



САМУРЫК  
ҚАЗЫНА



The Future is today

Annual report  
Part I

**2017**



**САМУРЫК**  
КАЗЫНА



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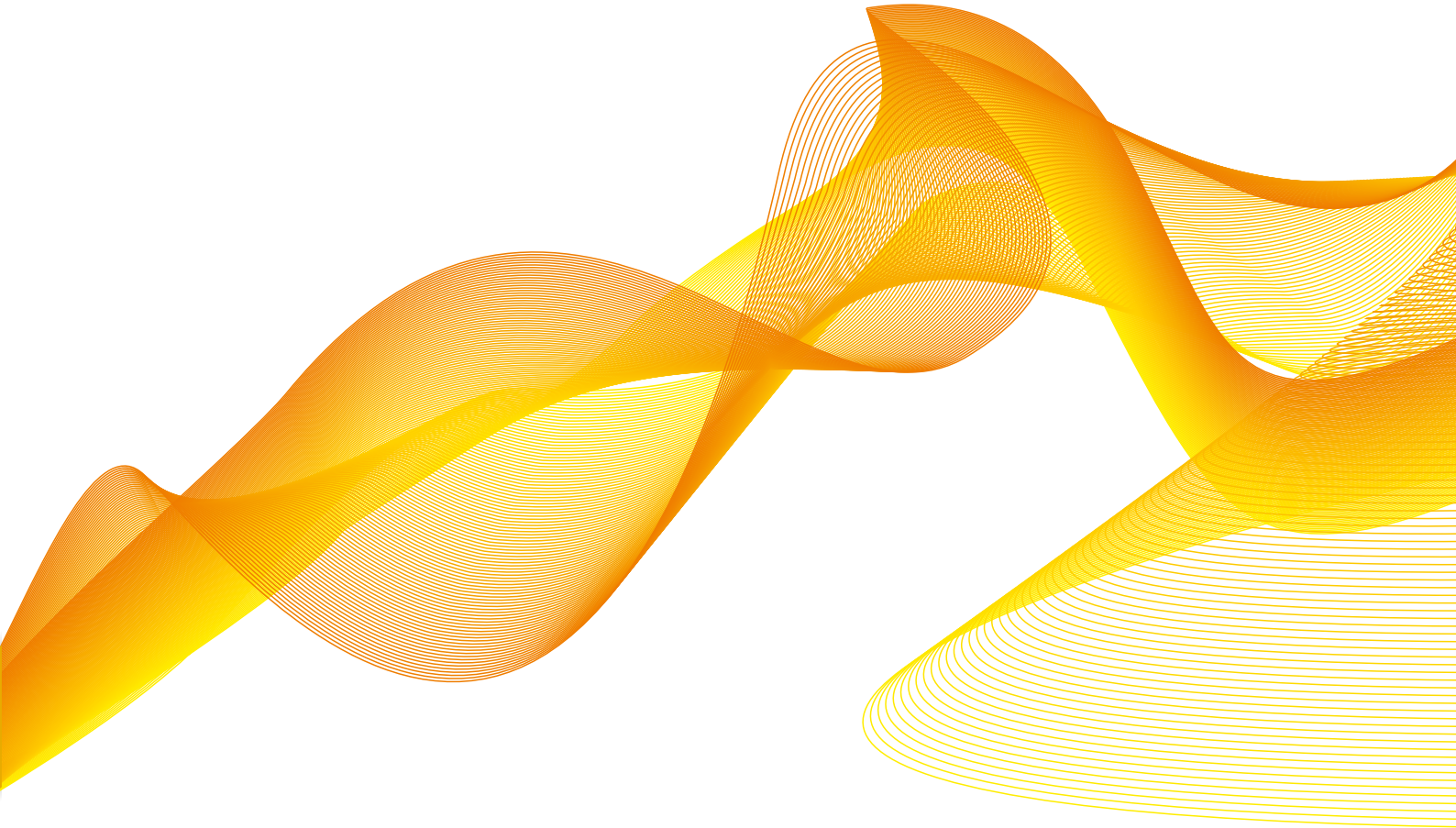


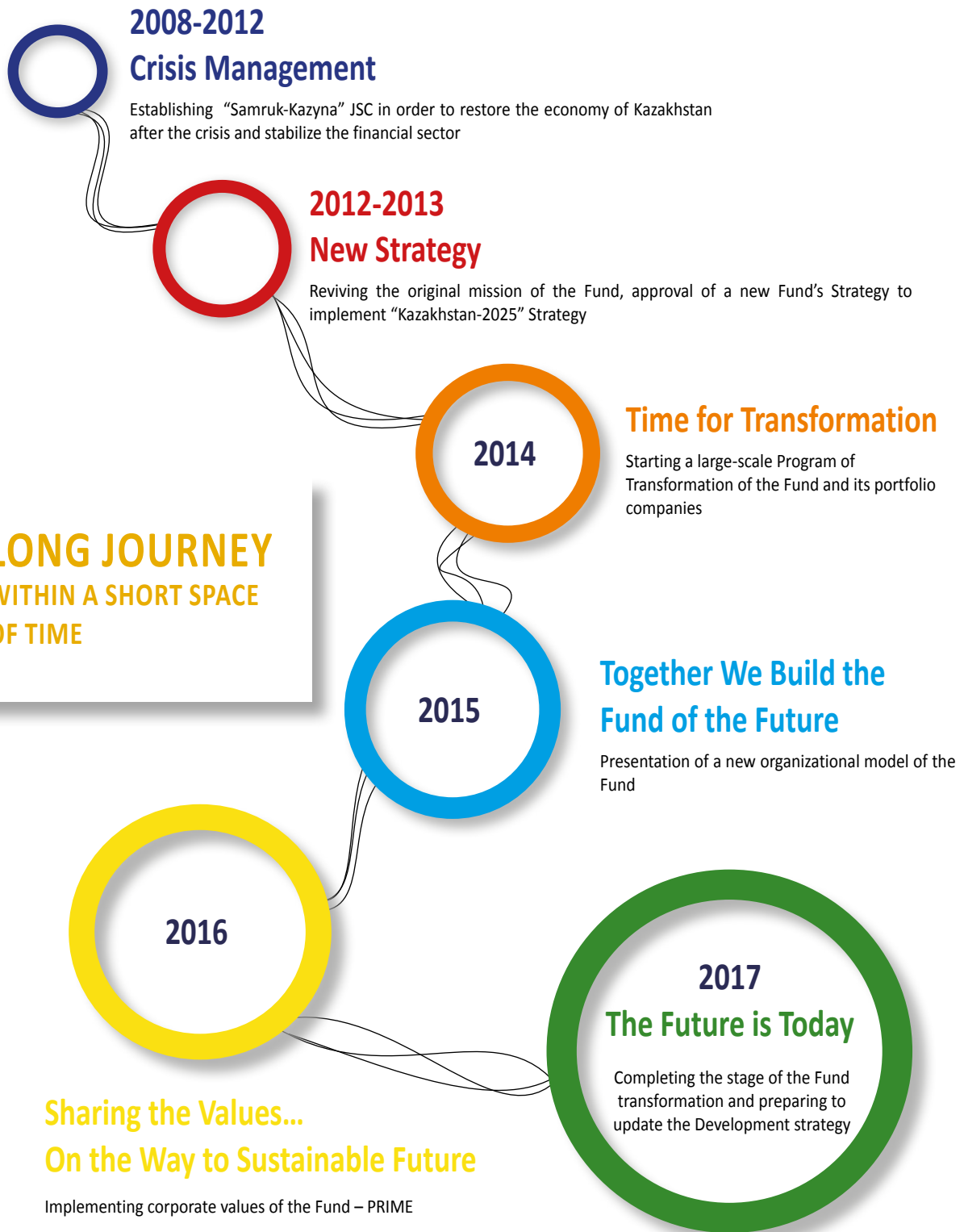


# OVERVIEW

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Welcome address by the Chairman of the Board of Directors  
Welcome address by the Chairman of the Management Board





**Sovereign Wealth Fund Samruk-Kazyna Joint Stock Company** is the Fund, where the sole shareholder is the Government of the Republic of Kazakhstan, and whose Mission is to improve the national welfare of the Republic of Kazakhstan and ensure long-lasting sustainability of the future generations.

**The Fund** fulfils its **Mission** through the efficient management of its assets portfolio, enhancement of the performance of the companies for increasing their long-term value and sustainable development.

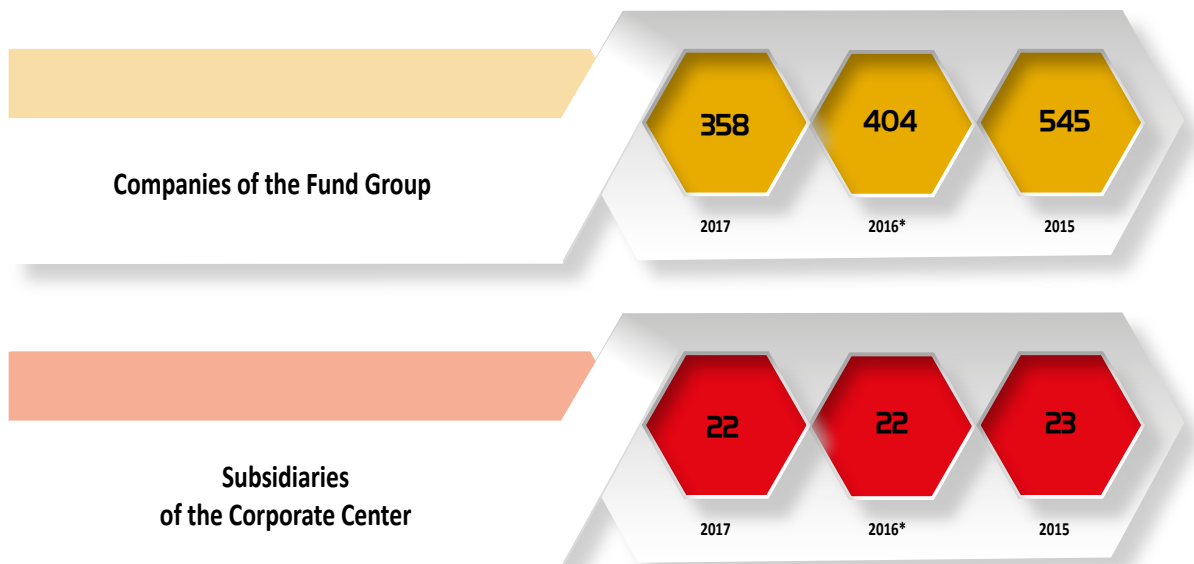
#### **Vision of the Fund and criteria of performance assessment**

In the long term, we see **the Fund** as an investment holding company having high financial performance, return on investment and a developing portfolio at the level of the leading sovereign wealth funds.

