>              | <b>262,145</b>          | <b>895,864</b> | <b>1,820</b> | <b>18,616</b> | <b>164,863</b>           | <b>2,763,285</b> |
| Additions   | 172                       | 11,965                      | 6,471                   | 32,638         | -            | 228           | 121,060                  | 172,534          |
| Disposals   | (485)                     | (4,702)                     | (2,551)                 | (32,598)       | (50)         | (552)         | -                        | (40,938)         |
| Depreciation charge   | (35,733)                  | (7,464)                     | (26,566)                | (50,497)       | -            | (2,449)       | -                        | (122,709)        |
| Depreciation on disposal  | 331                       | 1,102                       | 1,890                   | 11,804         | -            | 529           | -                        | 15,656           |
| (Impairment)/reversal of impairment   | (189)                     | (99)                        | (337)                   | 147            | -            | 14            | (2,161)                  | (2,625)          |
| Other movements and transfers <sup>2</sup>  | 72,021                    | (7,611)                     | 11,846                  | 29,306         | -            | (1,708)       | (109,095)                | (5,241)          |
| <b>Carrying amount as at 31 December 2019</b>   | <b>1,133,479</b>          | <b>315,806</b>              | <b>252,898</b>          | <b>886,664</b> | <b>1,770</b> | <b>14,678</b> | <b>174,667</b>           | <b>2,779,962</b> |
| Cost  | 1,388,122                 | 372,009                     | 450,245                 | 1,339,027      | 1,770        | 28,611        | 186,006                  | 3,765,790        |
| Accumulated depreciation and impairment   | (254,643)                 | (56,203)                    | (197,347)               | (452,363)      | -            | (13,933)      | (11,339)                 | (985,828)        |
| <b>Carrying amount as at 31 December 2019</b>   | <b>1,133,479</b>          | <b>315,806</b>              | <b>252,898</b>          | <b>886,664</b> | <b>1,770</b> | <b>14,678</b> | <b>174,667</b>           | <b>2,779,962</b> |
| <b>Including:</b>   |                           |                             |                         |                |              |               |                          |                  |
| Rights-of-use assets:   |                           |                             |                         |                |              |               |                          |                  |
| Cost  | -                         | 1,180                       | -                       | 24,338         | -            | 6,287         | -                        | 31,805           |
| Accumulated depreciation and impairment   | -                         | (132)                       | -                       | (2,364)        | -            | (520)         | -                        | (3,016)          |
| Carrying value  | -                         | 1,048                       | -                       | 21,974         | -            | 5,767         | -                        | 28,789           |
| Property, plant and equipment that are subject to operating lease (the Group as the lessor) | -                         | 76                          | 45                      | 48,639         | -            | -             | -                        | 48,760           |

<sup>2</sup> Other movements and transfers also include transfers from/to inventories.



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

|   | Rail track<br>infrastructure | Buildings and<br>constructions | Machinery and<br>equipment | Vehicles       | Land         | Other         | Construction-in-<br>progress | Total            |
|---|------------------------------|--------------------------------|----------------------------|----------------|--------------|---------------|------------------------------|------------------|
| Carrying amount as at 1 January 2020  | 1,133,479                    | 315,806                        | 252,898                    | 886,664        | 1,770        | 14,678        | 174,667                      | 2,779,962        |
| Additions   | 1                            | 169                            | 3,765                      | 30,780         | 18           | 136           | 141,470                      | 176,339          |
| Lease additions (Note 16)   | -                            | 107                            | 37,728                     | 7,559          | -            | -             | -                            | 45,394           |
| Acquisition of subsidiary (Note 27) <sup>3</sup>  | -                            | 10,979                         | 3,516                      | 8,697          | 2,837        | 209           | 1,079                        | 27,317           |
| Disposals   | (133)                        | (633)                          | (1,781)                    | (15,045)       | (4)          | (522)         | (60)                         | (18,178)         |
| Loss of control over subsidiary<br>(Note 28)  | -                            | (10,911)                       | (9,187)                    | (32)           | (2)          | (87)          | -                            | (20,219)         |
| Depreciation charge   | (36,702)                     | (7,672)                        | (36,828)                   | (52,803)       | -            | (2,400)       | -                            | (136,405)        |
| Depreciation on disposal  | 100                          | 84                             | 1,712                      | 2,514          | -            | 517           | -                            | 4,927            |
| Impairment reversal/(impairment)  | 27                           | (611)                          | 222                        | (44)           | -            | 65            | (408)                        | (749)            |
| Transfer to assets held for sale  | -                            | (9,482)                        | (5,844)                    | (17)           | (650)        | (140)         | -                            | (16,133)         |
| Other movements and transfers <sup>4</sup>  | 60,678                       | 23,486                         | 35,680                     | 58,246         | -            | 1,721         | (185,649)                    | (5,838)          |
| <b>Carrying value as at 31 December 2020</b>  | <b>1,157,450</b>             | <b>321,322</b>                 | <b>281,881</b>             | <b>926,519</b> | <b>3,969</b> | <b>14,177</b> | <b>131,099</b>               | <b>2,836,417</b> |
| Cost  | 1,442,279                    | 379,336                        | 505,516                    | 1,425,022      | 3,969        | 29,389        | 142,844                      | 3,928,355        |
| Accumulated depreciation and<br>impairment  | (284,829)                    | (58,014)                       | (223,635)                  | (498,503)      | -            | (15,212)      | (11,745)                     | (1,091,938)      |
| <b>Carrying value as at 31 December 2020</b>  | <b>1,157,450</b>             | <b>321,322</b>                 | <b>281,881</b>             | <b>926,519</b> | <b>3,969</b> | <b>14,177</b> | <b>131,099</b>               | <b>2,836,417</b> |
| <b>Including:</b>   |                              |                                |                            |                |              |               |                              |                  |
| Rights-of-use assets:   |                              |                                |                            |                |              |               |                              |                  |
| Cost  | -                            | 1,868                          | 37,728                     | 17,449         | -            | 7,241         | -                            | 64,286           |
| Accumulated depreciation and<br>impairment  | -                            | (330)                          | (9,039)                    | (3,289)        | -            | (1,086)       | -                            | (13,744)         |
| Carrying value  | -                            | 1,538                          | 28,689                     | 14,160         | -            | 6,155         | -                            | 50,542           |
| Property, plant and equipment that are<br>subject to operating lease (the Group<br>as the lessor) | -                            | 141                            | 37                         | 46,847         | -            | -             | -                            | 47,025           |

<sup>3</sup> Excluding intergroup lease for 1,842 million tenge.

<sup>4</sup> Other movements and transfers also include transfers from/to inventories.

**KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**  
*(in millions of Tenge, unless stated otherwise)*

As at 31 December 2020, construction-in-progress mainly consisted of project costs to build the Zhezkazgan-Beineu, Arkalyk-Shubarkol and Almaty-Shu railways, a ferry complex at the Kuryk port and development of a railway junction at the Astana station, including the construction of station building facilities.

As at 31 December 2020 and 2019, Group property, plant and equipment with a carrying amount of 14,264 million tenge and 13,011 million tenge, respectively, was used as collateral for specific borrowings.

For the year ended 31 December 2020 the Group recognised depreciation expense on right-of-use assets in the amount of 12,848 million tenge (31 December 2019: 2,765 million tenge).

For the years ended 31 December 2020 and 2019, capitalised borrowing costs amounted to 1,626 million tenge and 9,143 million tenge, respectively. The Group's average capitalisation rate varies between 6.58% and 10.56% (2019: between 5.6% and 9.29%).

As at 31 December 2020 and 2019, the cost of the Group's fully depreciated property, plant and equipment in use was 317,460 million tenge and 289,240 million tenge, respectively.





## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**  
*(in millions of Tenge, unless stated otherwise)*

**7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES**

| Name   | Core activity   | Main country of operation/<br>incorporation | 31 December 2020 |                    | 31 December 2019 |                    |
|--|---|---|------------------|--------------------|------------------|--------------------|
|  |   |   | Carrying amount  | Ownership interest | Carrying amount  | Ownership interest |
| Associates   |   |   |                  |                    |                  |                    |
| Transtelecom JSC   | Telecommunication services  | Republic of Kazakhstan                      | 9,945            | 25%                | -                | -                  |
| United Transport and Logistics Company - Eurasian Rail Alliance JSC (UTLC ERA JSC) | Domestic and international rail transportation and freight forwarding | Russian Federation                          | 8,874            | 33.33%             | 5,839            | 33.33%             |
| Chinese-Kazakhstan International Logistics Company in Lianyungang                  | International multimodal transportation                               | People's Republic of China                  | 2,399            | 49%                | 10,325           | 49%                |
| Other  |   |   | -                | 40-47%             | -                | 30-47%             |
| Total investment in associates   |   |   | 21,218           |                    | 16,164           |                    |
| Joint ventures   |   |   |                  |                    |                  |                    |
| Logistic System Management B.V.  | Freight forwarding, rolling stock management and terminal management  | Republic of Kazakhstan/Netherlands          | -                | -                  | 17,389           | 50%                |
| Total investment in joint ventures   |   |   | -                |                    | 17,389           |                    |

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)  
(in millions of Tenge, unless stated otherwise)

Movements in investments in associates and joint ventures are as follows:

|   | 2020          | 2019          |
|---|---------------|---------------|
| <b>Associates</b>   |               |               |
| As at 1 January   | 16,164        | 16,866        |
| Foreign exchange difference on translation of foreign operations                    | 1,299         | 486           |
| Charter capital contributions   | 4,120         | -             |
| Share of profit   | 10,860        | 4,044         |
| Impairment  | (16,215)      | -             |
| Fair value of issued guarantees   | 268           | -             |
| Dividends declared  | (4,364)       | (5,232)       |
| Fair value of the remaining interest on loss of control of a subsidiary (Note 13)   | 9,086         | -             |
| <b>As at 31 December</b>  | <b>21,218</b> | <b>16,164</b> |
| <b>Joint ventures</b>   |               |               |
| As at 1 January   | 17,389        | 15,493        |
| Share of profit   | 251           | 3,969         |
| Carrying amount of the investment at the date when joint control was lost (Note 27) | (14,670)      | -             |
| Dividends declared  | (2,970)       | (2,073)       |
| <b>Associates as at 31 December</b>   | <b>-</b>      | <b>17,389</b> |

In January 2020, the Group completed the sale of a 26% interest -1 share of Transtelecom JSC, former subsidiary. As a result, the Group lost control over the subsidiary and recognised 25% of the remaining shares as an investment in associate at its fair value (Notes 13 and 31).

During 2020, the Group, represented by its subsidiary KTZ Express JSC, made an additional contribution, without changing the ownership interest, to the share capital of the associate Continental Logistics LLP in cash in the amount of 4,120 million tenge (2019: nil tenge ).

Due to the presence of impairment indicators, the Group assessed its investments in associate Chinese-Kazakhstan International Logistics Company Lianyungang for impairment as at 31 December 2020. As a result of impairment testing, the Group recognised an impairment of 10,869 million tenge.

In addition, during the first quarter 2020 the Group recognised impairment of the investment in Continental Logistics LLP in the amount of 5,346 million tenge. In November 2020, the Group sold its all 30% stake in Continental Logistics LLP, with a carrying value of investment in the associate being nil, to a third party for 500 million tenge. As a result of sale, the Group lost significant influence over the associate.

In November 2020 the Group sold its all 30% stake in Aktobe Rail and Section Mill Plant LLP, with a carrying value of investment in the associate being nil, to a third party for 9,500 million tenge. As a result of the sale, the Group lost significant influence over the associate and recognised the results from the sale in the amount of 9,500 million tenge in profits from the disposal of interest in associates.

In May 2020, the Group obtained control over its joint venture, Logistic System Management B.V., through completing the acquisition transaction of the remaining 50% of the shares in Logistic System Management B.V. (Note 27).





## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

Summary financial information in relation to significant associates as at and for the years ended 31 December:

|   | 2020  |  |                           |                                 |                  | 2019  |   |  |                           |                                 |   |
|---|---|--|---------------------------|---------------------------------|------------------|---|---|--|---------------------------|---------------------------------|---|
|   | Chinese-Kazakhstan International Logistics Company in Lianyungang | Aktobe Rail and Section Mill Plant LLP | Continental Logistics LLP | Aktau Marine North Terminal LLP | Transtelecom JSC | United Transportation and Logistics Company – Eurasian Railway Alliance JSC | Chinese-Kazakhstan International Logistics Company in Lianyungang | Aktobe Rail and Section Mill Plant LLP | Continental Logistics LLP | Aktau Marine North Terminal LLP | United Transportation and Logistics Company – Eurasian Railway Alliance JSC |
| Current assets  | 3,499   | -                                      | -                         | 490                             | 38,946           | 39,100  | 1,959   | 24,208                                 | 10,704                    | 2,195                           | 26,185  |
| Non-current assets  | 24,365  | -                                      | -                         | 40,114                          | 137,794          | 32,562  | 21,318  | 65,972                                 | 31,281                    | 39,832                          | 9,138   |
| Total assets  | 27,864  | -                                      | -                         | 40,604                          | 176,740          | 71,662  | 23,277  | 90,180                                 | 41,985                    | 42,027                          | 35,323  |
| Current liabilities   | 574   | -                                      | -                         | 9,996                           | 44,599           | 22,945  | 2,008   | 26,280                                 | 25,800                    | 4,725                           | 9,368   |
| Non-current liabilities   | 212   | -                                      | -                         | 49,199                          | 101,254          | 22,095  | 197   | 88,393                                 | 23,146                    | 49,553                          | 8,440   |
| Total liabilities   | 786   | -                                      | -                         | 59,195                          | 145,853          | 45,040  | 2,205   | 114,673                                | 48,946                    | 54,278                          | 17,808  |
| Total net assets/(liabilities)  | 27,078  | -                                      | -                         | (18,591)                        | 30,887           | 26,622  | 21,072  | (24,493)                               | (6,961)                   | (12,251)                        | 17,515  |
| Ownership interest  | 49%   | -                                      | -                         | 40%                             | 25%              | 33.33%  | 49%   | 30%                                    | 30%                       | 40%                             | 33.33%  |
| Net assets/(liabilities) attributable to the Group  | 13,268  | -                                      | -                         | (7,436)                         | 7,722            | 8,874   | 10,325  | (7,348)                                | (2,088)                   | (4,900)                         | 5,839   |
| Impairment  | (10,869)  | -                                      | -                         | -                               | -                | -   | -   | -                                      | -                         | -                               | -   |
| Net assets/(liabilities) attributable to the Group, net of impairment   | 2,399   | -                                      | -                         | (7,436)                         | 7,722            | 8,874   | 10,325  | (7,348)                                | (2,088)                   | (4,900)                         | 5,839   |
| Accumulate unrecognised loss  | -   | -                                      | -                         | (7,436)                         | -                | -   | -   | (10,896)                               | (2,088)                   | (4,900)                         | -   |
| Adjustment to a carrying value of investment in the change of the investee's net assets (fair value adjustment of the concessional loan from another shareholder) | -   | -                                      | -                         | -                               | 2,223            | -   | -   | 3,548                                  | -                         | -                               | -   |
| Investment carrying amount  | 2,399   | -                                      | -                         | -                               | 9,945            | 8,874   | 10,325  | -                                      | -                         | -                               | 5,839   |
| Revenue   | 3,631   | 29,481                                 | 1,355                     | 2,343                           | 65,175           | 285,367   | 3,303   | 41,098                                 | 2,769                     | 2,565                           | 156,087   |
| Profit/(Loss) and total comprehensive income/(loss) for the year  | 2,086   | (11,154)                               | 10,361                    | (6,340)                         | 2,364            | 24,062  | (2,065)   | (3,966)                                | (3,836)                   | (3,898)                         | 15,168  |
| Group's recognised share of profit/(loss)   | 1,022   | -                                      | 1,226                     | -                               | 591              | 8,021   | (1,012)   | -                                      | -                         | -                               | 5,056   |

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)  
(in millions of Tenge, unless stated otherwise)

## 8. OTHER NON-CURRENT ASSETS

|  | 31 December<br>2020 | 31 December<br>2019 |
|--|---------------------|---------------------|
| Advances paid for property, plant and equipment                | 104,341             | 87,736              |
| VAT recoverable  | 33,367              | 51,786              |
| Restricted cash  | 11,512              | 30                  |
| Investment property  | 8,733               | 7,919               |
| Loans to employees   | 3,203               | 3,979               |
| Deferred expenses  | 176                 | 2,035               |
| Long-term trade accounts receivable (Note 11)                  | 54                  | 58                  |
| Other  | 2,355               | 2,512               |
|  | <b>163,741</b>      | <b>156,055</b>      |
| Less: allowance for non-recoverable VAT                        | (19,169)            | (18,969)            |
| Less: allowance for advances for property, plant and equipment | (4,630)             | (7,075)             |
| Less: allowance for other non-current assets                   | (579)               | (227)               |
|  | <b>139,363</b>      | <b>129,784</b>      |

As at 31 December, advances paid for property, plant and equipment included the following:

|   | 31 December<br>2020 | 31 December<br>2019 |
|---|---------------------|---------------------|
| Supply of locomotives                         | 64,654              | 62,298              |
| Supply of diesel locomotives                  | 15,891              | -                   |
| Purchase of rails                             | 9,501               | 295                 |
| Construction of a ferry complex at Kuryk Port | 7,261               | 8,163               |
| Supply of spare parts for passenger wagons    | 3,100               | 5,235               |
| Supply of freight wagons                      | 709                 | 6,697               |
| Other   | 3,225               | 5,048               |
|   | <b>104,341</b>      | <b>87,736</b>       |

The restricted cash is mainly represented by amounts in Euro pledged as collateral for loans received from HSBC France. The restriction on the use of funds will be lifted upon repayment of these loans.

