

**Report
of NC KTZ JSC according to the recommendations
of the Task Force on Climate Related Financial Disclosures (TCFD)**

Task Force on Climate-related Financial Disclosures (TCFD)

Corporate governance

The role of the Board of Directors and senior management in managing climate risks and opportunities.

TCFD Recommendation

(a) The role of the Board of Directors in managing climate risks and opportunities

Disclosure of information

The Board of Directors plays an important role in managing climate risks and opportunities, especially in the context of the growing global challenge of climate change. The role of the Board of Directors in managing climate risks and opportunities is carried out at the strategic level. Thus, in 2023, the Board of Directors approved the Development Strategy of NC KTZ JSC until 2032, which includes an important initiative of the Company to reduce the carbon footprint. To assess the success of the Company and its contribution to solving the global problem of climate change, key performance indicators (KPIs) with targets up to 2032 have been established. In order to achieve the set goals, the Company adopts a Plan for the implementation of the Development Strategy of NC KTZ JSC until 2032, which includes measures to achieve the Company's carbon neutrality. The Board of Directors oversees the implementation of the Plan on an annual basis.

Also, the Company adopts a business plan, which is one of the main tools for implementing the Strategy and sets out the Company's financial plans for a five-year period and includes the costs of implementing environmental protection measures, including measures to achieve carbon neutrality. The business plan also includes capital expenditures, including the development of design and estimate documentation for dredging the water area of the ports of Aktau and Kuryk, the purchase of new locomotives, etc. The business plan is approved by the Board of Directors and on a quarterly basis, a report on the implementation of the business plan (CFO report) is submitted for consideration by the Board of Directors and the Strategy and Finance Committee to assess the current state of implementation.

At the same time, the Board of Directors and **the Audit Committee** functioning under it oversees the effectiveness of risk management, including climate risks. The Register and Risk Map of NC KTZ JSC are developed and approved annually by the decision of the Board of Directors. These tools help to clearly identify and analyze risks, including risks associated with climate change. The Company also prepares a consolidated risk report on a quarterly basis. This Report is an important tool for informing and making decisions by various key stakeholders, among the main users of the Report are the Board of Directors, the Audit Committee, the Company's Management Board and risk owners.

In addition, there is **a Safety and Environmental Protection Committee** under the Board of Directors, whose competence includes consideration of issues in the field of environmental protection and sustainable development.

The results of the assessment of the effectiveness of sustainable development, which reflects the Company's performance indicators in the field of sustainable development, including indicators of the environmental aspect and climate change, are submitted annually for consideration by this Committee.

Task Force on Climate-related Financial Disclosures (TCFD) *(continued)*

Corporate governance (continued)

The role of the Board of Directors and senior management in managing climate risks and opportunities.

TCFD Recommendation	Disclosure of information
<p>(b) The role of Senior management in managing climate risks and opportunities.</p>	<p>The role of senior management in managing climate risks and opportunities is critical to the Company's successful adaptation to climate change and implementation of sustainable practices. The implementation of the Company's climate management system is carried out through the assignment of relevant responsibilities to senior management positions.</p> <p>According to the Policy of NC KTZ JSC on Risk Management and Internal Control, the Company's Management Board ensures the creation and maintenance of an effective risk management and internal control system. The Management Board distributes powers, responsibilities and responsibility for specific risk management and internal control procedures among the managers of the following level and/or heads of structural divisions/owners of business processes and/or owners/executors of control procedures.</p> <p>The structure of the risk management system in the Company is represented by risk management at several levels of management involving the following bodies and divisions of the Company: the Board of Directors, the Committees of the Board of Directors, the Management Board, the Management Board Committees, the Internal Audit Service, the structural unit responsible for the implementation of corporate information security policy and other structural units. The risk management structure ensures an adequate flow of information – vertically and horizontally. At the same time, the information coming from the bottom - up provides the Board of Directors and the Management Board of the Company with information: about current activities; about the risks taken in the course of activities, their assessment, control, response methods and the level of their management. The information sent from top to bottom ensures that the goals, strategy, and desired culture are brought through the approval of internal documents and instructions. The horizontal transmission of information implies the interaction of structural divisions within the Company and the interaction of the Risk Division with structural divisions responsible for risk management and internal control in subsidiaries. If a significant risk is detected that was not previously included in the Register, the risk owner must inform the Risk Division about it. The risk division analyzes the information received and, if necessary, includes a new risk in the Risk Register.</p> <p>In addition, the Chairman of the Management Board provides general management of the activities of NC KTZ JSC to improve risk management systems, internal control and business continuity management of NC KTZ JSC, the Deputy Chairman of the Management Board manages the activities of NC KTZ JSC in the following areas improving environmental and energy management systems for the group of companies NC KTZ JSC, development and implementation of a low-carbon development program, as well as development, implementation, updating of integrated energy saving and energy efficiency programs in NC KTZ JSC and monitoring their implementation, etc. The Chief Engineer – Director of the Technical Policy Department periodically reports to the Company's management, disclosing assessment and management related to climate, which includes the development of strategies to reduce the carbon footprint, encouraging the use of environmentally friendly technologies and monitoring the impact on the environment. Also an important part of its work is to ensure compliance with relevant standards and legislation aimed at sustainable business. The Company has a structural unit under the leadership of the Director of the Risk Department responsible for risk management, including climate and internal control, which organizes the functioning of the risk management system, ensures the development and updating of local regulations in the field of risk management and internal control, provides methodological support to other structural units in terms of identifying and assessing risks and provides recommendations.</p>