To achieve the vision of the Fund and fulfill its strategic objectives, the Fund focuses on the implementation of the four strategic initiatives:

- ▶ Improving profitability of the companies
- ▶ Streamline portfolio structure
- ▶ Income diversification
- ▶ Corporative governance and sustainability.


## Structure of the Fund Group




*\*In accordance with the Methodology of Classification of Legal Entities, whose shares (share ownerships) directly or indirectly belong to Samruk-Kazyna JSC, approved by Decision No. 08/17 of the Fund's Management Board dated March 7, 2017.*




## List of companies included in the consolidated financial statements as of December 31, 2017

	Ownership ratio	
	2017	2016
 National Company "KazMunayGas" JSC and subsidiaries	90,09%	90 %-1
"KMG Kashagan" B.V.	100 %	100 %
SEGMENT	OIL AND GAS	


	Ownership ratio	
	2017	2016
 National Atomic Company "Kazatomprom" JSC and subsidiaries	100 %	100 %
National Mining Company "Tau-Ken Samruk" JSC and subsidiaries	100 %	100 %
SEGMENT	MINING	

	Ownership ratio	
	2017	2016
 National Company "Kazakhstan Engineering" JSC and subsidiaries	100 %	100 %
"United Chemical Company" LLP and subsidiaries	100 %	100 %
SEGMENT	INDUSTRIAL	


## List of companies included in the consolidated financial statements

	Ownership ratio	
	2017	2016
 "Samruk-Energy" JSC and subsidiaries	100 %	100 %
"Kazakhstan Electricity Grid Operating Company" JSC ("KEGOC") and subsidiaries	90% + 1	90% + 1
"KOREM" JSC	100 %	100 %


SEGMENT | ENERGY

	Ownership ratio	
	2017	2016
 "Kazpost" JSC and subsidiaries	100 %	100 %
"Kazakhtelecom" JSC and subsidiaries	51 %	51 %

SEGMENT | COMMUNICATION

	Ownership ratio	
	2017	2016
 National Company "Kazakhstan Temir Zholy" JSC and subsidiaries	100 %	100 %
"Air Astana" JSC	51 %	51 %
"International Airport Atyrau" JSC	100 %	100 %
"International Airport Aktobe" JSC	100 %	100 %
"Airport Pavlodar" JSC	100 %	100 %
"Qazaq Air" JSC	100 %	100 %
Aviation Company "Air Kazakhstan" JSC	53,55 %	53,55 %

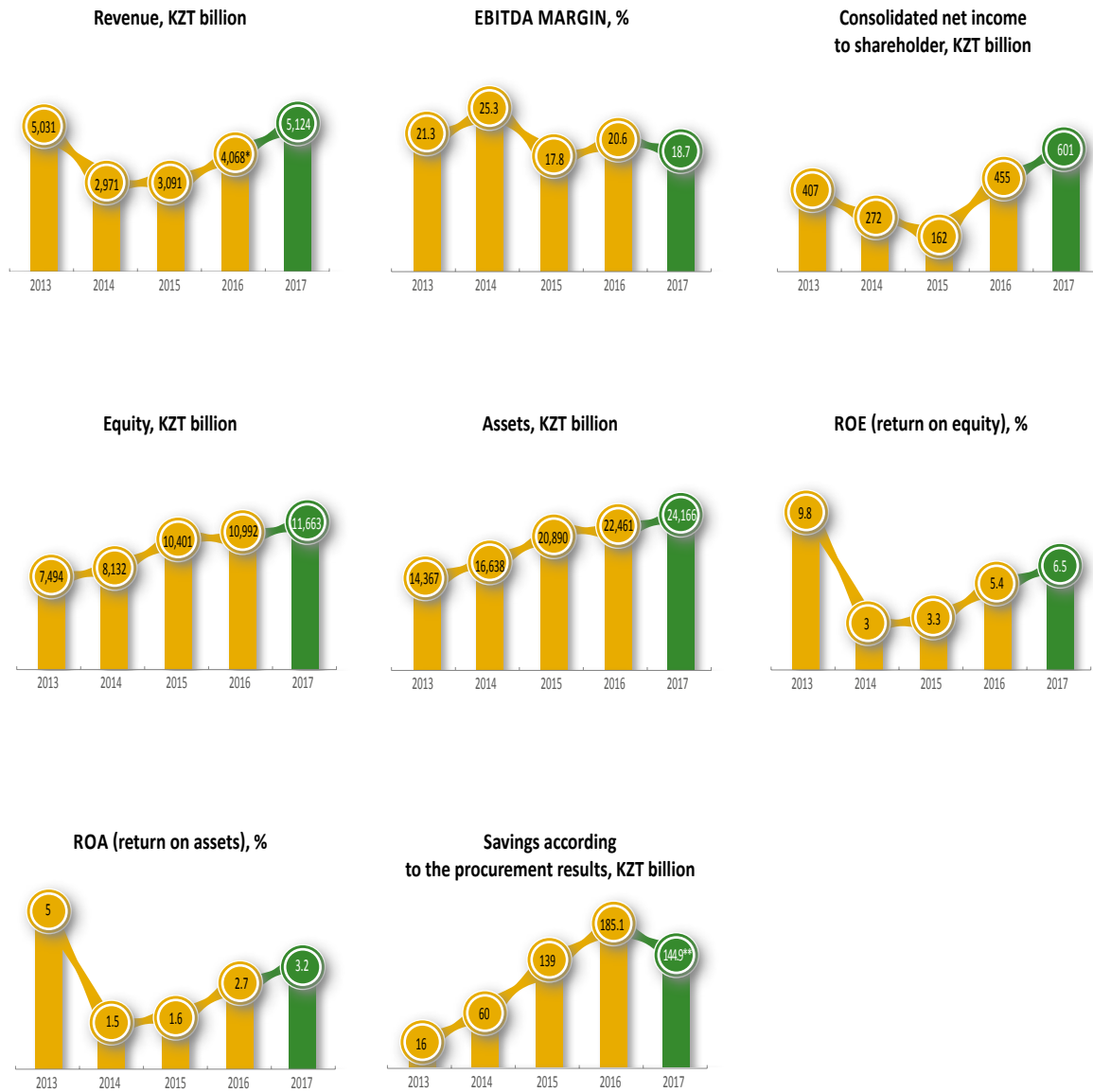
SEGMENT | TRANSPORTATION

	Ownership ratio	
	2017	2016
 "Real Estate Fund "Samruk-Kazyna" JSC and subsidiaries	100 %	100 %
"Samruk-Kazyna Invest" LLP	100 %	100 %
"Samruk-Kazyna Contract" LLP	100 %	100 %
"Samruk-Kazyna Business Service" LLP and subsidiaries	100 %	100 %

SEGMENT | OTHER

## Key Performance Indicators

### Financial Indicators



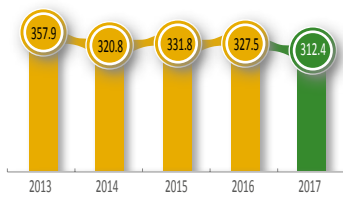
\* recalculated

\*\*the savings achieved in 2017 following the results of competitive procurement, including the single-source procurement method for failed competitive procurement.

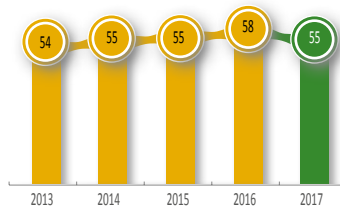


Non-Financial Indicators

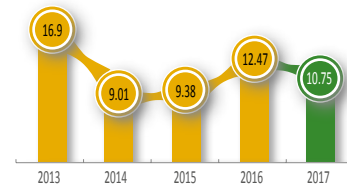
Headcount within the Group of Fund, thousand people



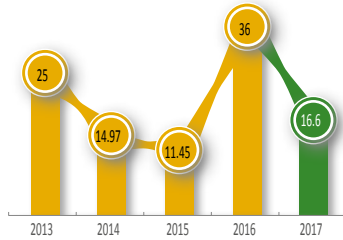
Personnel engagement degree within the Group of Fund, %



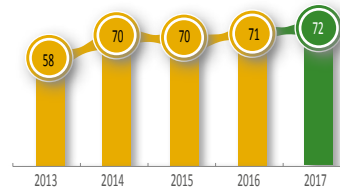
Personnel turnover within the Group of Fund, %



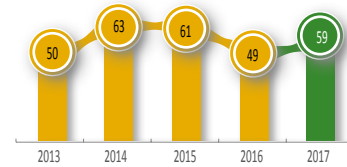
Personnel turnover within the Fund, %



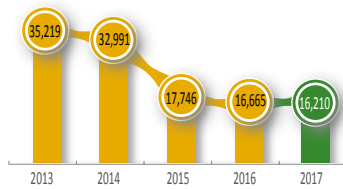
Social stability rating, %



Personnel engagement degree within the Fund, %



Sponsorship and Charity contributions, KZT million



## WELCOME ADDRESS BY THE CHAIRMAN OF THE BOARD OF DIRECTORS



**The Chairman of the Board  
of Directors of  
Samruk-Kazyna JSC -  
The Prime Minister of  
The Republic of Kazakhstan**

**Mr Bakytzhan SAGINTAYEV**

**Dear colleagues, partners, investors!**

Kazakhstan enters the era of the Fourth Industrial Revolution guided by the main task set by the President of the Republic of Kazakhstan N.A. Nazarbayev – creation of a new model of economic growth that would ensure global competitiveness of the state.

Samruk-Kazyna JSC plays an important role in completing this task and ensuring sustainable development of the national economy of Kazakhstan consolidating the largest national production assets for more than USD 72 billion in key sectors of economy – fuel and energy, transport and logistic, chemical, mining and metallurgical, engineering and real estate.

The Holding was rather successful in closing 2017.

The net consolidated profit of Samruk-Kazyna JSC for the share of the shareholder increased by 32% in comparison with the previous year and amounted to KZT 601 billion.

The consolidated assets of the Holding group increased by KZT 1.7 trillion (7.6%) and reached KZT 24.2 trillion.

The Holding paid taxes and payments to the budget in the amount of KZT 787.6 billion which exceeds by 29% the results of 2016.