## 9. CASH AND CASH EQUIVALENTS

|   | 31 December<br>2020 | 31 December<br>2019 |
|---|---------------------|---------------------|
| Short-term bank deposits, in tenge                                      | 116,993             | 77,015              |
| Short-term bank deposits, in Russian Roubles                            | 900                 | -                   |
| Cash in bank current accounts, in tenge                                 | 18,977              | 13,240              |
| Cash in bank current accounts, in US Dollars                            | 10,258              | 50,592              |
| Cash in bank current accounts, in Euros                                 | 5,469               | 6,024               |
| Cash in bank current accounts, in Russian Roubles                       | 2,013               | 2,690               |
| Cash in bank accounts, in other currencies                              | 813                 | 2,050               |
| Petty cash  | 6                   | 1                   |
| Less: allowance for expected credit losses on cash and cash equivalents | (22)                | (31)                |
|   | <b>155,407</b>      | <b>151,581</b>      |
| Cash included in assets held for sale (Note 13)                         | -                   | 286                 |
|   | <b>155,407</b>      | <b>151,867</b>      |

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)  
(in millions of Tenge, unless stated otherwise)

As at 31 December 2020, the weighted average interest rate on cash in current accounts was 0.19% in tenge and 0.93% in other currencies (31 December 2019: 0.39% in tenge and 0.09% in other currencies).

Short-term bank deposits in tenge and foreign currency are opened for up to three months, depending on the Group's cash needs. As at 31 December 2020, the weighted average interest rate on short-term bank deposits was 8.48% in tenge and 3% in other currencies (31 December 2019: 7.81% in tenge).

The Group places most of its cash and cash equivalents in banks and other financial institutions rated between A+ and B. Based on this, the Group believes that the cash and cash equivalents credit risk as at 31 December 2020 is low.

The allowance for expected credit losses on cash is based on 12-month expected credit losses, which matches their maturity date.

## 10. INVENTORIES

|                                 | 31 December<br>2020 | 31 December<br>2019 |
|---------------------------------|---------------------|---------------------|
| Materials and supplies          | 11,449              | 9,044               |
| Railway materials               | 7,801               | 7,768               |
| Spare parts                     | 7,329               | 13,717              |
| Fuel and lubricants             | 6,718               | 4,133               |
| Construction materials          | 1,509               | 741                 |
| Work-in-progress                | 198                 | 479                 |
| Other                           | 2,572               | 1,801               |
|                                 | <b>37,576</b>       | <b>37,683</b>       |
| Less: allowance for inventories | (457)               | (401)               |
|                                 | <b>37,119</b>       | <b>37,282</b>       |

## 11. TRADE ACCOUNTS RECEIVABLE

|   | 31 December<br>2020 | 31 December<br>2019 |
|---|---------------------|---------------------|
| Trade accounts receivable                               | 12,460              | 16,647              |
| Less: allowance for expected credit losses              | (1,089)             | (3,345)             |
|   | <b>11,371</b>       | <b>13,302</b>       |
| Current portion of trade accounts receivable            | 11,317              | 13,244              |
| Long-term portion of trade accounts receivable (Note 8) | 54                  | 58                  |
|   | <b>11,371</b>       | <b>13,302</b>       |

As at 31 December 2020, trade accounts receivable arising from the contracts with customers amounted to 11,668 million tenge (31 December 2019: 16,267 million tenge), and expected credit losses on those trade accounts receivable were 835 million tenge (31 December 2019: 3,250 million tenge).

The average term of payment for services rendered is 30 days. During this period, interest on outstanding trade receivables is not charged.



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

#### 12. OTHER CURRENT ASSETS

|  | 31 December<br>2020 | 31 December<br>2019 |
|--|---------------------|---------------------|
| Other taxes prepaid  | 42,157              | 35,253              |
| Advances paid  | 6,498               | 11,478              |
| Claims, interest and fines   | 2,235               | 1,383               |
| Amounts due from employees   | 1,750               | 1,515               |
| Prepaid expenses   | 1,107               | 1,094               |
| Other  | 6,413               | 7,170               |
|  | <b>60,160</b>       | <b>57,893</b>       |
| Less: allowance for the impairment of advances paid and allowance for expected credit losses on other current assets | (6,233)             | (10,290)            |
|  | <b>53,927</b>       | <b>47,603</b>       |

#### 13. NON-CURRENT ASSETS, ASSETS AND LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

During 2016, as part of the comprehensive privatisation plan for 2016-2020 approved by the Government of the Republic of Kazakhstan, the Group management approved a list of Group subsidiaries, associates and joint ventures to be sold to private investors. On 29 December 2020, a Comprehensive Privatization plan for 2021-2025 was approved by the Government Decree of the Republic of Kazakhstan with an updated list of subsidiaries, associates and joint ventures to be sold to private investors.

As at 31 December 2020 and 2019, the assets and liabilities of the subsidiaries satisfying the criteria of non-current assets held for sale were classified as 'disposal groups classified as held for sale' in the consolidated statement of financial position.

##### Vostokmashzavod JSC

On 30 December 2020, the Group, represented by its subsidiary Repair Corporation Kamkor LLP, entered into a sale agreement with a third party to sell 95.08% of the shares of Vostokmashzavod JSC for 100 million tenge. The Group classified the assets and liabilities of Vostokmashzavod JSC as at 31 December 2020 as assets held for sale measured at the lower of carrying amount and fair value less costs to sell. As at 31 December 2020, the Group wrote-off the assets to fair value less costs to sell of 2,772 million tenge. Since the subsidiary does not represent major line of business of the Group, the Group did not classify the subsidiary's financial results as discontinued operations and presented them within continuing operations results.

In January 2021, the Group completed sale transaction of the shares of Vostokmashzavod JSC (Note 34).

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

|   | As at 31 December 2020 |            |              | As at 31 December 2019 |            |                |
|---|------------------------|------------|--------------|------------------------|------------|----------------|
|   | Vostokmashzavod<br>JSC | Other      | Total        | Transtelecom<br>JSC    | Other      | Total          |
| <b>Assets</b>   |                        |            |              |                        |            |                |
| Property, plant and equipment   | 5,466                  | -          | 5,466        | 84,429                 | -          | 84,429         |
| Intangible assets   | -                      | -          | -            | 4,596                  | -          | 4,596          |
| Contract assets   | -                      | -          | -            | 318                    | -          | 318            |
| Other non-current assets  | 35                     | -          | 35           | 820                    | -          | 820            |
| Trade accounts receivable   | 28                     | -          | 28           | 10,300                 | -          | 10,300         |
| Inventories   | 664                    | -          | 664          | 2,273                  | -          | 2,273          |
| Cash and cash equivalents   | -                      | -          | -            | 286                    | -          | 286            |
| Other current assets  | 463                    | -          | 463          | 3,226                  | -          | 3,226          |
| <b>Total assets of the disposal group held for sale</b>               | <b>6,656</b>           | <b>-</b>   | <b>6,656</b> | <b>106,248</b>         | <b>-</b>   | <b>106,248</b> |
| Asset for distribution to the Shareholder                             | -                      | 104        | 104          | -                      | 104        | 104            |
| <b>Total assets held for sale and distribution to the Shareholder</b> | <b>6,656</b>           | <b>104</b> | <b>6,760</b> | <b>106,248</b>         | <b>104</b> | <b>106,352</b> |
| <b>Liabilities</b>  |                        |            |              |                        |            |                |
| Borrowings  | -                      | -          | -            | 45,519                 | -          | 45,519         |
| Lease liabilities   | -                      | -          | -            | 1,964                  | -          | 1,964          |
| Employee benefit obligations  | 34                     | -          | 34           | 504                    | -          | 504            |
| Deferred tax liabilities  | 1,031                  | -          | 1,031        | 4,375                  | -          | 4,375          |
| Trade accounts payable  | 1,409                  | -          | 1,409        | 23,168                 | -          | 23,168         |
| Other taxes payable   | 536                    | -          | 536          | 315                    | -          | 315            |
| Contracts liabilities   | 131                    | -          | 131          | 3,403                  | -          | 3,403          |
| Other liabilities   | 368                    | -          | 368          | 6,408                  | -          | 6,408          |
| <b>Total liabilities attributable to assets held for sale</b>         | <b>3,509</b>           | <b>-</b>   | <b>3,509</b> | <b>85,656</b>          | <b>-</b>   | <b>85,656</b>  |
| <b>Net assets of the disposal group</b>                               | <b>3,147</b>           | <b>-</b>   | <b>-</b>     | <b>20,592</b>          | <b>-</b>   | <b>-</b>       |

##### Transtelecom JSC

In January 2020, the Group completed the sale of a 26% interest -1 share of Transtelecom JSC. As a result, the Group lost control over the subsidiary and recognised 25% of the remaining shares as an investment in associate at its fair value (Note 7).

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)  
(in millions of Tenge, unless stated otherwise)

The assets and liabilities of Transtelecom JSC at the date of disposal are as follows:

|   | 29 January<br>2020 |
|---|--------------------|
| <b>Assets</b>   |                    |
| Property, plant and equipment   | 85,466             |
| Intangible assets   | 4,607              |
| Contract assets   | 426                |
| Other non-current assets  | 1,186              |
| Inventories   | 2,307              |
| Trade accounts receivable   | 8,333              |
| Cash and cash equivalents   | 6,352              |
| Other current assets  | 12,994             |
| <b>Total assets of disposal group classified as held for sale</b>       | <b>121,671</b>     |
| <b>Liabilities</b>  |                    |
| Borrowings  | 53,139             |
| Lease liabilities   | 1,853              |
| Employee benefit obligations  | 504                |
| Deferred tax liabilities  | 4,467              |
| Contracts liabilities   | 2,944              |
| Trade accounts payable  | 18,841             |
| Other taxes payable   | 190                |
| Other current liabilities   | 6,984              |
| <b>Total liabilities of disposal groups classified as held for sale</b> | <b>88,922</b>      |
| <b>Net assets of disposal group</b>                                     | <b>32,749</b>      |

Net cash inflow from disposal of subsidiary:

|  | 2020 r.      |
|--|--------------|
| Cash consideration                       | 9,450        |
| Advances received earlier                | (470)        |
| Less: disposed cash and cash equivalents | (6,352)      |
| <b>Net cash inflow</b>                   | <b>2,628</b> |

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)  
(in millions of Tenge, unless stated otherwise)

The results of the discontinued operations, which have been included in the consolidated statement of profit or loss and other comprehensive income were as follows:

|  | Period ended<br>29 January 2020 | Year ended<br>31 December 2019 |
|--|---------------------------------|--------------------------------|
| Revenue  | 1,809                           | 42,803                         |
| Cost of sales  | (887)                           | (31,613)                       |
| General and administrative expenses  | (346)                           | (6,973)                        |
| Write-off of the disposal group to the fair value less costs to sell                   | -                               | (10,184)                       |
| Other profit and losses, net   | 22                              | (6)                            |
| Finance income   | 13                              | 933                            |
| Finance costs  | (473)                           | (7,437)                        |
| Reversal of asset impairment   | 8                               | 253                            |
| Foreign exchange gain/(loss)   | 33                              | (54)                           |
| <b>Profit/(loss) before tax</b>  | <b>179</b>                      | <b>(12,278)</b>                |
| Income tax expenses  | (194)                           | (1,104)                        |
| <b>Loss for the year</b>   | <b>(15)</b>                     | <b>(13,382)</b>                |
| Cash consideration   | 9,450                           | -                              |
| Disposed net assets  | (32,749)                        | -                              |
| Disposed non-controlling interests (Note 14)   | 14,040                          | -                              |
| Fair value of the remaining interest in the subsidiary at the loss of control (Note 7) | 9,086                           | -                              |
| <b>Loss on disposal of a disposal group classified as held for sale</b>                | <b>(173)</b>                    | <b>-</b>                       |
| <b>Loss for the year from discontinued operations</b>                                  | <b>(188)</b>                    | <b>(13,382)</b>                |
| Basic loss per share (Tenge)   | -                               | (26)                           |

Changes in cash flow from the discontinued operations were as follows:

|   | Period ended<br>29 January 2020 | Year ended<br>31 December 2019 |
|---|---------------------------------|--------------------------------|
| Net cash (outflow)/inflow from operating activities | (552)                           | 15,327                         |
| Net cash outflow from investing activities          | (955)                           | (8,139)                        |
| Net cash inflow/(outflow) from financing activities | 7,573                           | (8,517)                        |
| <b>Net change in cash and cash equivalents</b>      | <b>6,066</b>                    | <b>(1,329)</b>                 |

## 14. EQUITY

As at 31 December 2020 and 2019, share capital is presented as follows:

|                               | No. of shares<br>authorised for<br>issue | No. of shares<br>issued and<br>paid for | Share capital,<br>millions of tenge | Additional<br>paid-in capital,<br>millions of tenge |
|-------------------------------|--|---|-------------------------------------|---|
| As at 1 January 2019          | 502,040,458                              | 496,447,609                             | 1,062,635                           | 290   |
| Shares issued                 | -  | 207,197                                 | 19,664                              | (290)   |
| <b>As at 31 December 2019</b> | <b>502,040,458</b>                       | <b>496,654,806</b>                      | <b>1,082,299</b>                    | <b>-</b>  |
| <b>As at 31 December 2020</b> | <b>502,040,458</b>                       | <b>496,654,806</b>                      | <b>1,082,299</b>                    | <b>-</b>  |

The Company's share capital was established through a series of share issuances in exchange for either cash or property, plant and equipment or shares. The Shareholder is entitled to dividends, a part of the Company's assets in the event of liquidation, and preference in purchasing the Company's shares or other securities convertible into Company shares.