Task Force on Climate-related Financial Disclosures (TCFD) *(continued)*

Strategy

Disclosure of information about the actual and potential impact of risks and opportunities associated with climate change on the Company's activities, strategy and financial planning in cases where it is significant.

TCFD Recommendation

Disclosure of information

(a) Description of climate risks and opportunities that the Company identifies in the short, medium and long term

Physical climate risks identified in the short, medium and long term are described in the section "Climate change risks" of the Integrated Annual Report of NC KTZ JSC for 2022 (https://railways.kz/articles/for-investors/godovye_otcheti).

The most significant opportunity associated with climate change for our Company may be an increase in the volume of railway cargo transportation. Climate change, causing changes in weather conditions, can lead to an increase in demand for rail transportation, which is considered a more sustainable and environmentally friendly way of delivering goods, which will lead to an increase income.

It should also be noted that with the active development of alternative energy sources, in response to climate change, we may have access to cheaper energy, which in turn may reduce our operating costs. Reducing energy costs will have a positive impact on the financial stability and growth of the Company.

In order to conduct a full analysis of the impact of climate change on the financial performance of the Company, additional research and data collection are required. However, the aforementioned factors, such as the growth of rail freight traffic and access to cheaper energy, represent potentially significant opportunities for our Company in the context of climate change.

(b) The impact of climate risks and opportunities on the Company's business, strategy and financial planning

The risks of climate change can have a significant financial impact on the Company in the following:

- increase in operating costs;
- reduced revenue as a result of reduced traffic volumes;
- the costs of switching to lower-emission technologies.

The risks associated with climate change may have an impact on the implementation of the Development Strategy of NC KTZ JSC until 2032, in particular, the risk of shallowing of the Caspian Sea affects the goal of "Development of transit traffic", as the shallowing of the Caspian Sea may have a negative impact on transit and export shipments of goods that pass through the ports of the Caspian countries. Lowering the water level can lead to limiting the depth of the channels, which will make it difficult for large vessels to pass and reduce traffic volumes. The Company's measures to reduce the consequences of the risk of shallowing of the Caspian Sea can be found in the "Threat of shallowing of the Caspian Sea" of the Integrated Annual Report of NC KTZ JSC for 2022 (https://railways.kz/articles/for-investors/godovye_otcheti). To ensure reliable protection of the objects of the main railway network from adverse weather conditions, the Company uses forest plantations. In order to maintain the protective qualities and durability of the plantations, the current maintenance of the plantations is carried out (logging, clearing of clutter, plowing of inter-lane intervals), as well as work is carried out on the plowing of the right-of-way and forest plantations to ensure the safety of the infrastructure facilities of NC KTZ JSC during the fire season.

According to the Business Plan of NC KTZ JSC for 2023-2027, expenses in the amount of 24 million tenge are provided for reforestation and landscaping of territories. Information on the impact of physical climate risks on the Company's activities can be found in the "Climate change Risks" section of the Integrated Annual Report of NC KTZ JSC for 2022 (https://railways.kz/articles/for-investors/godovye_otcheti).

The risk map and register approved by the Board of Directors on February 9, 2023 includes environmental and climate risks (ESG):

- The risk of a drop in the Caspian Sea level;
- Risks associated with changes in the physical parameters of the climate;
- Ecology;
- Environmental pollution;
- Changes in environmental legislation;
- The impact of climate change due to global warming;
- The risk of exposure to weather conditions.

Task Force on Climate-related Financial Disclosures (TCFD) *(continued)*

Strategy (continued)

Disclosure of information about the actual and potential impact of risks and opportunities associated with climate change on the Company's activities, strategy and financial planning in cases where it is significant.

TCFD Recommendation

Disclosure of information

(c) Scenario analysis of the stability of the strategy, including a scenario involving a temperature increase of 2°C or less

The water level in the Caspian Sea is on the decline due to the insignificant amount of precipitation and the decreased volume of the Volga River inflow.