In 2017 Samruk-Kazyna JSC successfully completed business process reengineering of the Corporate center, approved a new Investment Policy reflecting a new role of the Fund as an investment holding.

Six largest companies of the Fund – NC KazMunayGas JSC, NC Kazakhstan Temir Zholy JSC, NAC Kazatomprom JSC, Kazpost JSC, KEGOC JSC, Samruk-Energy JSC which are the core of the national economy have started the active phase of transformation and fundamental changes connected with modernization of operational models and business processes of the companies, management structures and have been preparing the companies to the IPO.

The total portfolio of transformation projects realized by the above-stated companies in 2017 included more than 80 projects. Net economic effect of implementation of these projects in 2017 made more than KZT 40 billion.

All these are the most important steps for further development of Samruk-Kazyna JSC as a world-class sovereign fund.

The Fund continues to implement the Comprehensive Privatization Plan for 2016-2020. The main focus is the transfer of TOP-65 large and complex assets to the competitive environment as a result of which the Fund has raised additional KZT 94 billion.

In general, the measures taken by the Fund have a positive impact on the development of the national economy. It is confirmed by the stable level of the international rating of investment reliability of Kazakhstan and WEF rating on the level of global competitiveness of the world countries where Kazakhstan is ranked 55th.

The Government will continue to support the strategy of Samruk-Kazyna JSC aimed at improving the national welfare of the Republic of Kazakhstan and assisting in modernization of the national economy.

Welcome address by the Chairman of the Board of Directors

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## WELCOME ADDRESS BY THE CHAIRMAN OF THE MANAGEMENT BOARD



**Chairman of the Management  
Board of Samruk-Kazyna JSC**

**Mr Akhmetzhan YESSIMOV**

### **Ladies and Gentlemen!**

In 2017, Samruk-Kazyna JSC showed growth in all key strategic indicators and completed the year with a positive financial result. Consolidated net profit to shareholder by the end of 2017 was KZT 601 billion exceeding the indicator of 2016 by KZT 146 billion.

The Fund is systematically working on improvement of corporate governance and, as a result, increasing the economic efficiency of portfolio companies.

In 2017, the Boards of Directors of NC Kazakhstan Temir Zholy JSC, Kazpost JSC, NAC Kazatomprom JSC, KEGOC JSC, NC KazMunayGas JSC, Samruk-Energy JSC were updated by attracting the best international experts with relevant industry expertise and experience in international listed companies, which is especially important in view of the upcoming IPO.

The new Investment Policy of the Fund was approved which was developed in compliance with the best practice of managing the investment activity of sovereign wealth funds. Industrial automation and innovation, agribusiness and food processing, infrastructure and logistics are identified as priority sectors for investment.

As of the beginning of 2018, the Fund group had 358 companies in total. As a result of the Comprehensive Privatization Plan, 129 legal entities disposed from the Fund Group and ownership levels were reduced to 6. The total revenue from privatization amounted to KZT 111.3 billion (as of May 2018 – KZT 132 billion). In the current year, we are planning to sell about 50 assets and continue preparing six national companies for IPO. The optimized structure of the Fund approved in January 2018 consists of 22 units instead of 37.

The Fund revised the procurement mechanism: in particular, the list of goods, works and services procured within the intra-group cooperation was reduced in more than 10 times (from 4.5 thousand items to 424). This will help to increase the efficiency of the procurement activities of the Fund Group and development of small and medium enterprises of the country: more than 4 000 items for about KZT 300 billion were transferred to the competitive environment.

For the purpose of further optimization of business processes in the Fund Group, a standardized HR management model HR Qyzmet is implemented which combines routine processes such as staff administration, payroll, social benefits, hiring, outstaffing, foreign labor support, etc. Since January 2017, HR Qyzmet has provided services to Samruk-Kazyna JSC, NC KazMunayGas JSC, Tau-Ken Samruk JSC, United Chemical Company LLP, Samruk-Kazyna Invest LLP, Samruk-Kazyna Contract LLP, Real Estate Fund Samruk-Kazyna JSC, Pavlodar Oil Chemistry Refinery LLP. This work will be continued.

The Fund regularly interacts with state bodies to improve the current legislation on the main areas of the group of companies, reduce flow of documents, etc. By the end of 2017, the GR function was established in 14 major portfolio companies of the Fund.

The main goal for 2018 will be implementation of the Fund's Development Strategy for 2018-2028. The Development Strategy approved by the Head of State in April includes changes in the current portfolio of investment projects and assets, revision of approaches for reinvesting funds, diversification of incomes. In the short term, the Fund will focus on resolving current issues to strengthen financial sustainability, improve the profitability and competitiveness of portfolio companies. In the medium and long term, the Fund will focus its efforts on creating a diversified high-yield portfolio of investments and assets both in Kazakhstan and abroad. In order to carry out direct joint investments abroad, the Fund intends to establish partnerships with leading sovereign funds and investment companies.

Digitalization or digital transformation, together with the development of human capital, will be one of the most important initiatives of the Transformation Program. The new Strategy has revised the approach to the sponsorship and charity activities of the group of companies – now social investments will be steered to projects contributing the human capital development (health, education, professional education of young people), research, science and innovation.

Summing up the results of 2017, which show us the correctness of the chosen course, and setting goals for 2018, we can confidently say that we are moving in the right direction with the necessary set of tools, and the most important – a team of like-minded people with knowledge, skills and competencies allowing us to achieve all goals.

“

Consolidated net profit to shareholder

601

billion tenge

“

The total receipts from the privatization

111,3

billion tenge





# STRATEGIC REPORT

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Mission, vision and strategic initiatives

Macroeconomic and external environment outlook

Development strategy and KPI

An abstract graphic composed of numerous thin, overlapping blue lines that create a sense of depth and movement. The lines flow from the bottom left towards the top right, forming a series of interconnected, wavy shapes that resemble a stylized ribbon or a series of overlapping planes. The overall effect is dynamic and modern, complementing the clean, professional look of the report cover.

## Our values

**P**

Partnership

We work in partnership and trust the team.

We put the team's interests above personal.

We build long-term and confidential relations with stakeholders.

**R**

Respect

We take care of everything that surrounds us.

We act on the principles of trust and respect.

We comply with the laws and traditions.

**I**

Integrity

We fulfill our commitments .

We do what we say.

We are people of honesty and integrity.

**M**

Meritocracy

We choose worthy professionals.

We give opportunity to speak out to everyone, regardless of role.

We encourage for the achievement of results.

**E**

Excellence

We work rationally and on the top of quality applying the best practices and technologies.

We take responsibility acting to create added value.

We are curious, we constantly study and develop the Fund.

## MISSION, VISION AND STRATEGIC INITIATIVES

### Strategic goals

**1**

Efficiency of companies

**2**

Portfolio development

**3**

Sustainable development

*\*In accordance with the New Development Strategy of Samruk-Kazyna JSC for 2018-2028 approved by the Fund Management Council in April, 2018.*



## Mission

Increase national wealth of the Republic of Kazakhstan and long-term sustainability for future generations.

## Vision

An investment holding that delivers strong financial performance, investment returns and portfolio development on par with leading sovereign wealth funds.

## Strategic initiatives

1

Increase profitability of companies

2

Streamline portfolio companies

3

Income diversification

4

Corporate Governance and sustainability

## MACROECONOMIC AND EXTERNAL ENVIRONMENT OUTLOOK

### LEGISLATIVE FRAMEWORK

The main normative legal act governing the activities of the Fund and organizations of the Group of the Fund is the Law of the Republic of Kazakhstan "On Sovereign Wealth Fund" dated February 1, 2012.

The Fund also follows the norms of general legislative acts such as the Civil Code of the Republic of Kazakhstan, the Code of the Republic of Kazakhstan "On Taxes and Other Mandatory Payments to the Budget (Tax Code)", the Budget Code of the Republic of Kazakhstan, the Labor Code of the Republic of Kazakhstan, Laws of the Republic of Kazakhstan "On State Property", "On Joint Stock Companies", "On partnerships with limited and additional responsibility", etc.

In addition, the Fund as a private business entity is subject to the Entrepreneurial Code of the Republic of Kazakhstan, and as a subject of public audit - to the Law of the Republic of Kazakhstan "On Public Audit and Financial Control".

Organizations that are members of the Fund group are also guided by all the above-mentioned legislative acts. In addition, their activities are regulated by sectoral laws ("On Transport", "On Rail Transport", "On Post", "On Communications", "On Electric Power Industry", "On Natural Monopolies" and etc.).

Additionally, the Fund and organizations of the Group of the Fund follow the provisions of such instruments as Decrees of the President of the Republic of Kazakhstan "On the System of State Planning in the Republic of Kazakhstan" dated June 18, 2009 No. 827 and "On Some Issues of Personnel Policy in the System of State Authorities" dated March 29, 2002 No. 828.

In the implementation of the Law of the Republic of Kazakhstan "On Sovereign Wealth Fund", the following were adopted:

- ▶ Development strategy of Samruk-Kazyna JSC for 2012-2022 (*approved by the Decree of the Government of the Republic of Kazakhstan dated September 14, 2012, No. 1202*);
- ▶ Development strategy of Samruk-Kazyna JSC for 2018-2028 (*approved by the Fund Management Council dated April 19, 2018, Minutes No. 18-01-7.5*);
- ▶ Agreement on interaction between the Government of the Republic of Kazakhstan and Samruk-Kazyna JSC (*approved by the Decree of the Government of the Republic of Kazakhstan on December 14, 2012 No. 1599*);
- ▶ Code of corporate governance of Samruk-Kazyna JSC (*approved by the Decree of the Government of the Republic of Kazakhstan on November 5, 2012 No. 1403*);
- ▶ Rules for the placement of reports required by government bodies on the Internet resource of the Sovereign Wealth Fund, as well as the list, forms and frequency of the reporting (*approved by the Decree of the Government of the Republic of Kazakhstan on October 31, 2012 No. 1384*);
- ▶ Rules for classifying socially significant and / or industrial-innovative projects implemented by the Sovereign Wealth Fund or an organization belonging to the Sovereign Wealth Fund group as low-profitable ones (*approved by the Decree of the Government of the Republic of Kazakhstan on November 9, 2012 No. 1427*).