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

#### Contributions

##### Shares issuance

During 2019, shares were issued as follows:

- the transfer of legally registered 290,037 common shares from additional paid-in capital to share capital, for which 51 low-sided cars were contributed by the Shareholder in 2018 with a total market value of 290 million tenge;
- 14,951 shares, as payment for which 28 low-sided cars were received for a total value of 149 million tenge;
- 164,246 shares, as payment for which a cash of 16,425 million tenge was received;
- 28,000 shares, as payment for which a cash of 2,800 million tenge was received.

##### Other contributions

During 2020, the Group recognised a fair value adjustment for loans received with interest rates below market in the amount of 20,858 million tenge (2019: 59,145 tenge) less deferred tax effect of 4,172 million tenge (2019: 11,829 million tenge) (Note 18).

#### Hedging reserve

On 7 August 2015, the Group hedged cash flows to reduce the risk of changes in tenge equivalent revenues denominated in Swiss Francs. The principal of Eurobonds issued on 20 June 2014 on the Swiss stock exchange and maturing on 20 June 2019 and 2022 are used as hedging instruments, and which are separately identifiable and reliably estimated. A highly probable revenue stream forecast relating to transit traffic in Swiss Francs (in particular, first sales received in the period from 1 January to 20 June 2019 and 2022) is the hedged item in this hedging relationship.

For the year ended 31 December 2020, the effective part of 15,220 million tenge was recorded in the cash flow hedging reserve through other comprehensive income as net fair value loss on cash flow hedging instruments (2019: 26 million tenge). The ineffective part of 32 million tenge was recorded in finance costs (2019: 95 million tenge).

In 2019, the hedge accounting, where the hedging instrument was Eurobonds payable on 20 June 2019, was discontinued due to the receipt of revenue from freight transportation in international (transit) routes, which was the cash flow hedging item, and accordingly, the cumulative loss attributable to this hedging instrument has been reclassified from other comprehensive loss to freight transportation revenue in the amount of 19,005 million tenge (Note 22).

#### Other distributions

In March 2020, the Group, represented by its subsidiary KTZ Express JSC, in accordance with the Ultimate Shareholder's decree, transferred 100% of the shares of the subsidiary Khorgos-Eastern Gate FEZ MC JSC to the Almaty region municipality free of charge and recorded disposal of net assets of 24,809 million tenge as part of other distributions (Note 28).

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

In December 2018, the Government of the Republic of Kazakhstan and the Sole Shareholder charged the Group with financing for the construction of a Children's Centre in Turkestan. As a consequence, the Group accepted the irrevocable commitment to finance the construction of a Children's Centre in Turkestan and as a result recognised the distribution to the Shareholder in the amount of estimated construction costs in the amount of 5,300 million tenge. In June 2020, in connection with the increase in the cost of construction of a Children's Centre in Turkestan, the Group additionally recognised a liability in the amount of 5 million tenge.

#### Disposal of subsidiaries

In January 2020, as a result of the loss of control over the subsidiary Transtelecom JSC, the Group recognised the disposal of a non-controlling interest in the amount of 14,040 million tenge (Note 13).

## 15. BORROWINGS

Borrowings, including accrued interest, being accounted for at amortised cost consisted of the following:

|  | 31 December 2020 |  | 31 December 2019 |  |
|--|------------------|--|------------------|--|
|  | Amount           | Weighted average effective interest rate (%) | Amount           | Weighted average effective interest rate (%) |
| <i>Fixed interest rate borrowings</i>    |                  |  |                  |  |
| Loans received                           | 244,623          |  | 241,897          |  |
| - in tenge                               | 182,047          | 7.84   | 181,891          | 6.37   |
| - in US\$                                | 461              | 2.88   | 1,257            | 2.88   |
| - in Euros                               | 62,115           | 6.57   | 57,383           | 5.26   |
| - in other currencies                    | -                | -  | 1,366            | 4.01   |
| Debt securities issued                   | 1,147,976        |  | 1,171,715        |  |
| - in tenge                               | 467,713          | 10.81  | 466,944          | 10.81  |
| - in US\$                                | 386,652          | 6.95   | 439,512          | 6.95   |
| - in Swiss Francs                        | 209,047          | 3.42   | 172,753          | 3.42   |
| - in other currencies                    | 84,564           | 8.75   | 92,506           | 8.75   |
| <i>Variable interest rate borrowings</i> |                  |  |                  |  |
| Loans received                           | 124,817          |  | 19,867           |  |
| - in tenge                               | 16,459           | 10.43  | 14,820           | 11.71  |
| - in US\$                                | -                | -  | 5,047            | 5.54   |
| - in Russian Roubles                     | 108,358          | 7.49   | -                | -  |
| Debt securities issued                   | 52,763           |  | 52,627           |  |
| - in tenge                               | 52,763           | 8.12   | 52,627           | 7.72   |
|  | <b>1,570,179</b> |  | <b>1,486,106</b> |  |
| Current portion of borrowings            | 171,664          |  | 90,570           |  |
| Long-term portion of borrowings          | 1,398,515        |  | 1,395,536        |  |
|  | <b>1,570,179</b> |  | <b>1,486,106</b> |  |

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

Borrowings, excluding debt securities, should be repaid as follows:

|                 | 31 December<br>2020 | 31 December<br>2019 |
|-----------------|---------------------|---------------------|
| During the year | 153,980             | 73,483              |
| 1-2 years       | 7,272               | 8,435               |
| 2-3 years       | 8,014               | 8,475               |
| 3-4 years       | 38,367              | 5,995               |
| 4-5 years       | 9,472               | 35,865              |
| Over 5 years    | 152,335             | 129,511             |
|                 | <b>369,440</b>      | <b>261,764</b>      |

#### Loans received

##### Halyk Bank JSC

During 2020, the Group, represented by the Company, borrowed 12,000 million tenge at 11.5% interest per annum for up to one year within the framework of a credit line agreement with Halyk Bank JSC concluded on 26 February 2015.

During 2020, the Group made early repayment of some loans received in 2018-2020 for the total amount of 31,810 million tenge.

##### European Bank for Reconstruction and Development («EBRD»)

On 30 March 2020, the Group, represented by its subsidiary KTZ Express JSC, under a Loan Agreement with the EBRD dated 18 September 2014, converted foreign currency debt into tenge in the amount of 12,500,000 US Dollars at the exchange rate of 457 tenge per 1 US Dollars. Due to a significant change in the terms of the loan, the Group recorded the conversion of the loan as derecognition of the initial financial liability and recognition of a new financial liability. As a result, the new financial liability at the conversion date amounted to 5,713 million tenge. The interest on the loan is repaid in quarterly instalments at the rate of 6 months CPI + 5.3%.

##### HSBC France

During 2020 the Group, represented by its subsidiary KTZ-Freight Transportation LLP, under the Master Framework Agreement with HSBC France, together with HSBC Bank PLC and HSBC Kazakhstan, and with the support of the COFACE export-credit agency, dated 31 May 2012 to finance the purchase of freight and passenger locomotives for a total of EUR 880,877,000 and its addendums, borrowed EUR 13,767,395 (6,574 million tenge) (including the COFACE premium). Interest for the loan is paid semi-annually at EUR CIRR + 0.4% margin, which is being fixed at the date of each tranche. The principal is repaid semi-annually until fully repayment in 2030.

##### Citibank Kazakhstan JSC

In May 2020, the Group, represented by its subsidiary KTZ-Freight Transportation LLP, under the General Agreement on the provision of short-term loans with Citibank of Kazakhstan JSC dated 30 November 2009 borrowed 24,000,000 US Dollars (10,210 million tenge) with an interest rate of 4.30% and a maturity of up to one year. In June 2020, the Group made an early repayment of the funds borrowed.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

##### Moscow Credit Bank PJSC

In June 2020, the Group, represented by the Company, borrowed 19,400,000,000 Russian Roubles (112,296 million tenge) for the purpose of early partial repayment of Eurobonds issued in 2012 in the amount of 1,100,000,000 US Dollars and maturing on 10 July 2042, under a loan agreement with Moscow Credit Bank dated 28 May 2020. Interest on the loan is repaid in quarterly instalments at the interest rate "Key rate of the Central Bank of the Russian Federation + 2.5%". The principal debt is to be repaid in a lump sum in December 2021.

##### Sberbank SB JSC

During 2020, the Group, represented by its subsidiary Kedentransservice JSC, within the framework of the Agreement dated 12 June 2020 with Sberbank SB JSC to finance the purchase of 300 platform cars for 7,754 million tenge, borrowed 6,202 million tenge. Interest on the loan is repaid monthly at the interest rate of 12.75%. The principal is repayable in quarterly instalments until it is fully repaid in 2027.

##### Industrial Development Fund JSC

During 2020, the Group, represented by its subsidiaries Passenger Transportation JSC and Tulpar Wagon Building Plant LLP entered into a three-side purchase and finance lease arrangements with Industrial Development Fund JSC, which is under common control of ultimate Shareholder, for renewal of passenger waggon fleet for 35,714 million tenge. Interest is repaid annually at 1.5%. The principal amount is subject to repayment in annual instalments until it is fully repaid in 2040. The grace period on repayment of principal amount is 6 years.

As disclosed in Note 4, the Group accounts for the financial liabilities under such agreements as borrowings.

The borrowings were obtained at the rates below market and the fair value of the borrowings was calculated based on market interest rates from 10.2% to 10.56%. The Group recognised the adjustment to fair value at 20,858 million tenge net of the deferred tax effect of 4,172 million tenge through equity in retained earnings as other contributions (Note 14).



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

#### Debt securities issued

As at 31 December, debt securities issued included:

|   | Repayment date    | Exchanges          | 31 December 2020 | 31 December 2019 |
|---|-------------------|--------------------|------------------|------------------|
| <b>Debt securities, by price</b>                    |                   |                    |                  |                  |
| 6.95% Eurobonds (105.521%)* in US\$                 | 10 July 2042      | LSF/KASF           | 386,652          | 439,512          |
| 11.5% Bonds (100%) in tenge                         | 3 October 2034    | KASE               | 308,433          | 308,433          |
| 3.638% Eurobonds (100%) in Swiss Francs             | 20 June 2022      | SIX Swiss Exchange | 90,036           | 74,481           |
| 8.75% Bonds (100%) in Russian Roubles               | 7 June 2022       | MOEX               | 84,563           | 92,506           |
| 3.25% Eurobonds (100%) in Swiss Francs              | 5 December 2023   | SIX Swiss Exchange | 80,016           | 65,823           |
| 9.25% Bonds (100%) in tenge                         | 15 November 2024  | KASE               | 76,831           | 76,831           |
| Inflation rate +2.52% (8.12%) Bonds (100%) in tenge | 25 April 2026     | KASE               | 52,763           | 52,627           |
|   | 12 September 2034 | KASE               | 41,380           | 41,380           |
| 11.5% Bonds (100%) in tenge                         |                   | SIX Swiss Exchange | 38,996           | 32,449           |
| 3.25% Eurobonds (104.238%) in Swiss Francs          | 5 December 2023   | KASE               | 26,184           | 26,184           |
| 11% Bonds (100%) in tenge                           | 23 July 2027      |                    |                  |                  |
| 2% Bonds (100%) in tenge                            | 20 August 2034    | KASE               | 14,885           | 14,116           |
| <b>Total debt securities issued</b>                 |                   |                    | <b>1,200,739</b> | <b>1,224,342</b> |
| Current portion of debt securities issued           |                   |                    | 17,684           | 17,087           |
| Long-term portion of debt securities issued         |                   |                    | 1,183,055        | 1,207,255        |
|   |                   |                    | <b>1,200,739</b> | <b>1,224,342</b> |

#### Debt securities issued

In June 2020, the Group, represented by the Company, made a partial early repayment in the amount of 217,022,000 US Dollars (86,503 million tenge) of 2012 Eurobonds issued with a total nominal volume of 1,100,000,000 US Dollars. The total amount paid amounted to 284,072,755 US Dollars (113,229 million tenge), including accrued interest of 6,284,595 US Dollars (2,505 million tenge) and an early repayment premium of 60,766,160 US Dollars (24,221 million tenge). The Group recognised the early repayment premium as part of finance costs (Note 26). In addition, the Group derecognised unamortised portion of the premium of 5,104 million tenge and transaction costs of 114 million tenge for repaid Eurobonds as part of finance income and finance costs, respectively.

\* The percentage represents placement price of bonds/Eurobonds par value (at premium/ with discount or at par)

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

#### State subsidy of the interest rate

In May 2020, the Group, represented by the Company, entered into a contract with the Transport Committee of the Ministry of Industry and Infrastructure Development of the Republic of Kazakhstan to subsidise part of the coupon rate in the amount of 307,194 million tenge, on bonds issued in 2019 at the coupon rate of 11.5% per annum and used for early repayment of Eurobonds issued in 2017 in the amount of 780,000,000 US Dollars, which in turn were attracted and utilised for infrastructure modernization, updating locomotives and freight cars. The Agreement stipulates that the amount of subsidy should be provided for under the Republican budget program No. 010 «Subsidising the coupon rate on the carrier's Bonds issued for the development of the main railway network and rolling stock of railway transport» (further the «Program»). Since the budget Program is available to all transportation companies that have the status of a «carrier» in accordance with the Law on Railway Transport, the Group's management accounts for the financing under this Program as a government grant recognised within finance income.

During 2020, the Group recognised income from government subsidies under the Program in the amount of 29,183 million tenge as part of financial income (Note 26).

The fair value of the loans is presented in Note 33.

#### Credit agreements and breaches of credit agreements

Debt securities contain covenants that place certain limitations on the Group including, but not limited to, business changes and assets disposal, limitations on mergers and consolidations with other legal entities. In the event of default, as defined by the debt securities' indenture, investors are entitled to require repayment of the debt securities.

According to finance lease agreements with Industrial Development Fund JSC being accounted for by the Group as borrowings, the Group shall comply with certain non-financial covenants.

EBRD loan agreements include certain financial covenants, such as Adjusted Debt to Adjusted EBITDA, Adjusted Debt to Equity and Interest Coverage Ratios (based on Adjusted EBITDA).

In order to avoid non-compliance with obligations to EBRD and Development Bank of Kazakhstan JSC, prior to year-end, the Group received a waiver from creditors agreeing not to apply financial covenants as at 31 December 2020.

In 2019, the Group reached new agreements with HSBC France regarding financial and non-financial covenants, starting in 2020, the Group shall comply with the covenant that the Company has any two of the three corporate ratings (S&P, Fitch, Moody's) at a level not lower than BB. As at 31 December 2020, this covenant was met.