In the period from 1978 to 1995, the water level in the Caspian Sea increased. The average intensity of the level rise was about 14 centimeters per year, and in some years it reached 36 centimeters. However, after 1995, this process slowed down, and starting in 1999, the level of the Caspian Sea began to decline.

A decrease of more than one meter (-2.5 meters) had a serious impact on the coastline of the Caspian Sea, especially in the Kazakh part, which is explained by the fact that in this area of the sea the slopes of the bottom and adjacent land are small, so even small changes in sea level lead to serious flooding or drainage of the coast. During this period, the area of the water surface of the sea has decreased by more than 22 thousand square kilometers, half of which falls on the Kazakh part of the Northern Caspian.

These changes in the level of the Caspian Sea are largely related to climate change. In the period from 1999 to 2020, little precipitation fell on the Caspian Sea, and evaporation processes were more intense. Also, the reduction in the inflow of water from the Volga River was caused by low-water periods. The main reason for this lack of water is the warming of the climate, which has covered the entire northern hemisphere.

The change in the water level in the Caspian Sea creates several serious environmental problems

- reduction of the area of the water intake channel, which can lead to an acute shortage of water for the life support of the population, especially in the Mangystau region;
- the shallowing of the floodplain of the Zhaiyk River and the reduction of spawning grounds, which in turn affects the population of sturgeon fish;
- the shallowing of the warm lake Karakol and the threat to red-book birds, including swans, pink flamingos, golden eagles and other species arriving for the winter;
- reduction of the water level in the water area of seaports, which requires dredging and can have a significant impact on marine ecosystems in the area of seaports.

Due to the decrease in the level of the Caspian Sea, the ports of Aktau and Kuryk faced serious challenges. At the moment, the sea level has decreased by 1.28 m compared to the design mark, and according to the operational data of RSE "Kazhydromet", an annual decrease in the level of the Caspian Sea is expected by 20 cm. This has already led to problems in the operation of lifting bridges No. 1 and No. 2 in the port of Kuryk, as well as incomplete loading of vessels.

The analysis of the fall of the Caspian Sea takes into account the following parameters:

- the level of the sea surface of the Caspian Sea, which is regularly reflected in the weekly reports of Kazhydromet;
- project loading of vessels;
- the actual average loading of ships, calculated on the basis of real data on cargo transshipment in the port;
- the average depth of the water area in the port of Kuryk, which is -35 meters (in accordance with the Baltic coordinate system);
- the average depth of the water area in meters, calculated as the difference between the level of the sea surface and the depth of the water area according to the Baltic coordinate system.

According to the analysis, the situation is expected to worsen by 2030, as the insufficient depth of the water area will become more critical, which may lead to restrictions for ships.

Task Force on Climate-related Financial Disclosures (TCFD) *(continued)*

<p>Risk management</p> <p>Processes of identification, assessment and management of climate-related risks.</p>	
<p>TCFD Recommendation</p>	<p>Disclosure of information</p>
<p>(a) Description of the company's processes for identifying and assessing climate-related risks</p>	<p>Climate-related risk management is carried out within the framework of a corporate risk management system and is a process of developing and implementing measures to reduce the negative effect and the likelihood of losses or to receive financial compensation in the event of losses associated with the risks of the Company's activities.</p> <p>The reduction and control of climate risks in the Company is carried out by analyzing established business processes (the Company's own operations) and developing appropriate action plans for their improvement, the introduction of an internal control system. For climatic risks at work, risk reduction and control is carried out by observing the rules of occupational safety and health, rules for environmental safety, rules of work at work.</p> <p>If the methods used to reduce and control risks are associated with costs and these costs are significant, the following analysis is carried out:</p> <ul style="list-style-type: none"> – to what extent are these measures necessary, and can they be reduced by retaining and/or financing (transferring) risks; – what is the opportunity cost of the cost of activities compared to the cost of retaining/transferring risks. <p>The Company's Risk Management and Internal Control Policy has been supplemented in terms of ESG risks.</p> <p>According to the Policy within the framework of Sustainable Development, at all stages of Policy implementation, the Company pays special attention to environmental, social and management risks (ESG risks).</p>
<p>(b) Description of the company's processes for managing climate-related risks</p>	<p>The Company defines risk response methods and develops a critical risk management plan.</p> <p>The choice of risk response methods and the development of risk management action plans to ensure an acceptable level of residual risk includes the following response strategies:</p> <ul style="list-style-type: none"> – risk reduction and control - impact on risk by using preventive measures and planning actions in case of risk realization, which includes changing the degree of probability of risk realization in the direction of reduction and changing the causes or consequences of risk realization in order to reduce the level of possible losses; – retention/ acceptance of risk, implying that its level is acceptable, and the possibility of its manifestation is accepted, it is also possible to accept residual risk after applying measures to minimize it; – risk financing - transfer/sharing of risk or partial transfer of risk to another party, including the use of various mechanisms (conclusion of contracts, insurance agreements, definition of structure), allowing the separation of responsibilities and obligations;

Task Force on Climate-related Financial Disclosures (TCFD) *(continued)*

Risk management (continued)

Processes of identification, assessment and management of climate-related risks.