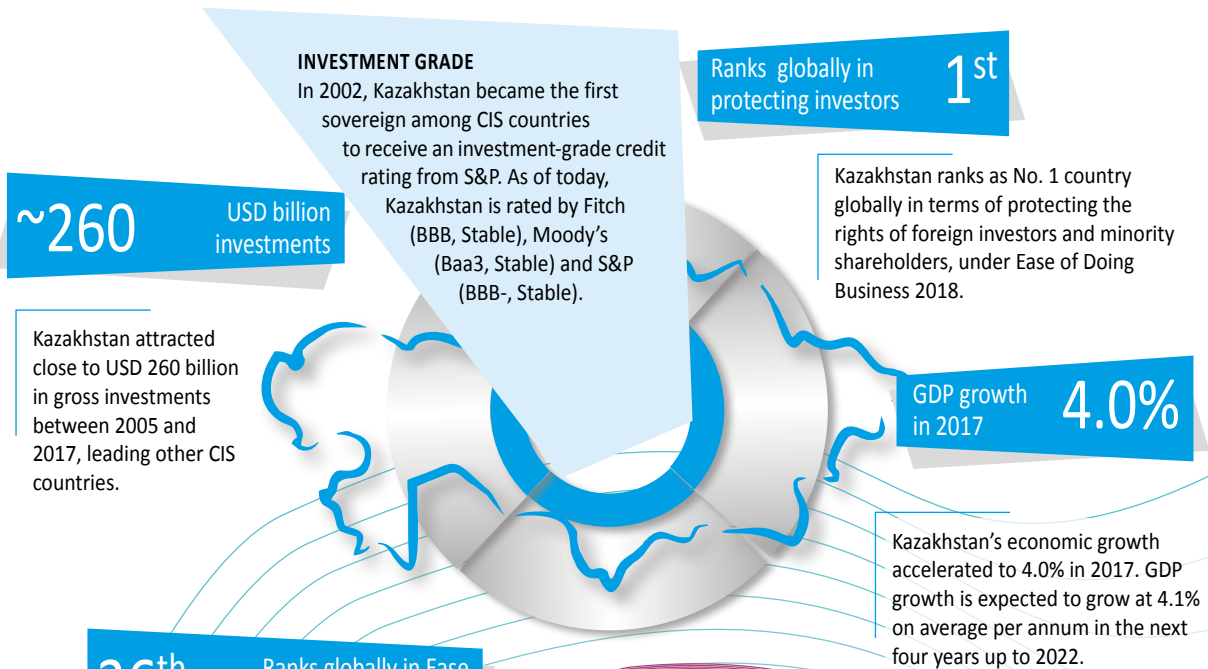


**MACROECONOMIC ENVIRONMENT**

Kazakhstan has the largest and most robust economy in Central Asia, contributes to 60% of the region's total GDP. The country has achieved commendable economic progress since the 1990s, experiencing several phases of development in slightly more than two decades.

Having started from nearly the same level of GDP per capita compared to neighboring peers, Kazakhstan's GDP per capita stood at USD 8,913 in 2017, 4 times more than Uzbekistan and 8 times more than Kyrgyzstan and Tajikistan.

**OVERVIEW OF KAZAKHSTAN'S ECONOMY**



**ONE BELT ONE ROAD**

China's investments into 65 countries along the OBOR initiative amounted to USD 186 billion in 2017. Kazakhstan has been the biggest recipient of Chinese FDI in the region, receiving a total of >USD 15.8 billion in investment by 2017.

## Key growth drivers in 2017

### **Brent price**

Brent price averaged higher at USD 54.4 per barrel in 2017 (2016: USD 44 per barrel).

### **Oil production**

Kazakhstan's oil production rose by 10.5% YoY to 86.2 million tons in 2017, Kashagan output at 8.3 million tons.

### **Fiscal stimulus**

Allocation of KZT 243.3 billion for the implementation of Nurly Zhol program in 2017.

### **Monetary policy**

National Bank cut the Base Rate three times, from 12% to 10.25% in 2017, in efforts to boost domestic growth.

Kazakhstan's economy remains resilient; it has withstood shocks from low oil prices, devaluation of the tenge and growth slowdown in key trading partners. The economy is gradually adapting to the "new reality" environment.

In 2017, growth momentum picked up significantly with GDP growth of 4.0% in 2017, driven primarily by mining, manufacturing and transportation sectors. Favorable external environment, including higher-than-expected growth in key trading partners and recovery in commodity prices, provided further support to the domestic economy.

Concurrently, the Government continued fiscal stimulus by allocating KZT 243.3 billion on the Nurly Zhol program, KZT 195 billion on agriculture development, KZT 76.1 billion under the State Program for Accelerated Industrial Innovative Development and KZT 292.6 billion on the development of transport and communication infrastructure.

At the same time, stronger oil prices alongside higher oil output provided the much needed boost for economic growth. Kashagan's oil production amounted to 8.3 million tons or at approximately 9.5% of the country's total output in 2017. Supportive external and domestic dynamics contributed to a more stable and stronger tenge during the year. Continuous decline in headline inflation and inflation expectations and the gradual easing of monetary policy (Base Rate cuts from 12% to 10.25%) helped accelerate economic growth.

## Outlook for 2018-2022

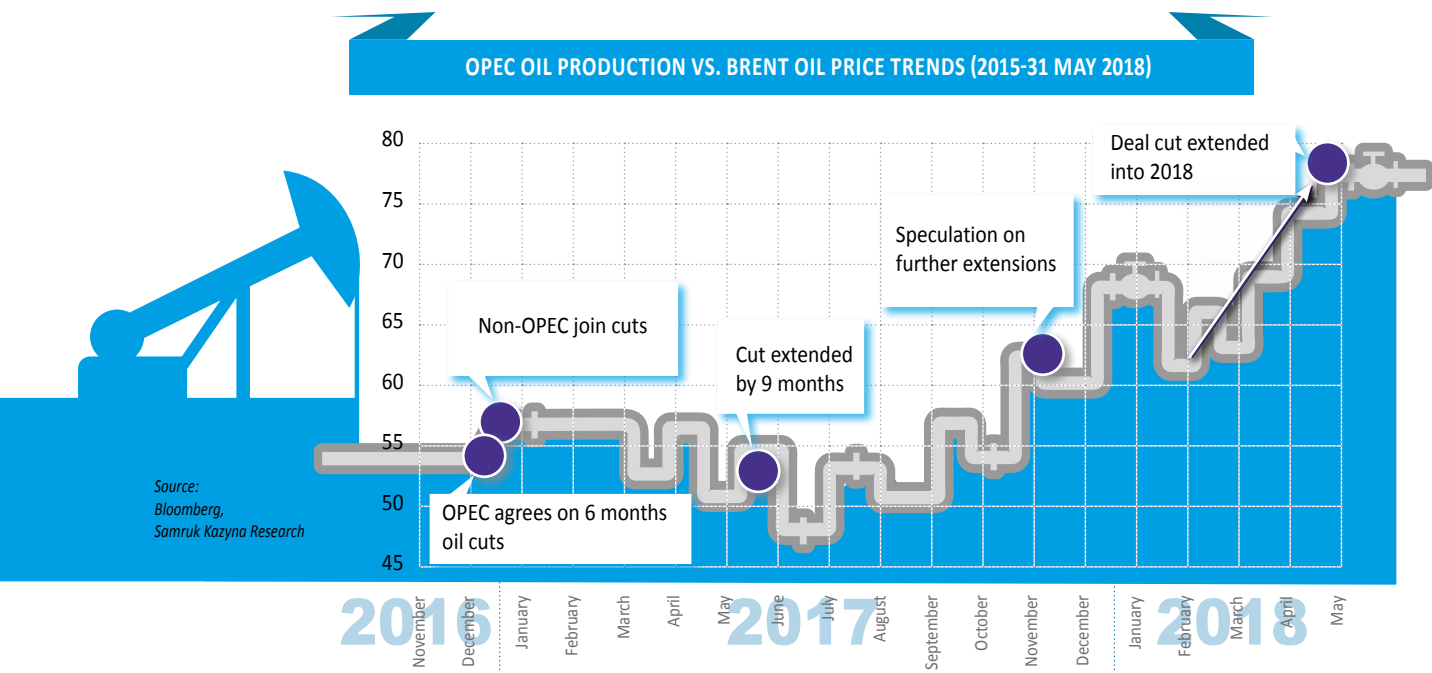
**For 2018, economic expansion is expected to sustain at 3.8%** as (1) oil production continues to increase driven by Kashagan, (2) commodity markets rebalance on the back of growing global demand, (3) continued infrastructure development produces a multiplier effect on the economy, and (4) stronger growth among Kazakhstan’s key trading partners facilitates trade and investment flows. **For 2018-2022, GDP growth is forecasted to average at 4.1% per annum.** As mining sector of Kazakhstan’s economy reaches full growth potential, other sectors such as transportation, construction and manufacturing will emerge as drivers of future growth. In addition, **Transformation at the Fund and the privatization of key portfolio companies in 2017 and 2018 will form strategic growth factors that will be key drivers for sustainable growth and economic value creation for Kazakhstan in the next four years up to 2022.**

On monetary policy, National Bank cut the Base Rate four times by 125 bps to 9.00% as at June 2018. Monetary policy stance moving forward would depend on (1) stability of the tenge, (2) inflationary expectations, (3) liquidity in the money market, (4) credit growth, and (5) the pace of de-dollarization in the banking sector. Meanwhile, inflation is expected to ease further to 5%-7% in 2018, potentially breaching the lower bound of the official range in 4Q18 (2017: 7.1%).

On external trade, total trade turnover is projected to improve by approximately 8.6% YoY to USD 87.99 billion in 2018, with exports and imports expected to grow by 9.4% YoY and 7.3% YoY respectively, underpinned by stronger global growth, higher commodity prices and improved economic performance from key trading partners. As such, current account balance is expected to improve to -2.2% of GDP in 2018 (2017: -3.0%). Kazakhstan’s total trade turnover is projected to increase moderately over the next four years, potentially reaching USD 100 billion by 2022.

On the currency front, the USDKZT exchange rate continued to strengthen by 4.2% in 1Q18 following a 3.6% gain in 4Q17, after touching a low of 345.11/USD in October 2017. As at 30 March 2018, tenge last traded at 318.73/USD. The tenge is expected to remain stable in 2018 supported by positive growth dynamics (2017: 326 average).