Under the loan agreement with Moscow Credit Bank PJSC, the Group shall comply with certain financial covenants, such as debt to EBITDA and interest coverage ratio, calculated on the basis of consolidated results of the Group, starting from 31 December 2020 and thereon on a quarterly basis. As at 31 December 2020, these covenants were met.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

#### Reconciliation of changes in liabilities and cash flows from financing activity

|  | 2020                                  |                             |           | 2019                                  |                             |           |
|--|---------------------------------------|-----------------------------|-----------|---------------------------------------|-----------------------------|-----------|
|  | Borrowings and debt securities issued | Lease liabilities (Note 16) | Total     | Borrowings and debt securities issued | Lease liabilities (Note 16) | Total     |
| As at 1 January  | 1,486,106                             | 26,563                      | 1,512,669 | 1,382,277                             | 39,962                      | 1,422,239 |
| Changes due to cash flows from financing activities  |                                       |                             |           |                                       |                             |           |
| Repayment of borrowings  | (153,289)                             | -                           | (153,289) | (419,115)                             | -                           | (419,115) |
| Proceeds from borrowings   | 176,422                               | -                           | 176,422   | 455,931                               | -                           | 455,931   |
| Repayment of lease liabilities   | -                                     | (10,786)                    | (10,786)  | -                                     | (3,641)                     | (3,641)   |
| Total changes due to cash flows from financing activities  | 23,133                                | (10,786)                    | 12,347    | 36,816                                | (3,641)                     | 33,175    |
| Other changes  |                                       |                             |           |                                       |                             |           |
| Effect of changes in foreign exchange rates  | 59,558                                | (339)                       | 59,219    | 8,857                                 | 95                          | 8,952     |
| Cash flow hedging (Note 14)  | 15,252                                | -                           | 15,252    | 121                                   | -                           | 121       |
| Acquisition of fixed assets through loans  | 5,729                                 | -                           | 5,729     | 50,648                                | -                           | 50,648    |
| New lease agreements   | -                                     | 45,418                      | 45,418    | -                                     | 503                         | 503       |
| Acquisition of a subsidiary (Note 27) <sup>6</sup>   | -                                     | 1,037                       | 1,037     | -                                     | -                           | -         |
| Fair value adjustment of the loans received at below market rate from the Shareholder/ultimate Shareholder (Note 14) | (20,858)                              | -                           | (20,858)  | (59,145)                              | -                           | (59,145)  |
| Interest and discount amortisation, including capitalised borrowing costs  | 122,288                               | 6,879                       | 129,167   | 128,277                               | 3,096                       | 131,373   |
| Interest paid  | (114,321)                             | (6,325)                     | (120,646) | (89,215)                              | (557)                       | (89,772)  |
| Effect of modifications or exchange of debt assets and liabilities that do not lead to derecognition                 | (109)                                 | -                           | (109)     | 427                                   | -                           | 427       |
| Other changes  | (6,599)                               | (12,261)                    | (18,860)  | 27,043                                | (12,895)                    | 14,148    |
| Total other changes attributable to liabilities  | 60,940                                | 34,409                      | 95,349    | 67,013                                | (9,758)                     | 57,255    |
| As at 31 December  | 1,570,179                             | 50,186                      | 1,620,365 | 1,486,106                             | 26,563                      | 1,512,669 |

<sup>6</sup> Excluding intergroup lease in the amount of 1,842 million of tenge.



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

#### 16. LEASE LIABILITIES

As at 31 December, Group lease liabilities included the following:

|  | 2020           |                                 | 2019           |                                 |
|--|----------------|---------------------------------|----------------|---------------------------------|
|  | Lease payments | Present value of lease payments | Lease payments | Present value of lease payments |
| During one year                            | 20,671         | 19,499                          | 6,527          | 6,238                           |
| Between two and five years inclusive       | 39,386         | 28,255                          | 21,716         | 14,556                          |
| Over five years                            | 12,911         | 2,432                           | 20,591         | 5,769                           |
| <b>Net liabilities</b>                     | <b>72,968</b>  | <b>50,186</b>                   | <b>48,834</b>  | <b>26,563</b>                   |
| Less future finance costs                  | (22,782)       | -                               | (22,271)       | -                               |
| <b>Present value of lease payments</b>     | <b>50,186</b>  | <b>50,186</b>                   | <b>26,563</b>  | <b>26,563</b>                   |
| Less amounts due within 12 months          |                | (19,499)                        |                | (6,238)                         |
| <b>Amount to be repaid after 12 months</b> |                | <b>30,687</b>                   |                | <b>20,325</b>                   |

In February 2020, the Group recognised lease liabilities under lease agreements concluded with Transtelecom JSC of 45,417 million tenge and rights-of-use assets, including real estate of 106 million tenge, vehicles of 7,559 million tenge, other equipment of 37,728 million tenge and software of 24 million tenge.

In June 2020, in connection with the acquisition of a subsidiary of Kedentransservice JSC, the Group recognised lease liabilities of 1,037 million tenge and right-of-use assets of 2,598 million tenge, including real estate of 939 million tenge and vehicles of 1,659 million tenge.

As at 31 December 2020, interests are charged based on effective interest rates from 2.5% to 19.48% (31 December 2019: from 2.5% to 19.48%).

All lease liabilities are primarily denominated in tenge, with the exception of other equipment lease obligations denominated in US Dollars.

#### 17. EMPLOYEE BENEFIT OBLIGATIONS

##### Post-employment defined employee benefits and other long-term employee benefits

Under Kazakhstan law, pension contributions are the responsibility of employees, and the Group has no current or future obligations to make payments to employees following their retirement, apart from those described below.

During 2019, the Group introduced certain Rules related to early retirement (the "Rules") in order to meet the plan of reducing the number of employees employed by the Group in the next 5 years. The Rules are effective for employees who reach a minimum age of five years before the retirement age that has been established by the legislation.

Post-employment employee benefit and other long-term employee benefits are payable in accordance with the Rules and Collective Agreement between the Group and its employees for 2018-2020.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

Pursuant to these documents, the Group provides the following benefits under an unfunded scheme:

##### Post-employment defined employee benefits:

- a one-time retirement grant;
- one-time payment at early termination of labour agreement that depends on work experience in the industry, in accordance with the Rules;
- benefit until the retirement age in the range of 70 thousand tenge and 200 thousand tenge per month payable either one-time payment for the whole period until the retirement age or on a monthly basis in accordance with the Rules;
- financial support to pensioners on holidays;
- vouchers for sanatorium-resort improvement to pensioners;
- funeral aid to pensioners;
- a one-time payment to pensioners on jubilee dates;
- financial assistance on denture treatment to pensioners; and
- reimbursement of railway ticket expense to pensioners.

##### Other long-term employee benefits:

- financial support for sanatorium-resort treatment to employees;
- financial assistance on denture treatment to employees;
- a one-time payment to employees on jubilee dates; and
- reimbursement of railway ticket expense to employees.

The programmes are unfunded. The Group policy in relation to these programmes does not assume the accumulation of assets to cover the obligations; the programmes do not require contributions from employees.

|   | 31 December 2020 | 31 December 2019 |
|---|------------------|------------------|
| Non-current portion of employee benefit obligations | 36,669           | 39,278           |
| Current portion of employee benefit obligations     | 6,787            | 5,101            |
| <b>Total liabilities as at the end of the year</b>  | <b>43,456</b>    | <b>44,379</b>    |

Movement in the present value of obligations for the years ended 31 December are as follows:

|  | 2020          | 2019          |
|--|---------------|---------------|
| Total liabilities at the beginning of the year                         | 44,379        | 34,745        |
| Current service cost   | 2,026         | 1,346         |
| Past service cost  | 123           | 8,952         |
| Interest cost  | 4,046         | 2,879         |
| Actuarial gain on other long-term employee benefits                    | (1,642)       | (893)         |
| Total expenses recognised in profit or loss                            | 4,553         | 12,284        |
| Actuarial revaluation recognised in other comprehensive (income)/loss: | (2,057)       | 612           |
| - change in financial assumptions                                      | (484)         | 1,145         |
| - experience-based adjustments   | (1,475)       | 873           |
| - change in demographic assumptions                                    | (98)          | (1,406)       |
| Payments made for the year   | (3,540)       | (3,262)       |
| Acquisition of a subsidiary (Note 27)                                  | 158           | -             |
| Disposal of subsidiaries   | (37)          | -             |
| <b>Total liabilities as at the end of the year</b>                     | <b>43,456</b> | <b>44,379</b> |

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)  
(in millions of Tenge, unless stated otherwise)

Post-employment defined benefits and other long-term employee benefits recognised in profit or loss during the years ended 31 December are as follows:

|  | 2020         | 2019          |
|--|--------------|---------------|
| Cost of sales (Note 24)                                | 4,198        | 11,826        |
| General and administrative expenses (Note 25)          | 355          | 458           |
| <b>Total recognised in profit or loss for the year</b> | <b>4,553</b> | <b>12,284</b> |

The Group's obligations were estimated based on published statistical data regarding mortality and actual Group data concerning employee and pensioner headcount, age, gender and years of service, and turnover, as well as expectations that all employees granted with early retirement option under the Rules, will exercise when reach minimum age, i.e. 5 years before the official retirement age. Average longevity after the retirement age for acting and former retired employees is 14.3 years for men and 18.4 years for women.

Other significant actuarial assumptions as at the reporting date for the consolidated statement of financial position are as follows:

|  | 2020      | 2019      |
|--|-----------|-----------|
| Discount rate  | 10.3%     | 9.1%      |
| Expected annual growth in material aid in the future | 4.2%      | 3.3%      |
|  | (average) | (average) |
| Expected annual minimum salary growth in the future  | 4.6%      | 4.3%      |
|  | (average) | (average) |
| Expected annual future growth in rail ticket cost    | 7.1%      | 5.2%      |
|  | (average) | (average) |

According to an actuarial sensitivity analysis, the maximum increase in the employee benefit obligations is 6.7% caused by an inflation rate increase of 1% and a 1% reduction in the discount rate.

The given above analysis may not reflect actual changes in post-employment defined employee benefit obligations, as changes in assumptions apart from each other is unlikely (some assumptions are interrelated).

In addition, when performing sensitivity analysis the present value of post-employment defined employee benefit obligations was calculated using the projected unit credit method as at reporting date. The same method was applied when calculating post-employment defined employee benefit obligations reflected in the consolidated statement of financial position.

The methods and assumptions used in sensitivity analysis do not differ from those used in prior years.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)  
(in millions of Tenge, unless stated otherwise)

## 18. CORPORATE INCOME TAX

Corporate income tax expenses for the year ended 31 December included:

|  | 2020          | 2019          |
|--|---------------|---------------|
| Current income tax expenses  | 1,247         | 859           |
| Adjustment in relation to income tax for prior years                                 | (6)           | (32)          |
| Income tax paid withheld   | 687           | 667           |
| Deferred income tax expense  | 15,373        | 15,944        |
| Change in unrecognised deferred tax assets, including for tax losses carried forward | 3,399         | 6,780         |
| <b>Total</b>   | <b>20,700</b> | <b>24,218</b> |

The table below provides a reconciliation of income tax expenses based on accounting profit before tax at the statutory rate against income tax expenses reported for the years ended 31 December:

|  | 2020          | 2019            |
|--|---------------|-----------------|
| <b>Profit/(Loss) before tax from continuing operations</b>                                     | <b>36,993</b> | <b>(32,725)</b> |
| Official tax rate  | 20%           | 20%             |
| Theoretical tax expense/(benefit) at the official rate   | 7,399         | (6,545)         |
| Tax effect of non-deductible expenses for tax calculation purposes, and other effect:          |               |                 |
| Adjustment of income tax from prior years  | (6)           | (32)            |
| Non-deductible expenses  | 9,908         | 24,015          |
| Change in unrecognised deferred tax assets, including for tax losses carried forward           | 3,399         | 6,780           |
| <b>Income tax expense recognised in profit or loss (attributable to continuing activities)</b> | <b>20,700</b> | <b>24,218</b>   |



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)  
(in millions of Tenge, unless stated otherwise)

Deferred tax balances calculated by applying the statutory tax rate in effect at the respective reporting dates to temporary differences between the tax basis for assets and liabilities and amounts reported in the consolidated financial statements are as follows:

|   | 31 December<br>2020 | 31 December<br>2019 |
|---|---------------------|---------------------|
| <b>Deferred tax assets:</b>   |                     |                     |
| Tax losses carried forward  | 110,322             | 126,372             |
| Difference in accounts receivable   | 5,482               | 5,129               |
| Financial guarantee contracts liabilities   | 6,426               | 4,306               |
| Accrued employee liabilities  | 4,017               | 3,734               |
| Discount on loan accounts receivable  | 1,939               | 2,103               |
| Other   | 10,319              | 5,518               |
|   | <b>138,505</b>      | <b>147,162</b>      |
| Less: deferred tax assets offset against deferred tax liabilities   | (138,424)           | (146,661)           |
| <b>Deferred tax assets</b>  | <b>81</b>           | <b>501</b>          |
| <b>Deferred tax liabilities:</b>  |                     |                     |
| Property, plant and equipment and other non-current assets  | (360,712)           | (346,933)           |
| Fair value adjustment to borrowings received from the Shareholder/ ultimate Shareholder at the rates below market | (57,650)            | (54,667)            |
| Other   | (16)                | (29)                |
|   | <b>(418,378)</b>    | <b>(401,629)</b>    |
| Less: deferred tax liabilities offset against deferred tax assets   | 138,424             | 146,661             |
| <b>Deferred tax liabilities</b>   | <b>(279,954)</b>    | <b>(254,968)</b>    |
| <b>Total net deferred tax liabilities</b>   | <b>(279,873)</b>    | <b>(254,467)</b>    |
|   | <b>2020</b>         | <b>2019</b>         |
| Net deferred tax liabilities as at the beginning of the year  | (254,467)           | (219,914)           |
| Recognised in profit or loss  | (18,772)            | (22,724)            |
| Recognised in equity (Note 14)  | (4,172)             | (11,829)            |
| Transfer to disposal group liabilities classified as held for sale (Note 13)                                      | 1,031               | -                   |
| Acquisition of a subsidiary (Note 27)   | (3,560)             | -                   |
| Recognised in investments in associates   | 67                  | -                   |
| <b>Net deferred tax liabilities as at the end of the year</b>   | <b>(279,873)</b>    | <b>(254,467)</b>    |

The Group has not recognised deferred tax assets relating to the portion of tax losses carried forward. Management believes it is improbable that there will be sufficient taxable income available in the future against which any such deferred tax assets can be utilised. As at 31 December 2020, the total tax effect of unrecognised tax losses carried forward amounted to 22,021 million tenge (31 December 2019: 18,622 million tenge). These tax losses carried forward expire in 10 years from the date they were incurred.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)  
(in millions of Tenge, unless stated otherwise)

## 19. TRADE ACCOUNTS PAYABLE

|  | 31 December<br>2020 | 31 December<br>2019 |
|--|---------------------|---------------------|
| Accounts payable for services provided                           | 55,475              | 53,750              |
| Accounts payable for inventories received                        | 17,062              | 29,537              |
| Accounts payable for the supply of property, plant and equipment | 9,230               | 31,232              |
| Other accounts payable   | 3,289               | 2,393               |
|  | <b>85,056</b>       | <b>116,912</b>      |

As at 31 December, trade accounts payable were expressed in the following currencies:

|                     | 31 December<br>2020 | 31 December<br>2019 |
|---------------------|---------------------|---------------------|
| Tenge               | 72,429              | 98,643              |
| US\$                | 7,308               | 8,582               |
| Euro                | 3,864               | 6,165               |
| Swiss Franc         | 771                 | 1,990               |
| In other currencies | 684                 | 1,532               |
|                     | <b>85,056</b>       | <b>116,912</b>      |

The average turnover period for accounts payable is 41 days (2019: 53 days).

## 20. CONTRACTS LIABILITIES

|   | 31 December<br>2020 | 31 December<br>2019 |
|---|---------------------|---------------------|
| Advances received on contracts with customers | 63,265              | 51,154              |
| Deferred income                               | 8,144               | 10,508              |
|   | <b>71,409</b>       | <b>61,662</b>       |

The revenue recognised in the reporting period, which was included in the balance of advances received and deferred income at the beginning of the year amounted to 59,753 million tenge (2019: 46,712 million tenge).