TCFD Recommendation	Disclosure of information
(b) Description of the company's processes for managing climate-related risks (continued)	<ul style="list-style-type: none"> – withdrawal (evasion) risk aversion/risk avoidance by deciding against continuing or taking an action that is the source of the risk; – subsequent impact is a strategy that provides for the impact on the consequences of the implementation of a risky event. This strategy is usually applied to risks characterized by a low level of manageability and/or a low probability of implementation. This type of strategy may include insurance, risk hedging, as well as the development of contingency plans, business continuity plans. <p>Proposals for risk management strategies, methods and plans are submitted by the risk owners and are included in the risk management action plan.</p>
(c) Description of the integration of the processes of identification, assessment and management of climate risks into the overall risk management of the company.	<p>ESG risk management, including risks related to the Company's climate, consists of the following elements</p> <ol style="list-style-type: none"> 1) adoption of corporate governance necessary for effective CSR and VC; 2) understanding the business context and Company strategy; 3) identification of ESG risks; 4) assessment and ranking of ESG risks; 5) response to ESG risks; 6) review and revision of ESG risks; 7) communication and reporting on ESG risks.

Task Force on Climate-related Financial Disclosures (TCFD) *(continued)*

Metrics and targets

Indicators and goals used to assess and manage climate risks and opportunities.

TCFD Recommendation	Disclosure of information
(a) Indicators used to assess climate risks and opportunities as part of the risk management strategy and process	<p>Key indicators that the Company uses to assess climate risks:</p> <ul style="list-style-type: none"> - The volume of emissions into the environment; - Volumes of emissions, discharges of pollutants; - The amount of greenhouse gas emissions in the period (scope 1, 2);CO2 emission intensity; - Volume of SO2, NOx emissions from stationary sources; - The volume of consumption of fuel and energy resources (TER);Efficiency of specific consumption of fuel and energy resources per unit of work; - Waste volumes, including the volume of recycled waste. <p>The data can be found in the "Environmental Responsibility" of the Integrated Annual Report of NC KTZ JSC for 2022 (https://railways.kz/articles/for-investors/godovye_otcheti).</p> <p>It is worth noting that a number of these indicators are included in the corporate and functional performance indicators (KPIs) of the Company's management, the performance of which affects remuneration based on the results of work for the reporting period. Thus, the corporate efficiency for 2023 includes the "Carbon Footprint" efficiency, the "Carbon Footprint" efficiency, which is aimed at ensuring that the Company contributes to achieving carbon neutrality, reduces greenhouse gas emissions and moves to more environmentally sustainable development, the "Specific consumption" efficiency is included in the functional efficiency of the Managing Director for Production Processes diesel fuel according to KTZ-Freight transportation LLP, which is aimed at reducing the consumption of diesel fuel for the traction of trains of KTZ-Freight transportation LLP. Also to the Chief Engineer-Director of the Department of Technical Policy – Efficiency "Energy efficiency Level", the purpose of which is to increase the energy efficiency of the Company.</p>
(b) Scope 1, 2 and, if necessary, Coverage 3 of greenhouse gas emissions and associated risks	<p>Emission indicators for Coverage 1 and 2 are presented in the section "Environmental Responsibility" of the Integrated Annual Report of NC KTZ JSC for 2022 (https://railways.kz/articles/for-investors/godovye_otcheti). Currently, the Company does not keep records of emissions by Coverage 3, but we are considering the possibility of disclosing this indicator in the future.</p>
(c) Objectives used by the organization to manage climate risks and opportunities and performance in relation to the target indicators	<p>The Development Strategy of NC KTZ JSC until 2032 defines short-term, medium-term and long-term goals in the field of risk management and opportunities associated with climate change - efficiency "Carbon footprint" with targets until 2032:</p> <p>Short-term (until 2025) - (-2.5)% compared to the previous year;</p> <p>Medium-term (until 2027) - (-3.2)% compared to the previous year;</p> <p>Long-term (until 2032) - >(-3.5)% compared to the previous year.</p> <p>In addition, as part of the implementation of the strategic goal to reduce the carbon footprint, the Company adopted the Concept of Low-carbon Development of NC KTZ JSC and its subsidiaries until 2060.</p> <p>The concept provides for the key directions and objectives of the Company for the possible achievement of carbon neutrality by 2060. Additional information on greenhouse gas emission targets within the framework of the Low-carbon Development Concept of NC KTZ JSC until 2060 can be found on page 112 of the Integrated Annual Report of NC KTZ JSC for 2022.</p>