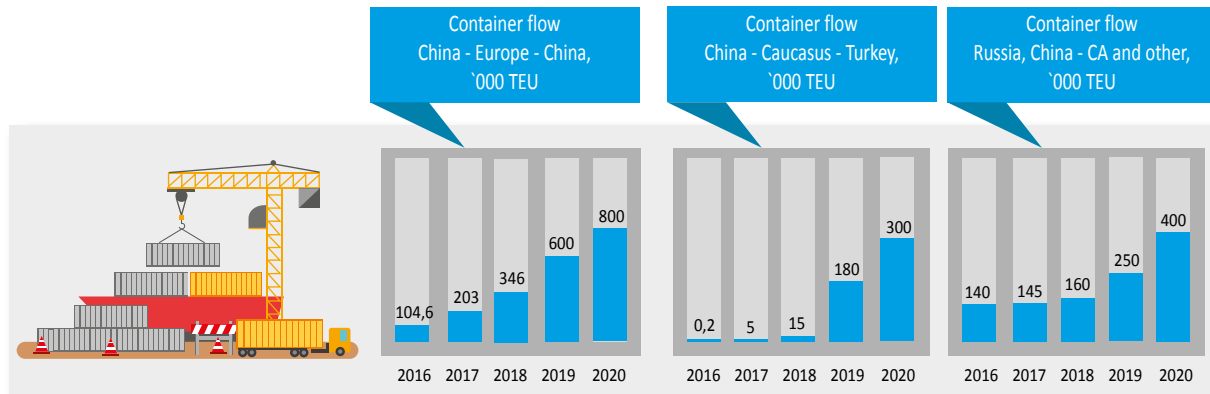
Oil prices have held up strongly in 1Q18, with Brent rising by 6.3% during the quarter to close at USD 70.27 per barrel as at 29 March 2018. It subsequently touched this year’s high of USD 79.84 per barrel on 23 May 2018 on geopolitical tensions. The main support to oil prices in 2018 will come from demand growth underpinned by improve global economic conditions, and short-term risk to oil supply arising from geopolitical risks. Nevertheless, higher production of the US shale could limit further rise in oil prices. Based on current market dynamics, oil prices are higher at USD 69 per barrel average in the first five months of 2018.





It is also worth noting that external trade and industrial production linked to commodity prices and foreign exchange would also influence the freight volumes and performance of the country's main rail operator. Kazakhstan's freight turnover highly depends on the GDP level, which is explained by the country's high reliance on natural resources. In 2018-2022, the growth of freight turnover will be related to transit traffic, which has a high potential for growth, particularly from China to Europe. By 2020, the government plans to double the transit traffic volume. Therefore, new railway lines have been constructed to shorten the routes and open new transport corridors. Kazakhstan's freight turnover growth is expected to be positive in 2018 and beyond, benefitting from the projected recovery of economic growth and expansion of China's export through Kazakhstan in the longer-term.

**KAZAKHSTAN PLAYS A KEY ROLE IN ONE BELT ONE ROAD SUCCESS AND CONTINUES TO INVEST IN INFRASTRUCTURE TO IMPROVE TRANSIT POTENTIAL**



Source: KTZh, Samruk Kazyna Research

Taking cue from the growth expansion observed in 2H16, global economic activity accelerated further in 2017, driven by major advanced economies (Japan, euro area), emerging Asia (China) and Russia where growth results were better-than-anticipated. Combination of stronger domestic demand (consumption and investment) and improved external demand in line with stronger global conditions supported overall growth momentum. Against this backdrop, the International Monetary Fund projects global GDP growth of 3.9% in 2018, 0.2% higher than previous forecast. Meanwhile, the World Bank maintains a more moderate outlook on global growth at 3.1% for 2018.

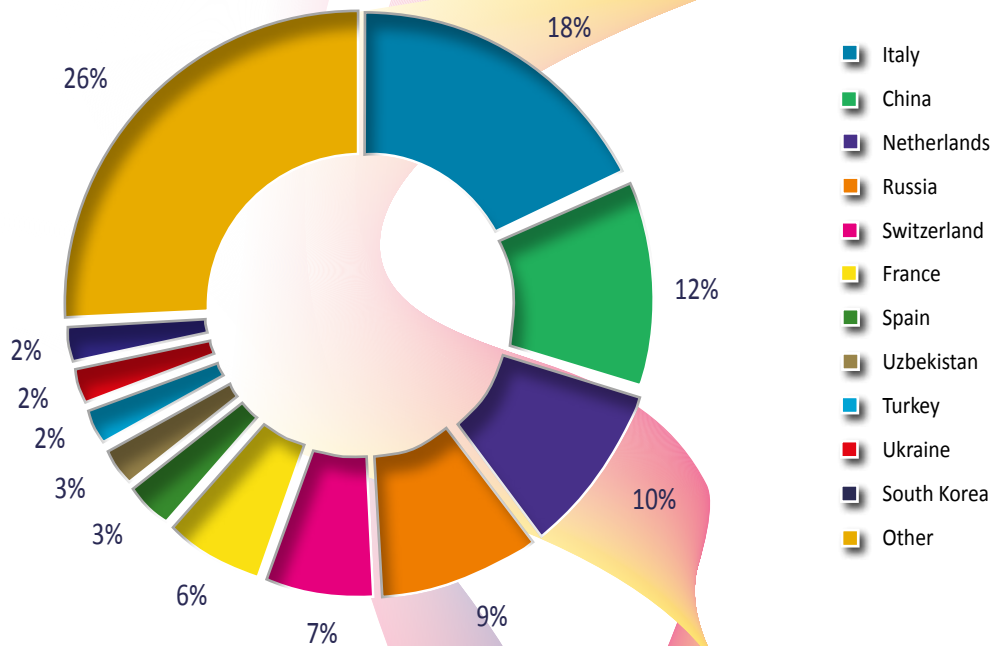
On regional economies, Russia’s growth momentum accelerated as higher oil prices lifted real wages growth and consumer confidence, and reduced fiscal pressure. GDP growth came in at 1.5% in 2017. Inflation is significantly below the central bank’s target of 4%, allowing the regulator to further reduce the key interest rate, provided a boost to consumption and aggregate demand. Positive growth is expected to continue into 2018, with GDP growth forecast of up to 2.0%.

China, being Kazakhstan’s largest export market for oil and metal products, saw GDP growth beat market expectations, coming in at 6.9% in 2017. This was first growth acceleration for China since 2010 and above official target of 6.5%, supported by robust household consumption and fixed asset investment. December statistics point to a moderate yet sustained growth momentum in 2018, with GDP growth of between 6.2% and 6.5% over the medium-term as the economy rebalances and reforms and optimization are being implemented in targeted areas.

Similarly, Europe showed positive surprises in economic activity in late-2016 and 2017. Growth was above expectations for Germany, France, Italy and Spain. Solid readings on purchasing managers’ indices in the third quarter indicated continued growth momentum and stronger domestic demand than previously anticipated. As such, the region’s GDP growth touched a post-crisis peak of 2.3% for 2017, and the European Central Bank projects 2018 growth of 2.4%.

Positive economic performance of China, Russia and Europe will have spillover effects to Kazakhstan through trade and commodity prices, as well as through the degree of confidence and stability in financial markets. China and Russia account for 12% and 9% respectively of the country’s total exports, while European countries collectively account for ~50% of total exports.

EXPORTS BY REGION/COUNTRY (2017)



Source: Statistics Committee, Samruk Kazyna Research

## External factors potentially impact growth in 2018

### Commodity prices

Oil accounts for 20% GDP, 50% of government revenue and almost 60% of exports.

### Economic performance of key trading partners

Key trading partners, which are China and Russia, have effect on Kazakhstan through trade and commodity prices.

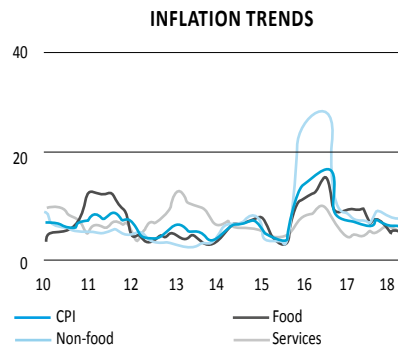
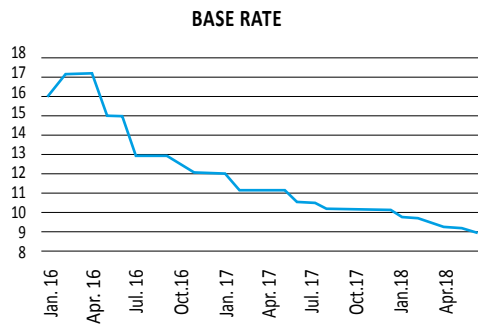
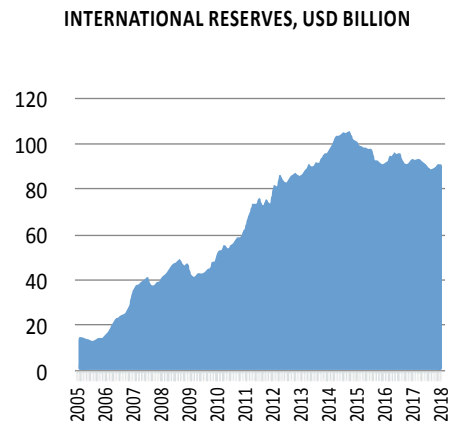
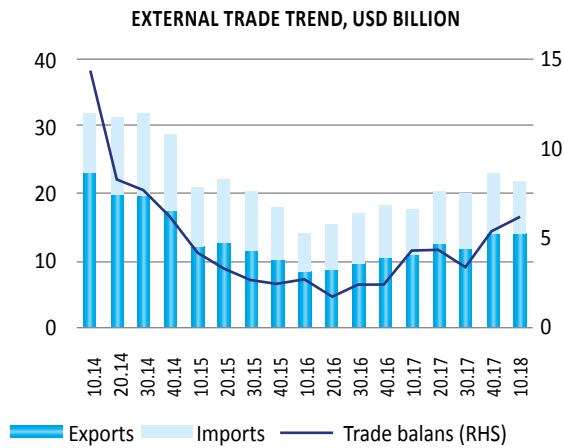
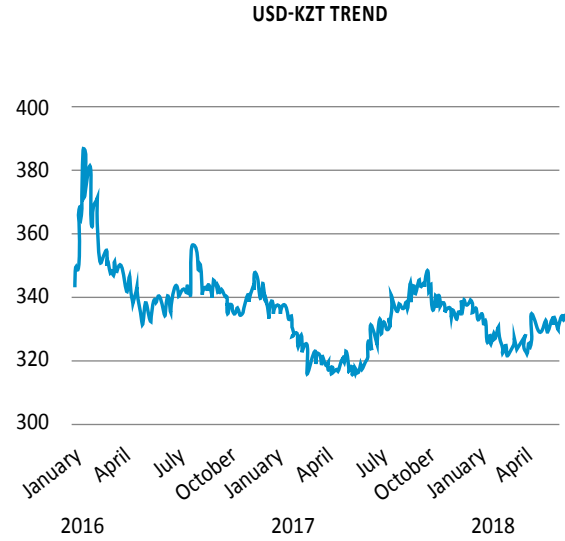
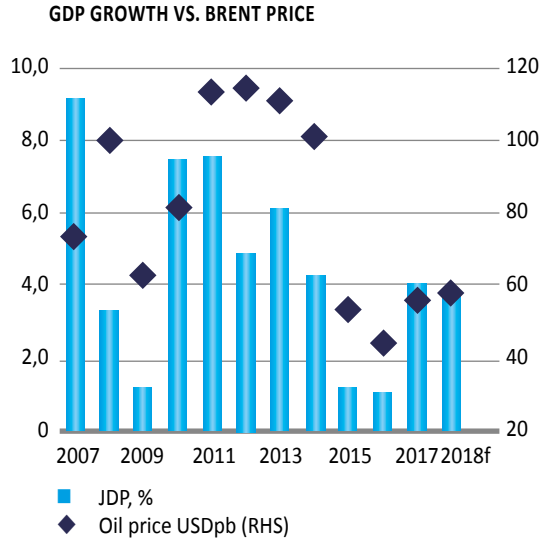
### Currency performance of key trading partners