Contract liabilities as at 31 December 2020 will be recognised as revenue within 12 months after the reporting date.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)  
(in millions of Tenge, unless stated otherwise)

## 21. OTHER LIABILITIES

|  | 31 December<br>2020 | 31 December<br>2019 |
|--|---------------------|---------------------|
| Liabilities under financial guarantee contracts  | 32,132              | 21,531              |
| Provision for unused vacation  | 13,909              | 12,641              |
| Salaries and other remunerations payable   | 12,829              | 12,852              |
| Provisions   | 11,550              | 16,243              |
| Obligatory pension contributions, social contributions, insurance and obligatory medical insurance contributions | 6,908               | 6,319               |
| Deferred income (government grants)  | 4,312               | 4,855               |
| Advances received  | 1,041               | 1,843               |
| Other liabilities  | 11,668              | 10,434              |
|  | <b>94,349</b>       | <b>86,718</b>       |
| Current portion of other liabilities   | 52,905              | 58,431              |
| Long-term portion of other liabilities   | 41,444              | 28,287              |
|  | <b>94,349</b>       | <b>86,718</b>       |

As disclosed in Note 30, the Group has provided financial guarantees to banks on loans received by the entities of Nursultan Nazarbayev International Airport JSC (formerly Astana International Airport JSC) and Aktope Rail and Section Mill Plant LLP and an associate of Transtelecom JSC, and has recognised obligations under financial guarantee agreements. As at 31 December 2020, liabilities under financial guarantee agreements amounted to 15,635 million tenge for Nursultan Nazarbayev International Airport JSC, 14,829 million tenge for Aktope Rail and Section Mill Plant LLP and 1,668 million tenge for Transtelecom JSC (31 December 2019: 10,133 million tenge for Nursultan Nazarbayev International Airport JSC, 11,002 million tenge for Aktope Rail and Section Mill Plant LLP and 396 million tenge for Electrovoz Kurastyru Zauyty LLP).

Provisions include provisions for agreements under which as at 31 December 2020, there is a high probability that an outflow of resources embodying economic benefits will be required to settle the liabilities. Provisions were recognised through other profit or losses.

As at 31 December 2020 and 2019, other liabilities were primarily denominated in tenge.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)  
(in millions of Tenge, unless stated otherwise)

## 22. REVENUE

During 2020 and 2019, revenue from freight transportation included:

|  | 2020             | 2019           |
|--|------------------|----------------|
| Revenue from contracts with customers:                   |                  |                |
| International (transit) routes                           | 372,582          | 276,880        |
| Domestic routes  | 307,437          | 317,192        |
| International (export) routes                            | 189,792          | 189,958        |
| International (import) routes                            | 118,807          | 107,833        |
| Additional charges related to the transportation process | 34,926           | 37,726         |
| Other revenue from freight transportation                | 38,980           | 30,212         |
|  | <b>1,062,524</b> | <b>959,801</b> |

During 2019, the revenue from freight transportation in international (transit) routes, which was the cash flow hedging item, was received and, accordingly, the cumulative loss of 19,005 million tenge attributable to the hedging instrument had been reclassified from other comprehensive loss to revenue from freight transportation (Note 14).

Revenue from freight transportation of 40,937 million tenge, attributable to additional charges and portion of other revenue from freight transportation, was recognised at a point in time (2019: 44,517 million tenge), and 1,021,587 million tenge was recognised over time (2019: 915,284 million tenge).

During 2020 and 2019, revenue from passenger transportation included:

|  | 2020          | 2019          |
|--|---------------|---------------|
| Revenue from contracts with customers: |               |               |
| On domestic routes                     | 28,652        | 59,234        |
| On international routes                | 4,307         | 17,791        |
| Other revenue                          | 5,219         | 7,756         |
|  | <b>38,178</b> | <b>84,781</b> |

Revenue from passenger transportation of 629 million tenge, attributable to portion of other revenue from passenger transportation, was recognised at a point in time (2019: 1,490 million tenge), and 37,549 million tenge was recognised over time (2019: 83,291 million tenge).

## 23. OTHER REVENUE

|  | 2020          | 2019          |
|--|---------------|---------------|
| Revenue from the sale of goods and provision of other services | 30,694        | 30,327        |
| Revenue from wagon lease                                       | 9,693         | 22,362        |
| Revenue from fines   | 3,575         | 6,699         |
| Revenue from the lease of other fixed assets                   | 3,124         | 3,762         |
|  | <b>47,086</b> | <b>63,150</b> |

Revenue from the sale of goods and the provision of other services mainly consists of income from cargo handling, ship maintenance, and the sale of materials and scrap metal.



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

The Group leases out wagons and other property, plant and equipment under operating lease agreements for up to one year. Accounts receivable under operating leases are payable within one year. Operating leases do not include an extension or early termination option. The Group is not exposed to currency risk as a result of operating leases, as all leases are denominated in tenge. The lessee does not have option to purchase cars and other property, plant and equipment at the end of the lease term.

Revenue from fines is mainly represented by revenue from late dispatch of freight from destination stations and for a breach of contracts.

Other revenue of 11,845 million tenge is recognised at a point in time (2019: 14,576 million tenge), and of 22,424 million tenge – over time (2019: 22,450 million tenge).

#### 24. COST OF SALES

|   | 2020           | 2019           |
|---|----------------|----------------|
| Staff costs, including taxes, contributions and provisions for unused vacations | 286,794        | 283,077        |
| Repairs and maintenance   | 146,476        | 121,116        |
| Depreciation and amortisation   | 131,350        | 119,335        |
| Fuel and lubricants   | 115,474        | 124,411        |
| Work and services of a production nature  | 50,947         | 51,978         |
| Electricity   | 49,584         | 46,850         |
| Materials and supplies  | 40,271         | 51,866         |
| Property tax and other taxes than social tax and social contributions           | 24,995         | 23,672         |
| Employee benefit expenses and other long-term employee benefits (Note 17)       | 4,198          | 11,826         |
| Utilities and building maintenance  | 3,986          | 3,756          |
| Telecommunication services  | 3,099          | 3,567          |
| Other costs   | 28,214         | 30,912         |
|   | <b>885,388</b> | <b>872,366</b> |

#### 25. GENERAL AND ADMINISTRATIVE EXPENSES

|   | 2020          | 2019          |
|---|---------------|---------------|
| Staff costs, including taxes, contributions and provisions for unused vacation                          | 47,694        | 44,380        |
| Property tax and other taxes than social tax and social contributions                                   | 10,940        | 13,031        |
| Depreciation and amortisation   | 5,045         | 5,380         |
| Consulting, audit and legal services  | 2,848         | 2,405         |
| Operating lease expenses  | 1,315         | 1,269         |
| Expenses to maintain social sphere facilities   | 1,310         | 364           |
| Other third party services  | 1,058         | 1,782         |
| Expenses to hold celebrations and cultural and mass events  | 936           | 952           |
| Utilities and building maintenance  | 730           | 776           |
| Materials   | 657           | 890           |
| Telecommunication services  | 655           | 484           |
| Business trip expenses  | 649           | 1,690         |
| Allowances for expected credit losses of accounts receivable and impairment of short-term advances paid | 541           | 11,624        |
| Banking services  | 434           | 814           |
| Repairs and maintenance   | 357           | 356           |
| Employee benefit expenses and other long-term employee benefits (Note 17)                               | 355           | 458           |
| Other expenses  | 10,374        | 9,964         |
|   | <b>85,898</b> | <b>96,619</b> |

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

#### 26. FINANCE INCOME AND COSTS

|  | 2020           | 2019           |
|--|----------------|----------------|
| <b>Finance income</b>  |                |                |
| Income from interest rate subsidies on financial liabilities | 29,558         | 273            |
| Interest income on cash and cash equivalents                 | 6,679          | 3,589          |
| Income from issued guarantees                                | 2,695          | 524            |
| Other financial income                                       | 7,965          | 1,143          |
|  | <b>46,897</b>  | <b>5,529</b>   |
| <b>Finance costs</b>   |                |                |
| Interest expenses and amortization of discount on borrowings | 120,554        | 119,810        |
| Premium and fee for early bond extinguishment                | 24,221         | 45,236         |
| Expected credit losses on guarantees issued                  | 12,757         | 7,539          |
| Lease interest expenses                                      | 6,879          | 3,096          |
| Other finance costs  | 2,967          | 409            |
|  | <b>167,378</b> | <b>176,090</b> |

As disclosed in Note 15, in May 2020, the Group, represented by the Company, entered into an agreement with the Transport Committee of the Ministry of Industry and Infrastructure Development of the Republic of Kazakhstan to subsidise a part of coupon interest rate on 307,194 million tenge bonds issued in 2019 at 11.5% per annum and used for the early redemption of 2017 Eurobonds of 780,000,000 US Dollars. During 2020, the Group recognised income from government grants under the Programme of 29,183 million tenge in finance income.

#### 27. ACQUISITION OF A SUBSIDIARY

In November 2019, the Group entered into an agreement to purchase 50% of shares in the joint venture Logistic System Management B.V. from the second partner (third party). The Group completed the transaction in May 2020 and made cash payment for the purchased shares in the amount of 73,000,000 US Dollars (30,669 million tenge) after all contractual conditions for sale had been met. As a result, the Group obtained control over Logistic System Management B.V., the sole shareholder of the Kazakhstani company Kedentransservice JSC. The transaction was accounted for using the acquisition method.

Kedentransservice JSC is a leading logistics terminal operator in Kazakhstan with an extensive client base. Due to consolidation of the operation of rolling stock, terminal and other services at Kedentransservice JSC, the Group is planning to create an integrated container transportation company with containers, waggon fleets and terminals. Group management anticipates that the implementation of the project will help to increase the Group's share in the Kazakhstani container market, the quality of services provided and profitability.

As at 31 December 2020, the Group completed the assessment of the fair value of the acquired identifiable assets and liabilities assumed, as well as the previously held interest in the Logistic System Management B.V. The excess of the purchase price and fair value of previously held interest over the fair value of net identifiable assets at the date of acquisition amounted to 15,520 million tenge and was recognised as goodwill.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)  
(in millions of Tenge, unless stated otherwise)

Allocation of the total consideration to the fair value of assets acquired and liabilities assumed is presented below:

|   | 1 June 2020   |
|---|---------------|
| <b>ASSETS</b>   |               |
| <b>Non-current assets</b>   |               |
| Property, Plant and Equipment   | 29,159        |
| Intangible assets   | 4,218         |
| Other non-current assets  | 5,320         |
| <b>Total non-current assets</b>   | <b>38,697</b> |
| <b>Current assets</b>   |               |
| Cash and cash equivalents   | 4,170         |
| Inventories   | 1,233         |
| Trade receivables   | 3,557         |
| Other current assets  | 4,640         |
| <b>Total current assets</b>   | <b>13,600</b> |
| <b>Total assets</b>   | <b>52,297</b> |
| <b>LIABILITIES</b>  |               |
| <b>Non-current liabilities</b>  |               |
| Deferred tax liabilities  | 3,560         |
| Employee benefit obligations  | 141           |
| Lease liabilities   | 2,466         |
| <b>Total non-current liabilities</b>  | <b>6,167</b>  |
| <b>Current liabilities</b>  |               |
| Trade account payables  | 3,483         |
| Employee benefit obligations  | 17            |
| Lease liabilities   | 413           |
| Contract liabilities  | 1,788         |
| Other current liabilities   | 1,575         |
| <b>Total current liabilities</b>  | <b>7,276</b>  |
| <b>Total liabilities</b>  | <b>13,443</b> |
| <b>Net identifiable assets acquired and liabilities assumed</b>                         | <b>38,854</b> |
| Cash consideration  | 30,669        |
| The Group's previously held equity interest in net assets of the joint venture (Note 7) | 14,670        |
| Remeasurement to fair value of a previously held equity interest in the joint venture   | 9,035         |
| Less identifiable net assets  | (38,854)      |
| <b>Goodwill from the acquisition</b>  | <b>15,520</b> |

Net cash outflow arising on acquisition of a subsidiary:

|  | 2020          |
|--|---------------|
| Cash consideration                       | 30,669        |
| Less: cash and cash equivalents acquired | (4,170)       |
| <b>Net cash outflow</b>                  | <b>26,499</b> |

Since the acquisition date, revenue and net profit of Logistic System Management B.V. amounted to 24,233 million tenge and 1,774 million tenge, respectively. If the business combination had occurred on 1 January 2020, the Group's revenue and profit for the year ended 31 December 2020 would have increased by 6,051 million tenge and 251 million tenge, respectively.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)  
(in millions of Tenge, unless stated otherwise)

In November 2020, Logistic System Management B.V. transferred 100% of the shares in Kedentransservice JSC to the direct ownership of the Group.

## 28. DISPOSAL OF A SUBSIDIARY

In March 2020, the Group, represented by its subsidiary KTZ Express JSC, in accordance with instructions (order) of the ultimate Shareholder, transferred 100% of the shares in MC SEZ Khorgos - Eastern Gates JSC free of charge to the Almaty region municipality. As a result, the Group lost control over Khorgos - Eastern Gate FEZ MC JSC. Given the transaction is with the ultimate Shareholder, the Group recorded the disposal of net assets through equity in retained earnings (Note 14).

The assets and liabilities of Khorgos - Eastern Gate FEZ MC JSC as at the disposal date were as follows:

|                               | 16 March 2020 |
|-------------------------------|---------------|
| <b>ASSETS</b>                 |               |
| Property, Plant and Equipment | 20,219        |
| Intangible assets             | 555           |
| Other non-current assets      | 2,734         |
| Cash and cash equivalents     | 1,886         |
| Other current assets          | 379           |
| <b>Total assets</b>           | <b>25,773</b> |
| <b>LIABILITIES</b>            |               |
| Trade account payables        | 847           |
| Other liabilities             | 117           |
| <b>Total liabilities</b>      | <b>964</b>    |
| <b>Net assets disposed of</b> | <b>24,809</b> |

Khorgos-Eastern Gates FEZ MC JSC revenue and loss for the period from 1 January until the disposal date were 60 million tenge and 1,248 million tenge, respectively.

## 29. EARNINGS PER SHARE

Basic earnings per share are calculated using the weighted average number of common shares issued during the year. Basic and diluted per share data are the same, as there are no dilutive instruments outstanding. During 2020 and 2019, the Company had no outstanding antidilutive instruments.

|  | 2020         | 2019         |
|--|--------------|--------------|
| Weighted average of common shares  | 496,654,806  | 496,465,588  |
| Profit/(loss) for the year attributable to the Shareholder (million tenge)                             | 16,233       | (70,233)     |
| <b>Earnings/(loss) per common share (tenge)</b>  | <b>33</b>    | <b>(141)</b> |
| Profit/(loss) for the year from continuing operations, attributable to the Shareholder (million tenge) | 16,421       | (56,851)     |
| <b>Earnings/(loss) per common share from continuing operations (tenge)</b>                             | <b>33</b>    | <b>(115)</b> |
| Net assets excluding intangible assets, goodwill and non-controlling interests                         | 1,101,674    | 1,122,083    |
| Quantity of common shares in circulation (registered)  | 496,654,806  | 496,654,806  |
| <b>Carrying amount of one share (tenge)<sup>7</sup></b>  | <b>2,218</b> | <b>2,259</b> |

<sup>7</sup> Carrying amount of shares is calculated in accordance with KASE requirements.



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) *(in millions of Tenge, unless stated otherwise)*

#### 30. FINANCIAL AND CONTINGENT LIABILITIES

##### Capital commitments

As at 31 December 2020, the Group had commitments to purchase long rails and to purchase freight and passenger electric locomotives, freight and passenger diesel locomotives for a total of 1,679,287 million tenge (31 December 2019: 1,435,386 million tenge).

##### Leases

In August 2017, the Group, represented by its subsidiary KTZ Express JSC, entered into lease agreements with Industrial Development Fund JSC to lease 1,995 platform cars for 33,264 million tenge for 15 years and interest rate of 15% per annum, 10% of which is subsidised by the State. The grace period for the principal is 5 years. The Group acts as a lessee. As at 31 December 2020, platform cars with a total value of 26,862 million tenge had not been delivered. By the end of 2022, the Group plans to sign an addendum to the lease contract to reduce the quantity of waggons to the actually delivered quantity as at 31 December 2020 in the amount of 6,402 million tenge.