Russia's currency performance will impact Kazakhstan's trade competitiveness and exchange rate policy.

### US policies

US monetary and other policies impact global financials and capital flows on emerging markets.

## Kazakhstan: Charting Growth



Source: The Ministry of National Economy, National Bank of Kazakhstan, Bloomberg, Samruk Kazyna Research charts were prepared as at 8 June 2018



## DEVELOPMENT STRATEGY AND KPI

Fund's strategic goals

INCREASE THE LONG-TERM VALUE OF PORTFOLIO COMPANIES

Fund's strategic KPIs

Return on Invested Capital (ROIC)\*

Net income attributable to the Shareholder\*

Free cash flow available for investments and dividends

Key highlights of 2017

4.5%

The return on invested capital was 4.5% due to the positive changes in macro environment, sustainable project implementation, increased productivity and cost optimization in the Fund's portfolio Companies.

KZT 601 billion

Actual Net income attributable to the Shareholder is KZT 601 billion, that is higher of the 2016s indicator for 32%.

KZT 521 billion

The Fund demonstrates a stable dynamics of free cash flow available for investments and dividends, which amounted to KZT 521 billion.



## MODERNIZATION OF NATIONAL ECONOMY

## SUSTAINABLE DEVELOPMENT

Corporate governance rating

Volume of investments in new and growing companies

Sustainable development

Corporate governance rating – B\*\*

KZT 21 billion

Sustainability Report

The first Sustainability Report for 2016 was approved in September 2017.

- ▶ Corporate Governance Diagnostics project was implemented;
- ▶ In 2017, corporate governance ratings were assigned to 6 PCs: KMG, KTZh, SE, KAP, Kazpost and KEGOC.

- Actual volume of investment in growing companies is KZT 21 billion in 2017;  
Weak executive discipline on investment projects of the PCs is mainly due to:
- ▶ Shift of the implementation period of 2 projects of UCC;
  - ▶ TKS funded projects using dividends received from Kazzinc of USD 150 million.

**Positive performance results in 2017 are mainly driven by macroeconomic and market conditions.**

\*The Fund's economic performance will be assessed based on ROIC and net profit of the portfolio in 2017.

\*\*In accordance with the Diagnostic Methodology for assessing corporate governance in the organizations in which Samruk-Kazyna JSC owns directly or indirectly more than 50% of the voting shares.

## Key initiatives in sustainable development area



### Improvement of portfolio management

- Investment policy was revised and approved by the Board of Directors;
- Investment Strategic Committee was launched;
- Successfully reached agreement with independent Directors and minority shareholders of KazMunayGas Exploration Production (“KMG EP”) on KMG EP share buyback.



### Privatization

Stable progress of implementation of Privatization plan as at December 31, 2017

- 107 companies withdrawn from the Fund’s group;
- Proceeds from privatization of the Fund’s assets is KZT 111,32 billion as at December 31, 2017.

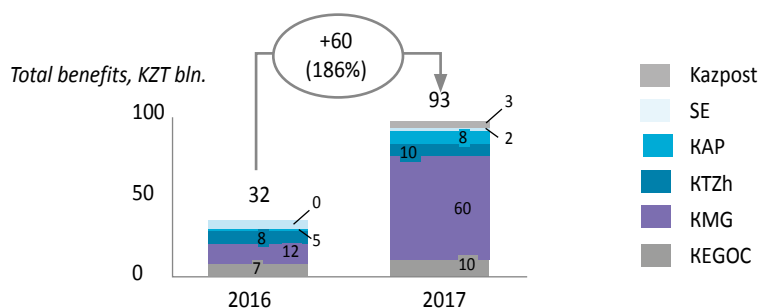
Companies included to the Comprehensive Privatization Plan	215*
Approved by the State Commission for Economic Modernization of the RoK	161
Approved IPO/strategic sale roadmap	9
Consideration by the State Commission and implementation in 2018	30

*\*The list of assets in Comprehensive plan for 2016-2020 has been amended by the Decree of the Government of the Republic of Kazakhstan dated 11<sup>th</sup> of April 2017 No.194.*



### Transformation

- “Digital Mine” information system was launched at NAC Kazatomprom JSC;
- “Digital Deposit” automated system is being implemented in NC KazMunayGas JSC.



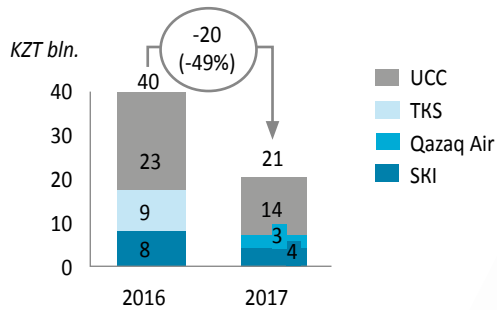
## Fund Transition to the New Functional Model

- September 2017, common HR service center was launched; it covers 13 companies, 23 thousand employees;
- Job Matching for CEO-1 and CEO-2 was completed in 8 PCs;
- Memorandum of Understanding with GE Digital was signed.



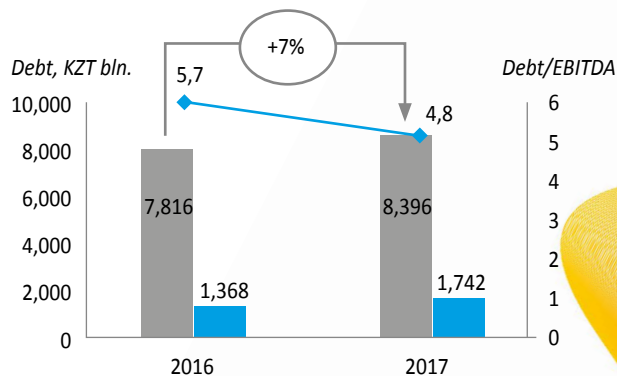
## Investments in Growing companies

- UCC: 2 Projects implementation period has shifted;
- TKS funded projects using dividends received from Kazzinc of USD 150 million;
- Qazaq Air: change in the structure of the aircraft acquisition.



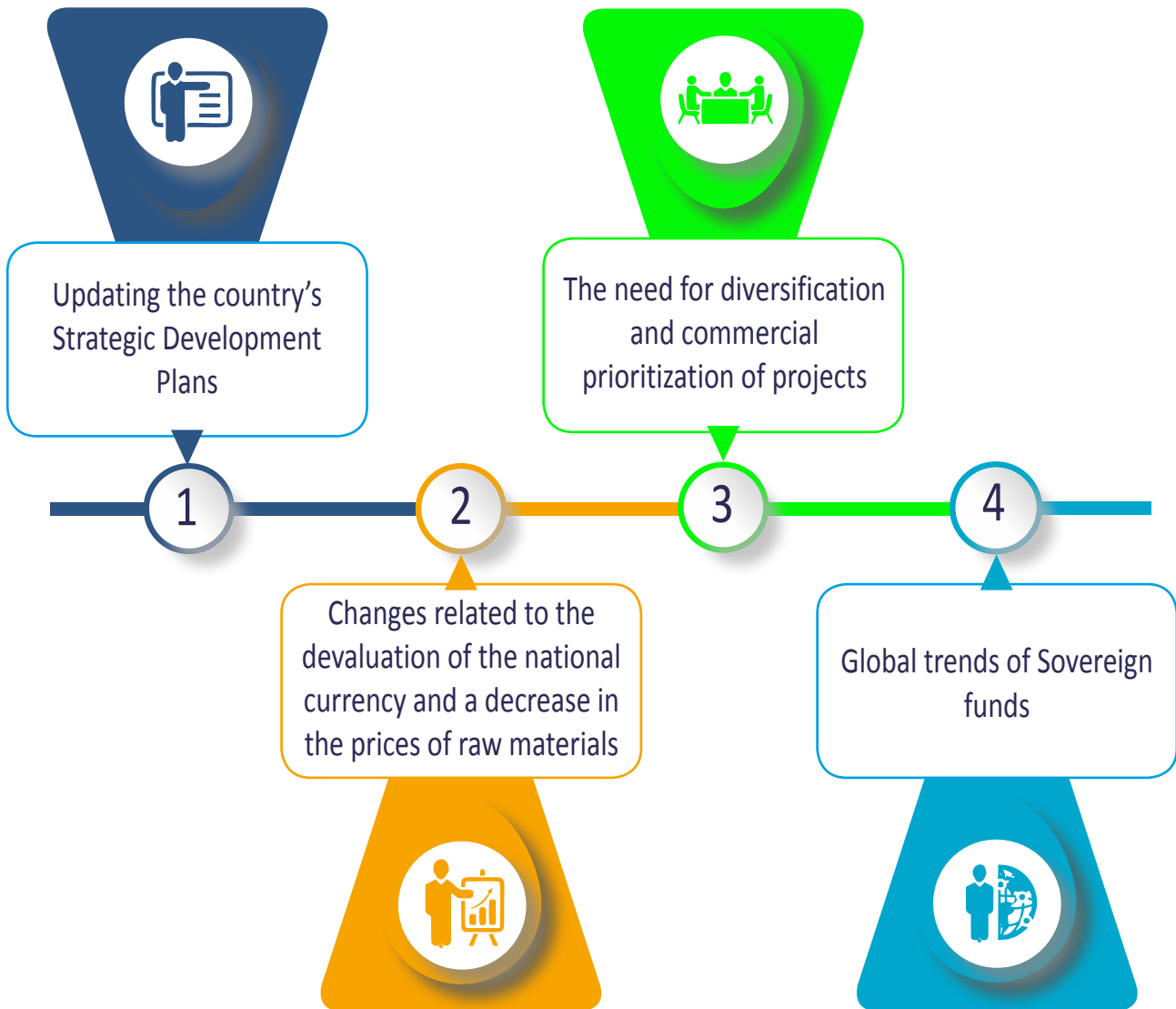
## Financial Sustainability

- The figures for 2016 have been recalculated according to the methodology of the Debt and Financial Stability Management Policy in the new edition dated January 27, 2017.



## CFUND'S DEVELOPMENT STRATEGY FOR 2018-2022

### The key reasons for changing the Fund's Development Strategy



The Fund Management Council approved Fund's Development Strategy for 2018-2028 in April 2018.

The new Development Strategy identifies three key objectives. Achievement of these goals will be realized through four Strategic Initiatives.



## STRATEGIC OBJECTIVES



**Efficiency of companies**



**Portfolio management**



**Sustainable development**

## STRATEGIC INITIATIVES



**Increase profitability of the companies**

- ▶ Financial sustainability
- ▶ Business optimization
- ▶ Synergy of the companies
- ▶ Transformation, digitalization, automation
- ▶ Organizational restructuring



**Streamline portfolio structure**

- ▶ Privatization
- ▶ Reduction of legal entities
- ▶ Reconsideration of investment projects
- ▶ Withdrawal from non-strategic assets



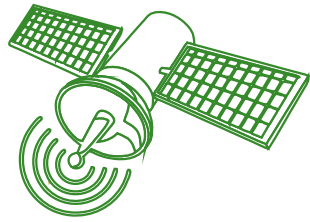
**Income diversification**

- ▶ Rebalance of investment portfolio
- ▶ Investments to the new sectors in Kazakhstan
- ▶ International investments
- ▶ Attraction of Strategic partners
- ▶ Attraction of new sources of capital and growth



**Corporate Governance and Sustainability**

- ▶ Effective corporate governance
- ▶ Human capital development
- ▶ Sustainable Development Initiatives
- ▶ Improvement of corporate rating
- ▶ Reconsideration of the sponsorship



# BUSINESS AND FINANCIAL REVIEW

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Key events of the reporting period and those following the reporting period

Financial review of 2017

Transformation program

Privatization program

Investment activities

Risk management and internal control

An abstract graphic composed of multiple overlapping, wavy, green lines that create a sense of depth and movement. The lines are more densely packed in some areas, creating darker shades of green, while other areas are more sparse, appearing lighter. The overall effect is a dynamic, flowing shape that resembles a stylized ribbon or a series of interconnected paths.



**January**

- ▶ KEGOC repaid prematurely the EBRD loan in the amount of USD 151.9 million.

**February**

- ▶ Samruk-Kazyna's briefing for diplomatic corps, large international companies, investors and bankers took place in Astana.

**March**

- ▶ On March 30, 2017, the Board of Directors of NAC Kazatomprom JSC approved procurement of 49% participatory interest in the authorized capital of JV SARECO LLP from Sumitomo Corporation.
- ▶ An official launch of the Uniform Network Management Center of Kazakhtelecom JSC took place in Almaty.

**April**

- ▶ London Stock Exchange had the Investor Day of Samruk-Kazyna JSC, where Air Astana JSC and Kazatomprom JSC as well as Privatization Program and Fund's Development Strategy were presented to the British and international investors.
- ▶ NAC Kazatomprom JSC and Areva signed an agreement on development of uranium mining in Kazakhstan.

**June**

- ▶ Signature of memoranda between NAC Kazatomprom JSC and world leading atomic companies– Cameco Corporation, Uranium One Inc., CGN and AREVA at Astana EXPO-2017 site.
- ▶ Signature of the loan agreement with Eurasian Bank for Reconstruction and Development (EBRD) for financing Shalkiya project of NMC Tau-Ken Samruk JSC.

**July**

- ▶ Kazakhtelecom JSC together with the Ministry of Healthcare of the Republic of Kazakhstan implemented a project to launch uniform e-mail service for medical staff at @med.mail.kz.

**August**

- ▶ Inauguration of the IAEA Low-Enriched Uranium (LEU) Bank in the Republic of Kazakhstan attended by the Head of the State N. Nazarbayev and IAEA Director General Yukiya Amano.
- ▶ Galymzhan Pirmatov was appointed as the Chairman of the Management Board of NAC Kazatomprom JSC.
- ▶ United Chemical Company LLP signed memorandum of cooperation with the world leading company in chemical industry – BASF.
- ▶ 20 winners of the Zhas Orken internship competition were sent for internship to national companies.

**September**

- ▶ The second stage of the construction of Burnoye solar power station in Zhambyl region was started.
- ▶ Samruk-Kazyna JSC signed cooperation agreements with GE, World Bank and Italian sovereign fund CDP Equity within the frameworks of IX Annual meeting of the International Forum of Sovereign Wealth Funds (IFSWF).
- ▶ Updated Samruk-Kazyna Investment Policy was adopted and Sustainable Development Report was approved.

**October**

- ▶ Samruk-Kazyna JSC was rated 15th in the Public Investor 100 rating developed by Sovereign Wealth Fund Institute.
- ▶ Standard&Poor's raised the credit rating of Kazakhtelecom JSC from BB, Positive forecast up to BB+, Stable forecast. In the national scale, the company rating raised from kzA+ to kzAA-.
- ▶ Investor Day of Kazakhstan with the representatives of Samruk-Kazyna JSC Group of companies was held in Hong Kong.
- ▶ In the course of open two-stage tender, NC KazMunayGas JSC sold 100% shares of its subsidiary Euro-Asia Air JSC.

**November**

- ▶ Works on EPC-contract of the project "Integrated gas and chemical complex construction (1st stage – polypropylene production)" were started.

**December**

- ▶ The II meeting of the Kazakh-British Business Council organized by Samruk-Kazyna JSC together with the UK Department for International Trade was held in London.
- ▶ Kazpost JSC Digital Office was opened in Astana: hybrid ATMs, electronic cashier, automated parcel terminal, parcel supermarket and all capabilities of post.kz.
- ▶ Akhmetzhan Yessimov was appointed as the Chairman of the Management Board of Samruk-Kazyna JSC.



# 2018

Key events of the reporting period and those following the reporting period

- January**
- ▶ New organizational structure of Samruk-Kazyna JSC was enacted. It shrinks number of managing directors from 10 to 5 and optimizes number of structural units.

**February**

- ▶ Press Center of the Government of the Republic of Kazakhstan held a Samruk-Kazyna JSC briefing "Procurement System Improvement and Reformation".

**March**

- ▶ Within the framework of the official visit of President N. Nazarbayev to the United Arab Emirates, the Government of the RoK, Samruk-Kazyna JSC, UCC LLP and Austrian company Borealis signed the Agreement on principle cooperation conditions for the polyethylene production project (1.250 million tons a year) in Atyrau region.
- ▶ Kazakh Transport and Communications Academy named after M. Tynyshpayev was sold for KZT 10.2 billion.

**April**

- ▶ Investor Day of Samruk-Kazyna JSC was held at Shanghai Stock Exchange.
- ▶ Fund Management Council led by N. Nazarbayev approved the Development Strategy for 2018-2028 and updated Transformation Program.
- ▶ Fitch confirmed long-term rating of Samruk-Kazyna JSC to be BBB, Stable forecast.
- ▶ NC Kazakhstan Temir Zholy JSC and purchaser sign an agreement to sell 26% minus 1 share of Transtelecom JSC amounting to KZT 9.45 billion.

**May**

- ▶ Special session of Samruk-Kazyna in Saint-Petersburg devoted to investment opportunities in Kazakhstan was arranged within the framework of PIEF-2018.
- ▶ Kanat Kudaibergen was appointed as the Chairman of the Management Board of Tau-Ken Samruk JSC.
- ▶ Bakitzhan Zhulamanov was appointed as the Chairman of the Management Board of Samruk-Energy JSC.
- ▶ The President of the Republic of Kazakhstan, Nursultan Nazarbayev, signed the amendments on improving Kazakhstan business regulations to the Law "On Introduction of Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan on Improving Business Regulation".

**June**

- ▶ Samruk-Kazyna JSC assets were presented during the 5th meeting of the Kazakh-Chinese Business Council in Beijing.

## KEY EVENTS OF THE REPORTING PERIOD AND THOSE FOLLOWING THE REPORTING PERIOD

## FINANCIAL REVIEW OF 2017

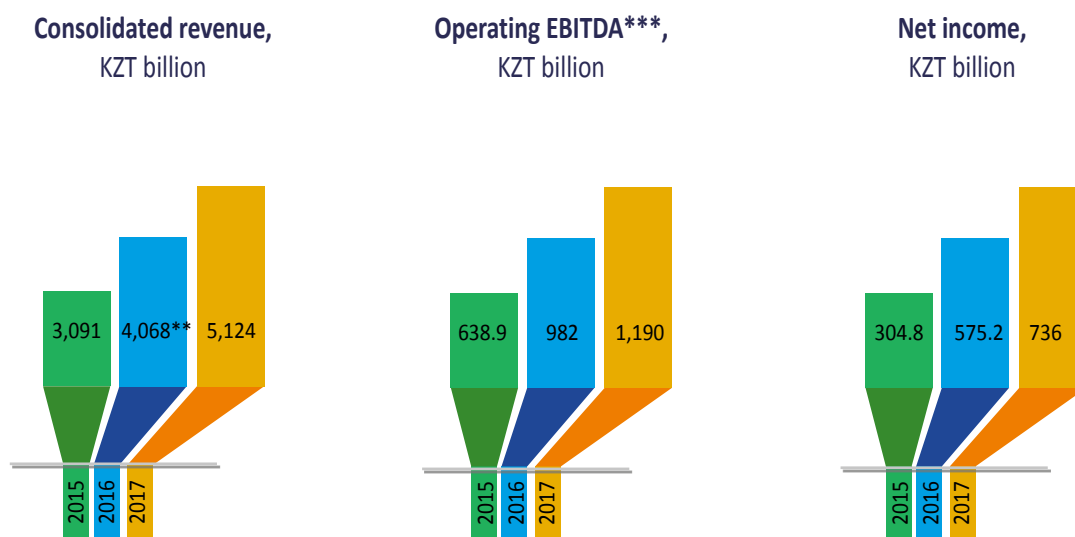
In 2017, the Fund Group showed growth of major financial indicators compared to 2016.