In November 2020, the Group, represented by its subsidiaries JSC Kaztemirtrans and JSC KTZ Express, entered into lease agreements with Industrial Development Fund JSC to lease 1,000 low-sided cars and 2,000 platform cars for 23,330 million tenge and 51,692 million tenge, respectively, for 15 years and interest rate of 15% per annum, 10% of which is subsidised by the State. The grace period for the principal is 2 years. The Group will act as lessee. As at 31 December 2020, the delivery date for the low-sided cars and platform cars had not commenced.

##### Other contractual liabilities

During 2020, within the framework of the sale agreement of a 30% share in Continental Logistics LLP to a third party, the Group, represented by its subsidiary KTZ Express JSC, terminated the agreements for the provision of freight handling and storage services in the future with the associate Continental Logistics LLP, Sberbank SB JSC and Odyssey Investments Group LLP dated 20 November 2015 (and addendum dated 15 August 2016) and with the associate Continental Logistics Shymkent LLP and Odyssey Investments Group LLP dated 15 August 2016. As a result, the Group reversed previously recognised provisions of 11,758 million tenge under these agreements.

As at 31 December 2020, the Group, represented by its subsidiary KTZ Express JSC, had an agreement for the provision of freight handling and freight storage services in the future with its associate Aktau Marine North Terminal LLP, Sberbank SB JSC and Inter Port Development PTE LTD dated 28 December 2015. The Agreement stipulate that the Group has to acquire a minimum volume of freight storage services for 10 years and make substantial payments in relation for such volumes.

Group management believes that the service period under the Agreement with Aktau Marine North Terminal LLP has not yet commenced, because the Group has not been notified about the commencement date of commercial operations and service period, and the parties have not started execution of the obligations under the Agreement. Group management believes that as at 31 December 2020, the outflow of resources embodying economic benefits under this Agreement is not highly probable.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) *(in millions of Tenge, unless stated otherwise)*

#### Contingent liabilities

##### Litigation

The Group is subject to various legal proceedings related to its business operations, such as property damage claims. The Group does not believe that pending or threatened claims of these types, individually or in aggregate, are likely to have any material adverse effect on the Group's consolidated financial position, results of operations or cash flows.

##### Contingent liabilities related to the Kazakhstan tax system

Due to the uncertainties inherent in the Kazakhstan tax system, the ultimate amount of taxes, fines and late payment interest may exceed the amount expensed as at 31 December 2020 and 2019. It is not possible to determine the value of any unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome.

In 2020, KTZ-Freight Transportation LLP, a Group subsidiary, underwent a tax audit for the period 1 January 2016 – 30 June 2018, which resulted in additional tax and penalty charges of 5,407 million tenge, including 2,616 million tenge of income tax for non-residents, including penalty, 996 million tenge of value added tax and 1,795 million tenge of value added tax for non-residents, including penalty.

Group management believes that it will be able to dispute the tax audit results and that there is no high probability of economic outflows due to tax authority rulings. Consequently, Group management did not accrue provisions as at 31 December 2020.

##### Insurance

The insurance market is still in the early stages of development in Kazakhstan and, in common with other state-owned enterprises, the Group does not, with the exception of obligatory passenger insurance with regard to personal injury, death and loss or damage to passenger property, maintain any insurance against the risk of damage to any of its properties, assets or equipment (including infrastructure, rolling stock and stations) nor against business interruption or third party liability in respect of property or environmental damage arising from accidents to the Group's property or relating to the Group's operations. The Group maintains the required insurance coverage under policies purchased from commercial insurance operators in Kazakhstan.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

#### Guarantees

As at 31 December 2020, guarantees were represented as follows:

| Creditor                           | Purpose of the guarantee   | Guarantee issue date | Guarantee period | Guarantee amount, million tenge |
|------------------------------------|--|----------------------|------------------|---------------------------------|
| Development Bank of Kazakhstan JSC | Execute the obligations of the associate Aktobe Rail and Section Mill Plant LLP to finance the construction of a rail and section mill plant in Aktobe | 4 July 2013          | until 2033       | 18,905                          |
| Development Bank of Kazakhstan JSC | Execute the obligations of Nursultan Nazarbayev International Airport JSC to finance its modernisation   | 28 March 2018        | until 2033       | 22,500                          |
| Eurasian Development Bank          | Execute the obligations of an associate Transtelecom JSC for the implementation of the project Construction of a Fiber-Optic communication line (FOCL) | 21 October 2014      | until 2024       | 3,942                           |
| Development Bank of Kazakhstan JSC | Execute the obligations of an associate Transtelecom JSC for the implementation of the project ACS of Energy Dispatching Traction                      | 30 June 2014         | until 2024       | 10,482                          |

Note 21 discloses the carrying value of these guarantees.

As at 31 December 2020 and 2019 there were no cases of using the financial guarantees listed above.

To avoid non-compliance with respect to obligations to its creditors, prior to year-end, the Group received a waiver related to the non-application of financial covenants as at 31 December 2020 under the financial guarantee contract with Development Bank of Kazakhstan JSC.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

#### 31. SUBSIDIARIES

Information on the composition of the Group is as follows:

| Subsidiary <sup>*</sup>   | Activities  | Country                | Ownership interest, % |                  |
|---|---|------------------------|-----------------------|------------------|
|   |   |                        | 31 December 2020      | 31 December 2019 |
| 1.Kaztemirtrans JSC   | Freight wagon operation                             | Republic of Kazakhstan | 100                   | 100              |
| 2.Passenger Transportation JSC                                  | Passenger transportation                            | Republic of Kazakhstan | 100                   | 100              |
| 3.KTZ-Freight Transportation LLP                                | Freight transportation and locomotive haulage       | Republic of Kazakhstan | 100                   | 100              |
| 4.KTZ Express JSC   | Multimodal transportation                           | Republic of Kazakhstan | 100                   | 100              |
|   | Freight forwarding services, handling               |                        |                       |                  |
| 5. Kedentransservice JSC  | rolling stock, terminal services                    | Republic of Kazakhstan | 100                   | -                |
| 6. Temirzholsu JSC  | Utilities   | Republic of Kazakhstan | 100                   | 100              |
| 7. Remlocomotive JSC  | Rolling stock production                            | Republic of Kazakhstan | 100                   | 100              |
| 8. Militarised Railway Security JSC                             | Security  | Republic of Kazakhstan | 100                   | 100              |
| 9. Kamkor Repair Corporation LLP                                | Machinery production                                | Republic of Kazakhstan | 100                   | 100              |
| 10. Aktau Sea Commercial Port National Company JSC <sup>9</sup> | Vessel loading and unloading work, vessel servicing | Republic of Kazakhstan | 100                   | 100              |
| 11. Port Kuryk LLP  | Freight transhipment and vessel servicing           | Republic of Kazakhstan | 100                   | 100              |
|   | Bond issues to finance                              |                        |                       |                  |
| 12. KTZ Finance LLC   | KTZ Group projects and operations                   | Russian Federation     | 100                   | 100              |
| 13. Transtelecom JSC  | Telecommunication services                          | Republic of Kazakhstan | -                     | 51               |

In May 2020, the Group obtained control over its joint venture, Logistic System Management B.V., after which in November 2020, Logistic System Management B.V. transferred 100% of the shares of its subsidiary, Kedentransservice JSC, to the direct ownership of the Group (Notes 7 and 27).

In January 2020, the Group completed the sale of a 26% interest -1 share of Transtelecom JSC. As a result, the Group lost control over the subsidiary and recognised 25% of the remaining shares as an investment in associate (Notes 7 and 13).

<sup>\*</sup> First level subsidiaries, some of which include subsidiaries that have non-controlling interests.

<sup>9</sup> In November 2013, the Shareholder transferred a 100% ownership interest in National Company Aktau Sea Commercial Port JSC to the Group's trust management. National Company Aktau Sea Commercial Port JSC is recognised as a Group subsidiary although the Group does not legally hold shares in it.



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

#### 32. RELATED PARTY TRANSACTIONS

For the purpose of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other or exercise significant influence over the other party when making financial or operational decisions. In addition, parties under common control within the Group are considered to be related. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Related parties may enter into transactions that might not be necessarily available to unrelated parties, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of related party relationships for those related parties with which the Group entered into significant transactions or had significant balances outstanding as at 31 December that are not outlined elsewhere in these notes are detailed below.

|   |      | Shareholder | Associates | Joint ventures in which the Group is a partner | Companies making up the Shareholder Group | Other related parties <sup>10</sup> |
|---|------|-------------|------------|--|---|-------------------------------------|
| Amounts due from related parties for goods, services and non-current assets     | 2020 | -           | 488        | -  | 1,726                                     | 4                                   |
|   | 2019 | 56          | 1,687      | 576  | 6,323                                     | 4                                   |
| including allowances for expected credit losses and impairment of advances paid | 2020 | -           | (85)       | -  | (21)                                      | -                                   |
|   | 2019 | -           | (4,121)    | (25)   | (378)                                     | -                                   |
| Amounts due to related parties for goods, services and non-current assets       | 2020 | -           | 15,707     | -  | 3,802                                     | 4,626                               |
|   | 2019 | -           | 9,149      | 2,105  | 4,130                                     | 3,451                               |
| Restricted cash   | 2020 | -           | -          | -  | -   | 117                                 |
|   | 2019 | -           | -          | -  | -   | 118                                 |
| Lease receivable  | 2020 | -           | -          | -  | -   | -                                   |
|   | 2019 | -           | -          | -  | 820                                       | -                                   |
| Borrowings received   | 2020 | 126,093     | -          | -  | -   | 65,920                              |
|   | 2019 | 123,621     | -          | -  | -   | 61,965                              |
| Lease liabilities   | 2020 | 225         | 37,994     | -  | -   | 5,571                               |
|   | 2019 | 529         | -          | -  | 204                                       | 5,168                               |
| Dividends receivable  | 2020 | -           | -          | -  | -   | -                                   |
|   | 2019 | -           | 41         | -  | -   | -                                   |

<sup>10</sup> Other related parties include other commercial entities under common control of the ultimate Shareholder.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

Transactions with related parties for the years ended 31 December are presented as follows:

|  |      | Shareholder | Associates | Joint ventures in which the Group is a partner | Companies making up the Shareholder Group | Other related parties <sup>10</sup> |
|--|------|-------------|------------|--|---|-------------------------------------|
| Sale of goods, services and non-current assets   | 2020 | 5           | 99,207     | 15,135   | 5,183                                     | 499                                 |
|  | 2019 | 66          | 53,236     | 36,809   | 32,554                                    | 2,340                               |
| (Accrued)/ recovered allowances for expected credit losses and impairment of advances paid | 2020 | -           | 4,036      | -  | 54  | -                                   |
|  | 2019 | -           | (3,121)    | (1)  | (292)                                     | -                                   |
| Purchase of goods, services and non-current assets   | 2020 | -           | 110,619    | 43   | 3,661                                     | 1,664                               |
|  | 2019 | -           | 32,482     | 142  | 5,155                                     | 1,661                               |
| Receipt of loans   | 2020 | -           | -          | -  | -   | 35,714                              |
|  | 2019 | 40,000      | -          | -  | -   | -                                   |
| Repayment of loans received  | 2020 | 1,175       | -          | -  | -   | 1,077                               |
|  | 2019 | 1,175       | -          | -  | -   | 6,661                               |
| New lease agreements (Group as lessee)   | 2020 | -           | 45,417     | -  | -   | -                                   |
|  | 2019 | 468         | -          | -  | 205                                       | -                                   |
| Lease/finance lease payments   | 2020 | 345         | 12,620     | -  | -   | 557                                 |
|  | 2019 | 175         | -          | -  | 24  | 557                                 |
| New finance lease agreements (Group as lessor)   | 2020 | -           | -          | -  | -   | -                                   |
|  | 2019 | -           | -          | -  | 828                                       | -                                   |
| Proceeds from lease agreements   | 2020 | -           | -          | -  | -   | -                                   |
|  | 2019 | -           | -          | -  | 79  | -                                   |
| Finance income   | 2020 | -           | 2,289      | -  | -   | 205                                 |
|  | 2019 | -           | -          | -  | 71  | -                                   |
| Finance costs  | 2020 | 9,402       | 12,447     | -  | -   | 9,017                               |
|  | 2019 | 5,552       | -          | -  | 23  | 8,750                               |
| Dividends received   | 2020 | -           | 4,364      | 2,734  | -   | -                                   |
|  | 2019 | -           | 5,273      | 1,977  | -   | -                                   |
| Share capital contribution   | 2020 | -           | -          | -  | -   | -                                   |
|  | 2019 | 19,374      | -          | -  | -   | -                                   |
| Dividends paid   | 2020 | -           | -          | -  | -   | -                                   |
|  | 2019 | 16,425      | -          | -  | -   | -                                   |

As at 31 December 2020, the Group has borrowings from Industrial Development Fund JSC and Development Bank of Kazakhstan JSC for a total of 65,920 million tenge (Note 15).

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

As at 31 December 2020 and 2019, certain Group borrowings of 461 million tenge and 1,257 million tenge, respectively, were guaranteed by the Government of the Republic of Kazakhstan.

As at 31 December 2020 and 2019, the Group issued guarantee on certain borrowings of the associate and other related and third parties to ensure the execution of obligations to the banks (Notes 21 and 30).

As at 31 December 2020, Group borrowings from the Shareholder were mainly received at rates below market varying from 0.075% to 2% and maturity varying from 13 to 50 years and at initial recognition were reflected at fair value at rates from 5.4% to 11.5%.

Transactions with Shareholder group companies, associates and joint ventures and other related parties mainly comprise transactions with KazMunaiGas National Company JSC (fuel), Transtelecom JSC (telecommunication services), Kazakhtelecom JSC (communication services), Kazatomprom National Nuclear Company JSC (electricity), KEGOC JSC (electricity), Kazpost JSC (postal services), Kazakhstan Engineering National Company JSC (engineering production) and Samruk-Energo JSC (electricity). The Group also provides freight transportation services to Shareholder group companies, associates and joint ventures.

#### Compensation to key management personnel of the Group

Key management personnel comprise members of the Group's Management Board and Board of Directors, totalling 15 persons for the year ended 31 December 2020 (31 December 2019: 14 persons). Total compensation to key management personnel included in personnel costs in the consolidated statement of profit or loss and other comprehensive income comprised 602 million tenge for the year ended 31 December 2020 (2019: 512 million tenge). Compensation to key management personnel mainly consists of contractual salary costs and bonuses based on operational results.

### 33. FINANCIAL INSTRUMENTS, FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES, AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group's principal financial instruments consist of loans, debt securities issued (bonds), lease liabilities, cash and cash equivalents as well as trade accounts receivable and trade accounts payable. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and credit risk. The Group further monitors the market risk and liquidity risk arising from all financial instruments.

#### Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to the Shareholder by optimising debt and equity balance. The Group's overall strategy remains unchanged from 2019.

There are no mandatory minimum capital requirements for the Group.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

The Group's equity structure includes net debt (loans, debt securities and lease liabilities less cash and cash equivalents) and Group's equity (which comprises share capital, foreign currency translation and cash flow hedge reserves, retained earnings and non-controlling interests).

#### Financial risk management objectives

Risk management is an essential element of the Group's operations. The Company monitors and manages financial risks relating to the Group's operations through internal risk reports which analyse risk exposure by the degree and size of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), liquidity risk and cash flow interest rate risk. A description of the Group's risk management policies in relation to those risks follows.

#### Interest rate risk

The interest rate risk to the Group is the risk of changes in market interest rates reducing the overall return on the Group's investments and/or increasing cash outflow on its loans and debt securities. The Group limits its interest rate risk by monitoring changes in interest rates in the currencies in which its financial instruments are held, and by maintaining a balance between its loans with fixed and variable interest rates.

The Group's exposure to the interest rate risk mainly relates to its loans and debt securities issued with variable interest rates.

The following table shows the sensitivity of the Group's profit before tax and equity to possible changes in interest rates on borrowings (through the effect on interest for variable interest rate borrowing) with all other variables remaining constant.

|                               | 31 December 2020  |                                 | 31 December 2019  |                                 |
|-------------------------------|---|---------------------------------|---|---------------------------------|
|                               | Interest rate Increase / (decrease) in basic points <sup>11</sup> | Effect on pre-tax profit/equity | Interest rate increase / (decrease) in basic points <sup>11</sup> | Effect on pre-tax profit/equity |
| Borrowings in tenge           | 100/(25)  | (665)/166                       | 20/(20)   | (130)/130                       |
| Borrowings in Russian Roubles | 100/(25)  | (1,084)/271                     | -   | -                               |
| Borrowings in US Dollars      | -   | -                               | 20/(20)   | (10)/10                         |

#### Currency risk

The Group undertakes transactions denominated in foreign currencies; consequently, exposing itself to exchange rate fluctuations.

A significant portion of the Group's short-term and long-term foreign currency debt is denominated in US Dollars. A change in the tenge value against the US Dollar, or any other foreign currency in which debt is denominated will result in a foreign exchange gain or loss. During 2020, the Group incurred a foreign exchange loss of 52,647 million tenge, of which a major portion is attributable to borrowing as disclosed in Note 15 (2019: 11,592 million tenge).

<sup>11</sup> 1 basic point = 0.01%



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

The following table reflects the sensitivity of the Group's profit before tax and equity to potential changes in the US Dollar, Euro, Russian Rouble and other exchange rates, provided all other parameters remain constant.

|                  | 31 December 2020                    |                          |                         | 31 December 2019                    |                          |                         |
|------------------|-------------------------------------|--------------------------|-------------------------|-------------------------------------|--------------------------|-------------------------|
|                  | Exchange rate increase / (decrease) | Effect on pre-tax profit | Direct effect on equity | Exchange rate increase / (decrease) | Effect on pre-tax profit | Direct effect on equity |
| US Dollars       | 14%/(11%)                           | (53,045)/41,678          | -                       | 12%/(9%)                            | (47,793)/35,845          | -                       |
| Euros            | 14%/(11%)                           | (6,852)/5,384            | -                       | 12%/(9%)                            | (6,949)/5,212            | -                       |
| Russian Roubles  | 15%/(15%)                           | (28,587)/28,587          | -                       | 12%/(12%)                           | (10,881)/10,881          | -                       |
| Swiss Francs     | 14%/(11%)                           | (83)/65                  | (29,267)/22,995         | 12%/(9%)                            | (224)/168                | (20,730)/15,548         |
| Other currencies | 14%/(11%)                           | 87/(68)                  | -                       | 12%/(9%)                            | 90/(67)                  | -                       |

On 7 August 2015, the Group began cash flow hedging to decrease the risk of a change in the tenge equivalent of revenue denominated in Swiss Francs. Eurobonds issued on 20 June 2014 on the Swiss Stock Exchange are used as hedging instruments. The hedged item is revenue from transit traffic in Swiss Francs. As a result of hedging, in 2020 an effect of 15,220 million tenge was recognised in other comprehensive income (2019: 26 million tenge).

#### Credit risk

Credit risk arising from a party's inability to meet the terms of the Group's financial instrument contracts is generally limited to the amounts, if any, by which the counterparty's obligations exceed the Group's obligations to that party. It is the Group's policy to enter into financial instruments with a range of creditworthy parties. The maximum exposure to credit risk is represented by the carrying value of each financial asset.

Credit risk concentrations may arise from exposure to a single debtor or to groups of debtors having similar characteristics such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions.

As at 31 December 2020, cash and cash equivalents are mainly placed in Halyk Bank JSC with a credit rating of BB 'stable' (67% of cash and cash equivalents).

The Group has procedures in place to ensure that sales are only made to customers with the appropriate credit history and that an acceptable credit exposure limit is not exceeded. Credit risk is minimised by the fact that the Group operates on a prepayment basis with the majority of its customers.

In addition, the Group is exposed to credit risk on financial guarantees provided to banks. The maximum risk of the Group in this regard is equal to the maximum amount that the Group will be obliged to pay in the event of claims for guarantees disclosed in Note 30. During 2020, the Group additionally recognised expected credit losses on financial guarantees given to banks for a related party Nursultan Nazarbayev International Airport JSC, which is under common control of ultimate Shareholder, of 5,761 million tenge, for the third party (former associate) Aktoke Rail and Section Mill Plant LLP of 5,511 million tenge, and the associate Transtelecom JSC of 1,485 million tenge.

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

#### Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Group manages market risk through periodic estimates of potential losses that could arise from adverse changes in market conditions.

#### Liquidity risk

The Group manages short-term, mid-term and long-term financing liquidity risk in accordance with Shareholder requirements. The Group manages liquidity risk by maintaining adequate reserves, bank loans and accessible credit lines by constantly monitoring projected and actual cash flows and comparing the maturity of financial assets and liabilities.

As at 31 December 2020, the Group has also credit lines available in Halyk Bank JSC and Citibank of Kazakhstan JSC with undrawn balances totalling 36,389 million tenge (31 December 2019: 26,668 million tenge).

The Group controls and monitors compliance with the covenants set by the Shareholder and credit/guarantee agreements on a regular basis.

The following tables reflect the contractual terms of the Group's financial liabilities. The table was prepared using undiscounted cash flows on financial liabilities based on the earliest date at which the Company can be required to pay. The table includes both interest and principal cash flows.

|                           | Up to 1 month  | 1-3 months    | 3 months-1 year | 1-5 years      | Over 5 years     | Total            |
|---------------------------|----------------|---------------|-----------------|----------------|------------------|------------------|
| <b>2020</b>               |                |               |                 |                |                  |                  |
| <u>Interest-free</u>      |                |               |                 |                |                  |                  |
| Accounts payable          | 82,710         | 1,910         | 436             | -              | -                | 85,056           |
| Other current liabilities | 12,829         | 6,908         | 9,225           | -              | -                | 28,962           |
| <u>Interest-bearing</u>   |                |               |                 |                |                  |                  |
| Borrowings                | 2,856          | 21,784        | 239,269         | 821,983        | 2,043,631        | 3,129,523        |
| Lease liabilities         | 4,463          | 3,126         | 13,082          | 39,386         | 12,911           | 72,968           |
| Financial guarantees      | -              | 4,168         | 7,995           | 46,141         | 64,686           | 122,990          |
|                           | <b>102,858</b> | <b>37,896</b> | <b>270,007</b>  | <b>907,510</b> | <b>2,121,228</b> | <b>3,439,499</b> |
| <b>2019</b>               |                |               |                 |                |                  |                  |
| <u>Interest-free</u>      |                |               |                 |                |                  |                  |
| Accounts payable          | 109,422        | 6,345         | 1,145           | -              | -                | 116,912          |
| Other current liabilities | 12,852         | 6,319         | 7,367           | -              | -                | 26,538           |
| <u>Interest-bearing</u>   |                |               |                 |                |                  |                  |
| Borrowings                | 17,469         | 43,955        | 120,161         | 812,707        | 2,212,927        | 3,207,219        |
| Lease liabilities         | 1,489          | 1,033         | 4,005           | 21,716         | 20,591           | 48,834           |
| Financial guarantees      | 540            | 1,898         | 4,006           | 23,328         | 58,427           | 88,199           |
|                           | <b>141,772</b> | <b>59,550</b> | <b>136,684</b>  | <b>857,751</b> | <b>2,291,945</b> | <b>3,487,702</b> |

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

The amounts presented in the table of financial guarantee agreements reflect the maximum amounts that the Group will be obliged to pay in the event of claims under guarantee agreements. As at reporting date the Group believes that with probability of more than 50% no payments under these agreements will be required. At the same time the given estimate may change if there is a change in the probability of claims under guarantee agreements. This probability is determined by the probability of default of counterparty's account receivable.

The following table reflects the expected maturity of the Group's financial assets. It was prepared based on undiscounted contractual cash flows for financial assets, including interest received on these assets, except when the Company expects the cash flow in a different period.

|                                 | Up to 1 month  | 1-3 months | 3 months –<br>1 year | Over 1 year   | Unspecified<br>maturity <sup>12</sup> | Total          |
|---------------------------------|----------------|------------|----------------------|---------------|---------------------------------------|----------------|
| <b>2020</b>                     |                |            |                      |               |                                       |                |
| <i>Interest-bearing:</i>        |                |            |                      |               |                                       |                |
| Short-term deposits             | 117,874        | -          | -                    | -             | 19                                    | 117,893        |
| Interest on short-term deposits | 23             | -          | -                    | -             | -                                     | 23             |
| Other financial assets          | -              | -          | 1                    | -             | -                                     | 1              |
| Cash and cash equivalents       | 3,336          | -          | -                    | -             | 3                                     | 3,339          |
| <i>Interest-free:</i>           |                |            |                      |               |                                       |                |
| Cash and cash equivalents       | 34,197         | -          | -                    | -             | -                                     | 34,197         |
| Restricted cash                 | -              | -          | 127                  | 11,512        | -                                     | 11,639         |
| Trade accounts receivable       | 11,081         | 196        | 40                   | 54            | 1,089                                 | 12,460         |
|                                 | <b>166,511</b> | <b>196</b> | <b>168</b>           | <b>11,566</b> | <b>1,111</b>                          | <b>179,552</b> |
| <b>2019</b>                     |                |            |                      |               |                                       |                |
| <i>Interest-bearing:</i>        |                |            |                      |               |                                       |                |
| Short-term deposits             | 76,991         | -          | -                    | -             | 24                                    | 77,015         |
| Cash and cash equivalents       | 3,882          | -          | -                    | -             | -                                     | 3,882          |
| <i>Interest-free:</i>           |                |            |                      |               |                                       |                |
| Cash and cash equivalents       | 70,708         | -          | -                    | -             | 7                                     | 70,715         |
| Restricted cash                 | -              | -          | 127                  | 30            | -                                     | 157            |
| Trade accounts receivable       | 13,002         | 224        | 14                   | 62            | 3,345                                 | 16,647         |
|                                 | <b>164,583</b> | <b>224</b> | <b>141</b>           | <b>92</b>     | <b>3,376</b>                          | <b>168,416</b> |

<sup>12</sup> The amounts with unspecified maturities represent the amounts, which were provided for expected credit losses

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED) (in millions of Tenge, unless stated otherwise)

#### Fair value of financial instruments

Fair value is defined as the amount at which an instrument could be exchanged in a current transaction between knowledgeable willing parties according to arm's length conditions, other than in a forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgement is needed to arrive at a fair value, based on current economic conditions and the specific risks attributable to the instrument.

The following methods and assumptions are used by the Group to estimate the fair value of these financial instruments:

#### Cash and cash equivalents

The carrying value of cash and cash equivalents approximates their fair value due to the short-term maturity of these financial instruments.

#### Financial assets and liabilities

For assets and liabilities maturing within 12 months, the carrying value approximates fair value due to the relatively short-term maturity of these financial instruments.

For financial assets and liabilities maturing in over 12 months, the fair value represents the present value of estimated future cash flows discounted at year-end market rates.

#### Borrowings

The fair value for bank loans was estimated by discounting the scheduled future cash flows of individual loans through estimated maturity using prevailing market rates as at the respective year-end for debt with a similar maturity and credit-rating profile. The Group's bank loans are mostly provided by international financial institutions and foreign banks. Although interest rates on these borrowings are lower than interest rates of private commercial credit institutions in Kazakhstan, they are treated as the market interest rate for this lender category. The fair value of debt securities issued (bonds) has been determined based on market prices at the reporting date.

*Fair value of the Group's financial assets and financial liabilities not regularly measured at fair value (but fair value is mandatorily disclosed).*

As at 31 December 2020 and 2019, the fair value of financial assets and financial liabilities, except for borrowings and debt securities was not significantly different from carrying value. The carrying value and fair value of borrowings and debt securities (bonds) as at 31 December is presented as follows:

|                        | 31 December 2020 |            | 31 December 2019 |            |
|------------------------|------------------|------------|------------------|------------|
|                        | Carrying amount  | Fair value | Carrying amount  | Fair value |
| Other financial assets | 12,608           | 12,608     | 1,103            | 1,103      |
| Borrowings             | 369,440          | 354,281    | 261,764          | 242,106    |
| Debt securities        | 1,200,739        | 1,405,563  | 1,224,342        | 1,294,193  |



## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)  
(in millions of Tenge, unless stated otherwise)

## Fair value hierarchy

The Group estimates fair value using the following fair value estimate hierarchy, taking into account the materiality of data used to generate the given estimates:

- Level 1: quotes on an active market (uncorrected) in relation to identified financial instruments.
- Level 2: data differing from quotes attributable to level 1, and available directly (i.e. quotes) or indirectly (i.e. data generated from quotes). This category includes instruments estimated using market quotes on active markets for similar instruments, market quotes for similar instruments on market not treated as active, or other estimation methods, all of whose data used is directly or indirectly based on observable primary data.
- Level 3: data that is not available. This category includes instruments estimated using information not based on observable primary data. Moreover, any such unobservable data has a significant impact on an instrument's estimation. This category includes instruments estimated based on quotes for similar instruments that require the use of material unobservable quotes or judgements to reflect the difference between instruments.

The table below provides an analysis of financial instruments as at 31 December 2020 broken down into the fair value hierarchy levels.

|   | Level 1          | Level 2        | Level 3    | Total            |
|---|------------------|----------------|------------|------------------|
| <b>Financial assets</b>                                     |                  |                |            |                  |
| Other financial assets at amortised cost                    | -                | 12,507         | -          | 12,507           |
| Other financial assets at fair value through profit or loss | -                | -              | 101        | 101              |
| <b>Total</b>  | <b>-</b>         | <b>12,507</b>  | <b>101</b> | <b>12,608</b>    |
| <b>Financial liabilities</b>                                |                  |                |            |                  |
| Financial liabilities recognised at amortised cost:         |                  |                |            |                  |
| - debt securities   | 1,366,896        | -              | -          | 1,366,896        |
| - debt securities from related parties                      | 38,667           | -              | -          | 38,667           |
| - bank loans  | -                | 268,796        | 461        | 269,257          |
| - loans from related parties                                | -                | 85,024         | -          | 85,024           |
| <b>Total</b>  | <b>1,405,563</b> | <b>353,820</b> | <b>461</b> | <b>1,759,844</b> |

The table below provides an analysis of financial instruments as at 31 December 2019, broken down into the fair value hierarchy levels.

|   | Level 1          | Level 2        | Level 3      | Total            |
|---|------------------|----------------|--------------|------------------|
| <b>Financial assets</b>                                     |                  |                |              |                  |
| Other financial assets at amortised cost                    | -                | 1,030          | -            | 1,030            |
| Other financial assets at fair value through profit or loss | -                | -              | 73           | 73               |
| <b>Total</b>  | <b>-</b>         | <b>1,030</b>   | <b>73</b>    | <b>1,103</b>     |
| <b>Financial liabilities</b>                                |                  |                |              |                  |
| Financial liabilities recognised at amortised cost:         |                  |                |              |                  |
| - debt securities   | 1,265,069        | -              | -            | 1,265,069        |
| - debt securities from related parties                      | 29,124           | -              | -            | 29,124           |
| - bank loans  | -                | 125,849        | 7,623        | 128,472          |
| - loans from related parties                                | -                | 113,634        | -            | 113,634          |
| <b>Total</b>  | <b>1,294,193</b> | <b>239,483</b> | <b>7,623</b> | <b>1,536,299</b> |

## KAZAKHSTAN TEMIR ZHOLY NATIONAL COMPANY JSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)  
(in millions of Tenge, unless stated otherwise)

The fair values of the financial assets and financial liabilities in levels 2 and 3 have been determined using generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the counterparty credit risk.

During 2020 and 2019, there were no transfers between the hierarchy levels.

## 34. EVENTS AFTER THE REPORTING DATE

## Disposal of a subsidiary

On 8 January 2021, the Group, represented by its subsidiary Repair Corporation Kamkor LLP, completed a sale transaction of 95.08% shares in the subsidiary Vostokmashzavod JSC for 100 million tenge. As a result of the sale, the Group lost control over the subsidiary.

## Loans received

In January 2021, the Group, represented by the Company, within the framework of the credit line agreement with Halyk Bank JSC dated 26 February 2015, made an early loan repayment of 25,000 million tenge.

## Temporary ban on receiving freight to People's Republic of China

At the initiative of shippers, including industrial associations of the Republic of Kazakhstan, in March 2021 the Group, represented by its subsidiary KTZ – Freight Transportation LLP, introduced a temporary ban on the acceptance and transportation of goods in the direction of People's Republic of China through the Dostyk crossing station (Note 1):

- from 1 March to 15 March 2021 – all freight, except for freight in containers;
- from 1 March to 20 March 2021 – all grain freight in covered wagons and grain carriers;
- from 1 March to 31 March 2021 – transit freight, except for freight in containers.





# ADDITIONAL INFORMATION



## PRINCIPLES FOR DEFINING THE CONTENT OF THE REPORT AND TOPIC BOUNDARIES

### STAKEHOLDER ENGAGEMENT

For a better understanding of the needs of the state, business and the population, effective feedback and respect for the interests of stakeholders, the Company strives to build a dialogue with all stakeholders on the principles of transparency and information openness.

The stakeholder engagement system is focused on achieving sustainable development

goals and harmonizing the interests of all stakeholders.

The Company sees its social responsibility in being a reliable partner for stakeholders and is guided by the following principles for identifying and selecting stakeholders.



## Dependence

Stakeholders that are highly dependent on the Company's activities.

## Strategic partners

Stakeholders with whom cooperation is important taking into account the strategic prospects of the Company.

## Close attention

Stakeholders requiring the most active response.

## Influence

Stakeholders with a high degree of influence on the activities and performance of the Company.

# MATERIALITY AND COMPLETENESS OF REPORTING

Forming the Report, the Company discloses in detail the issues of economic, social and environmental responsibility. In preparing this Report, the Company was guided by the principles for defining the content of the report recommended by GRI.

The stakeholders were identified taking into account the criteria of independence, group interests and degree of influence. This Report discloses information generated in accordance with the identified expectations of stakeholders.

# REPORTING BOUNDARIES

The Report covers all subsidiaries and affiliates of the Company. It includes financial and non-financial data on all subsidiaries and affiliates of the Company.

# SIGNIFICANT TOPICS AND METHODS FOR TO DETERMINING THEM

In order to form the Report, the Company conducted a survey of stakeholders to determine the materiality of the aspects through an online survey.

The survey was conducted based on the classification of GRI Standards topics and topics identified as material in the previous reporting periods.

Taking into account the specifics of the Company, for the convenience of passing the online survey of stakeholders, the questionnaire was developed in 4 languages: Kazakh, Russian, English, and Chinese.

The survey was conducted among internal and external stakeholders to assess aspects of

sustainable development. Based on the results of the answers, the Materiality Matrix was formed for aspects of sustainable development. The Materiality Matrix provides a visual representation of the topics of sustainable development that are significant both for the Company and for stakeholders. The horizontal axis shows the assessment of the materiality of the aspects for the stakeholders; the vertical axis shows the assessment of the materiality of the aspects for the Company. The topics that received the highest rating of significance for stakeholders and for the Company (upper part of the matrix) were recognized as the most significant and are disclosed in this Report.

# MATERIAL ASPECTS MATRIX



**Economic aspects**

1. Materiality of information on the economic performance of the Company
2. Materiality of customer satisfaction information
3. Materiality of information on indirect economic impacts of the Company on the regions of presence
4. Materiality of information on the Company's procurement practice
5. Materiality of information on the relationship with the regulator

**Social aspects**

6. Materiality of information on the relationship between employees and management
7. Materiality of information on the prevention of corruption
8. Materiality of health and safety information in the workplace
9. Materiality of information on the provision of a social package to employees
10. Materiality of information on labor practice complaint mechanisms
11. Materiality of information on training and professional growth
12. Materiality of information on non-discrimination
13. Materiality of transport safety information

**Environmental aspects**

14. Materiality of information on energy efficiency within the Company
15. Materiality of information on the Company's compliance with environmental obligations
16. Materiality of information on expenditures and investments in environmental protection
17. Materiality of information on the reduction of emissions of greenhouse gases and other pollutants
18. Materiality of legal and regulatory compliance information

## STANDARDS AND GUIDELINES

The information presented in this report is formed in accordance with the GRI (Global Reporting Initiative) Standards, the requirements of the legislation of the Republic of Kazakhstan, the internal requirements and regulations of the Company itself, as well as in accordance with international corporate governance practices.

## EXTERNAL ASSURANCE

This Report has not been independently verified. In the future, the Company plans to introduce a similar reporting verification practice.

The correctness of the data included in the Report is ensured by the existing accounting and information collection systems, as well as by the current internal control procedures.

At the same time, while preparing this Report, a number of relevant inquiries about the impact of the Company on such aspects as the

economy, environment and society were sent to subsidiaries and affiliates. After receiving the information, a draft Report was formed, which was agreed with all interested structural divisions of the Company in accordance with the internal regulations. Before publication, this Report will be submitted to the Management Board of the Company and the Board of Directors of the Company to be agreed and approved.





# INDEX OF GRI STANDARDS DISCLOSURES IN THE REPORT

## GENERAL DISCLOSURES

| Standard and indicators             | Disclosure   | Page in the Report |
|-------------------------------------|--|--------------------|
| GRI 101 (2016): BASES               |  |                    |
| GRI 102 (2016): GENERAL DISCLOSURES |  |                    |
| ORGANIZATION PROFILE                |  |                    |
| 102-1                               | Name of company  | 6                  |
| 102-2                               | Activities, brands, products and services                    | 9                  |
| 102-3                               | Location of headquarters                                     | 279                |
| 102-4                               | Location of the place of business                            | 279                |
| 102-5                               | Ownership and legal form                                     | 279                |
| 102-6                               | Markets served   | 279                |
| 102-7                               | Organization scale   | 24, 30, 34, 136    |
| 102-8                               | Information about employees and other employees              | 101, 144           |
| 102-9                               | Supply chain   | 132                |
| 102-10                              | Significant changes in the organization and its supply chain | 24                 |
| 102-11                              | The precautionary principle or the precautionary approach    | 116                |
| 102-12                              | External initiatives   | 15                 |
| 102-13                              | Membership in associations                                   | 15                 |
| STRATEGY                            |  |                    |
| 102-14                              | Senior Management Statement                                  | 16                 |
| 102-15                              | Key impacts, risks and opportunities                         | 116, 128           |
| ETHICS AND INTEGRITY                |  |                    |
| 102-16                              | Values, principles, standards and norms of behavior          | 112                |
| 102-17                              | Ethics consultation mechanisms                               | 114                |
| CORPORATE GOVERNANCE                |  |                    |
| 102-18                              | Managment structure  | 59, 74             |

|                                      |   |          |
|--------------------------------------|---|----------|
| 102-20                               | Executive management responsibility for economic, environmental and social issues | 74       |
| 102-22                               | Composition of the supreme governing body and its committees                      | 61, 74   |
| 102-23                               | Chairman of the supreme governing body  | 61       |
| 102-24                               | Appointment and selection of members of the highest governing body                | 61       |
| 102-25                               | Conflict of interest  | 108      |
| 102-26                               | Role of the highest governance body in setting goals, values and strategy         | 20       |
| 102-28                               | Evaluation of the work of the supreme governing body                              | 87       |
| 102-29                               | Determination and management of economic, environmental and social impacts        | 116, 128 |
| 102-30                               | Effectiveness of risk management processes  | 116      |
| 102-31                               | Overview of economic, environmental and social topics                             | 74, 116  |
| 102-32                               | Role of the highest governance body in sustainability reporting                   | 273      |
| REMUNERATION POLICY                  |   |          |
| 102-35                               | Remuneration policy   | 99       |
| 102-36                               | Reward determination process  | 99       |
| INTERACTION WITH STAKEHOLDERS        |   |          |
| 102-40                               | List of stakeholder groups  | 271      |
| 102-41                               | Collective agreements   | 149      |
| 102-42                               | Identification and selection of stakeholders                                      | 269      |
| 102-43                               | Stakeholder engagement approach   | 269, 271 |
| REPORTING PROCEDURES                 |   |          |
| 102-45                               | Organizations included in the consolidated financial statements                   | 269      |
| 102-46                               | Defining report content and topic boundaries                                      | 269      |
| 102-47                               | List of essential topics  | 269, 271 |
| 102-49                               | Reporting changes   | 271      |
| GENERAL INFORMATION ABOUT THE REPORT |   |          |
| 102-50                               | Reporting period  | 3        |
| 102-51                               | Date of last report   | 3, 279   |
| 102-52                               | Reporting cycle   | 3        |
| 102-53                               | Contact information for submitting questions about the report                     | 293      |
| 102-54                               | Reporting statements in accordance with GRI Standards.                            | 273      |
| 102-55                               | GRI Content Index   | 274, 276 |
| 102-56                               | External quality control  | 273      |

# DISCLOSURES ON MATERIAL TOPICS

| Standard and indicators                   | Disclosure   | Page in the Report |
|---|--|--------------------|
| ECONOMIC THEMES                           |  |                    |
| GRI 103 (2016): GOVERNANCE APPROACHES     |  |                    |
| 103-1                                     | Explanation of the essential topic and its boundaries  | 271                |
| 103-2                                     | Management approach and its components   | 122                |
| 103-3                                     | Assessment of the management approach  | 58                 |
| GRI 201 (2016): ECONOMIC PERFORMANCE      |  |                    |
| 201-1                                     | Direct economic value generated and distributed  | 127                |
| GRI 202 (2016): MARKET PRESENCE           |  |                    |
| 202-1                                     | The ratio of the standard salary of entry-level employees of different genders to the established minimum salary in significant regions of operation | 151                |
| GRI 203 (2016): INDIRECT ECONOMIC IMPACTS |  |                    |
| 203-1                                     | Development and impact of infrastructure investment and gratuitous services  | 54, 128            |
| 203-2                                     | Significant indirect economic impacts  | 130                |
| GRI 204 (2016): PURCHASING PRACTICES      |  |                    |
| 204-1                                     | Share of spending on local suppliers   | 132                |
| GRI 205 (2016): ANTI-CORRUPTION PRACTICE  |  |                    |
| 205-1                                     | Business units assessed for corruption risks   | 108                |
| 205-2                                     | Communicating and training on anti-corruption policies and practices   | 108                |
| 205-3                                     | Confirmed incidents of corruption and actions taken  | 108                |
| GRI 207 (2019): TAX                       |  |                    |
| 207-1                                     | Tax approach   | 128                |
| ENVIRONMENTAL TOPICS                      |  |                    |
| GRI 302 (2016): ENERGY                    |  |                    |
| 302-1                                     | Energy consumption within the organization   | 176                |
| 302-2                                     | Energy consumption outside the organization  | 176                |
| 302-3                                     | Energy intensity   | 176                |
| 302-4                                     | Reducing energy consumption  | 176                |

|  |  |          |
|--|--|----------|
| GRI 303 (2018): WATER AND DISCHARGES                     |  |          |
| 303-1  | Total water withdrawn by source  | 174      |
| GRI 305 (2016): EMISSIONS                                |  |          |
| 305-1  | Direct greenhouse gas emissions  | 168      |
| GRI 306 (2016): DISCHARGES AND WASTE                     |  |          |
| 306-2  | Waste by type and method of treatment  | 173      |
| GRI 307 (2016): COMPLIANCE WITH REQUIREMENTS             |  |          |
| 307-1  | Compliance with environmental laws and regulations   | 168      |
| SOCIAL TOPICS  |  |          |
| GRI 401 (2016): EMPLOYMENT                               |  |          |
| 401-1  | Newly hired employees and staff turnover   | 139      |
| 401-3  | Maternity/paternity leave  | 145      |
| GRI 402 (2016): RELATIONSHIP OF EMPLOYEES AND MANAGEMENT |  |          |
| 402-1  | Minimum notice period for operational changes  | 149      |
| GRI 403 (2018): WORKPLACE HEALTH AND SAFETY              |  |          |
| 403-1  | Proportion of staff represented on formal joint health and safety committees                             | 158      |
| 403-2  | Occupational injury types and rates, lost days and absenteeism rates, and total number of fatalities     | 156, 161 |
| 403-3  | Workers with a high injury rate and a high risk of morbidity   | 158, 161 |
| 403-4  | Reflection of health and safety issues in formal agreements with trade unions                            | 158      |
| GRI 404 (2016): TRAINING AND EDUCATION                   |  |          |
| 404-1  | Average annual number of training hours per employee   | 152      |
| 404-2  | Skills development and education programs and career end support programs                                | 151      |
| 404-3  | Percentage of employees for whom periodic performance and career development assessments are carried out | 146      |
| GRI 405 (2016): VARIETY AND EQUAL OPPORTUNITY            |  |          |
| 405-1  | Diversity of corporate governance bodies and employees   | 136      |
| 405-2  | Base salary ratio for men and women  | 150      |
| GRI 412 (2016): Human rights assessment                  |  |          |
| 412-2  | Employee training in human rights policies and procedures  | 106      |



GLOSSARY

|                                    |  |
|------------------------------------|--|
| GDP                                | gross domestic product is a macroeconomic indicator that reflects the market value of all final goods and services (that is, intended for direct use, use or application) produced during the year in all sectors of the economy on the territory of the state for consumption, export and accumulation, regardless of the nationality of the factors of production used gross domestic product is a macroeconomic indicator that reflects the market value of all final goods and services (that is, intended for direct use, use or application) produced during the year in all sectors of the economy on the territory of the state for consumption, export and accumulation, regardless of the nationality of the factors of production used. |
| Freight turnover                   | an economic indicator of the operation of transport (an indicator of the volume of cargo transportation), equal to the product of the mass of the cargo transported for a certain time by the distance of transportation.<br><br>Cargo turnover is measured in ton-kilometers.   |
| Lost time incident frequency ratio | determines the number of cases of loss of working time, attributed to the total working time worked in the department or at the enterprise for the year, and normalized by 1 million people/hour.  |
| MZhS                               | main railway network.  |
| Operating profit                   | the profit of the enterprise from the main activity, equal to the difference between net revenue (revenue less cost) and expenses for the main activity (the latter include direct and operating expenses) or, what is the same, between gross profit and operating expenses.  |
| Passenger turnover                 | the indicator of the reflection of the volume of passenger traffic in passenger-kilometers is calculated as the product of the number of passengers by the distance of transportation.   |
| Expanded length of main tracks     | the sum of the length of all the main paths (first, second, third, etc.).  |
| CMI                                | mass media.  |
| FER                                | Fuel and energy resources.   |
| Energy intensity                   | The indicator of the reduction in the specific consumption of fuel and energy resources per unit of production (work).   |
| Service length                     | The length of railway lines between stations, excluding such tracks as the second main lines, station lines, etc.  |
| EBITDA                             | An analytical indicator equal to the amount of profit before deduction of expenses on interest payments, taxes, depreciation and amortization accrued.   |
| EBITDA margin                      | A measure of a company's profitability calculated as the ratio of EBITDA to revenue.   |

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