The amount of consolidated revenue in 2017 was about KZT 5.1 trillion, exceeding the same for 2016 by KZT 1 trillion, or by 26%. 57% of the revenue growth was provided by sale of additional volumes of crude oil, gas and oil processing products.

Consolidated assets of the Fund Group were KZT 24.2 trillion as of December 31 2017, that is KZT 1.8 trillion or 8% higher comparing the same indicator for the year 2016. EBITDA and EBITDA margin in 2017 totaled KZT 1,190 billion and 18.7%, respectively, while similar indicators for 2016 were KZT 982 billion and 20.6%. The Fund's strategic indicator - the value of net assets - was more than KZT 6.8 trillion\*, with an increase of 8% from 2016.

Based on 2017 results, the Fund increased the revenue part of the state budget by KZT 787.6 billion in taxes. General and administrative expenses were about KZT 413 billion.

Despite the high results, the Fund sets relatively low-key forecasts for 2018 due to the volatility of prices for major energy resources and the accompanying changes in foreign currency exchange rates.

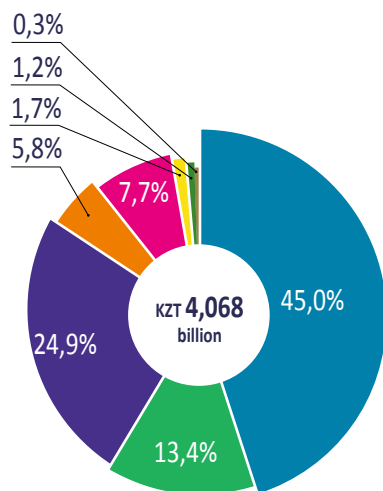


\*Net assets calculation does not include external factors influence, such as additional shareholder's investments, distributions to a shareholder and exchange rates fluctuations. 2008 is taken as a reference year for calculation.

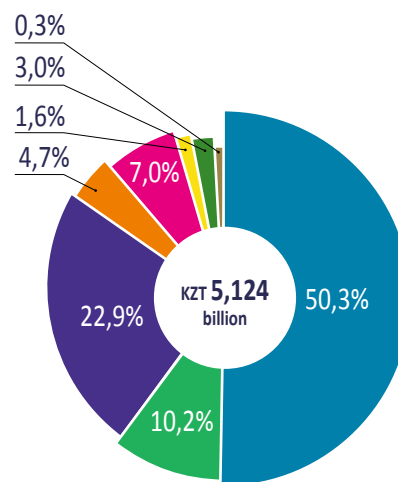
\*\*recalculated

\*\*\*EBITDA Oper. = (Sales Revenues - Cost of sales - GAE\* - TSE\*) + (Depreciation of fixed and intangible assets in COGSS, GAE and TSE). When calculating the operating EBITDA for 2015-2017, it was assumed that KMG International N.V. had left the Group, therefore the Group's income from the sale of crude oil to KMG International N.V. were recovered in operating income (refer Note 5 to the consolidated financial statements)

### Revenue from segments



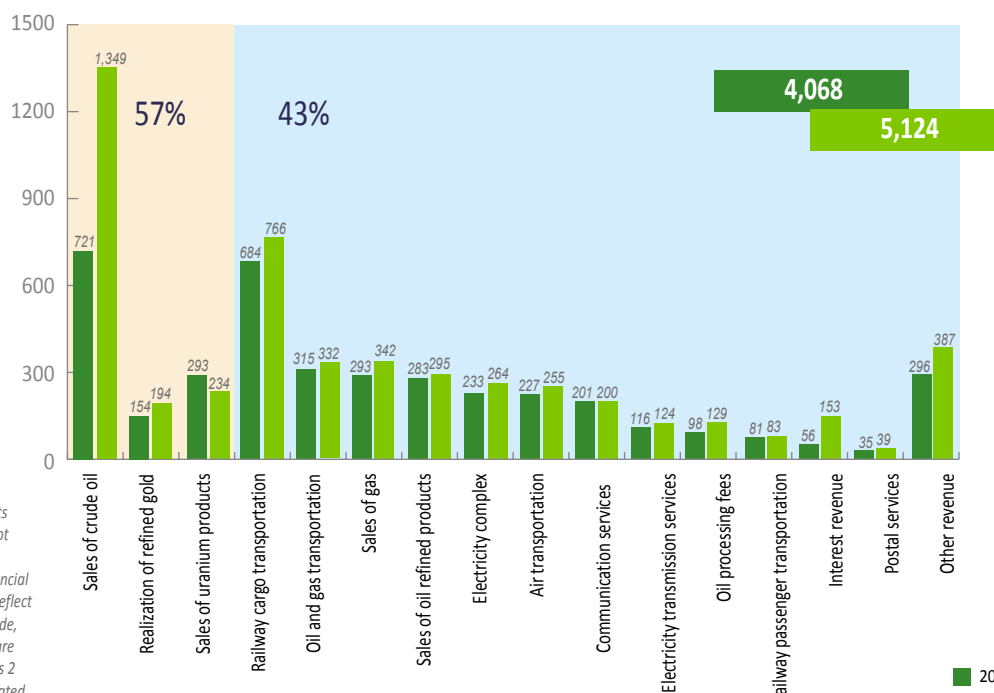
2016\*(Recalculated)



2017

### Consolidated revenue, KZT billion

+ KZT 1,056 billion



\* Certain amounts shown here do not respond to 2016 consolidated financial statements and reflect restatements made, details of which are disclosed in Notes 2 and 4 in consolidated financial statements for 2017.

■ 2016 (Recalculated)\*  
■ 2017

## Factors that provided more than 57% of growth, KZT billion

Products	Volume factor	Price factor	FOREX factor
Crude oil	+573	+118	(64)
Uranium oxide	+7	(55)	(10)
Gold	+45	+2	(7)

The growth is due to the early repayment of BTA Bank's debt to the Fund. As a result, depreciation of the discount in the amount of more than was made

**KZT 100 billion**



**Interest income**

**+ KZT 66 billion**  
due to an increase in cargo turnover by an average of 10.7% (tariff cargo turnover by 9.6%);

**+ KZT 15 billion**  
due to other services and operation of freight cars.



**Cargo transportation**

**+ 98%,**  
mainly due to the sale in the reporting period of additional gas volumes to China and Uzbekistan, as well as an increase in the number of consumers and production volumes of industrial enterprises.



**Sales of gas**

Mainly due to the increase in revenues of EGRES-1 as a result of the increase in the volume of export sales by

**4 572 million kWh**

and growth in Kazakhstan by 1,008 million kWh.



**Sales of electric power**

## Factors that provided more than 43% growth, KZT billion

**Air transportation and related services**



Due to the increase in passenger turnover by

**12%**

on domestic and international air lines (due to the launch of new routes and the Astana EXPO), also due to an increase in the average tariff (excluding fuel collection) by 5%.

**Oil transportation**



**+41%**

due to the growth of volumes due to the redistribution of oil flows in the direction of Atyrau-Samara from the domestic market, and deliveries through the port of Aktau, an increase in the volume of transit of Russian oil, as well as delivery of oil from the Kashagan field;

**+59%**

increase in the average tariff.

**Sales of petroleum products**



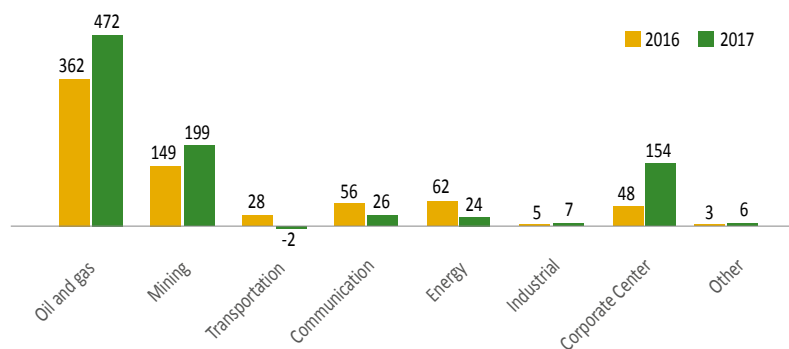
Mainly due to changes in selling prices an increase of

**28%**

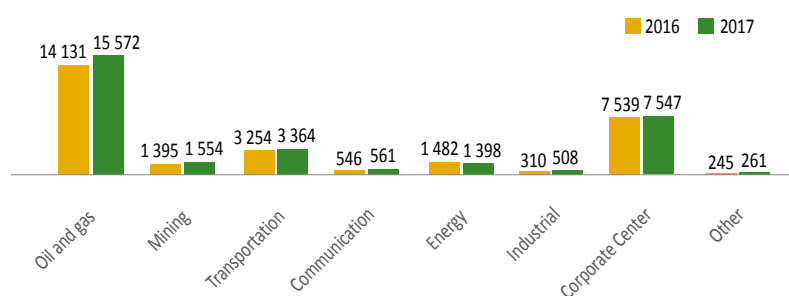


PC performance indicators are available in annual reports on the official PC websites. Information about the profits and losses, assets and liabilities of the operating segments of the Group for 2017 and 2016 is provided without any elimination.

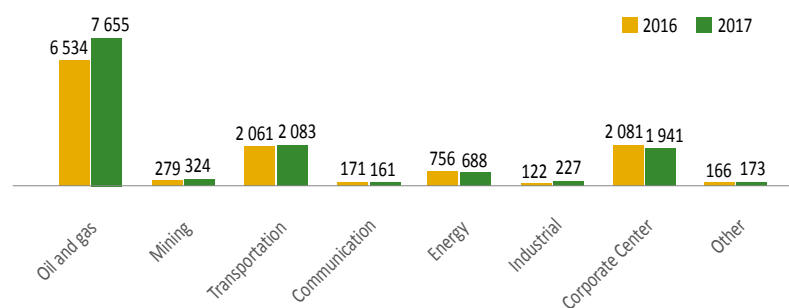
### Profit (loss) for the period by segments, KZT billion



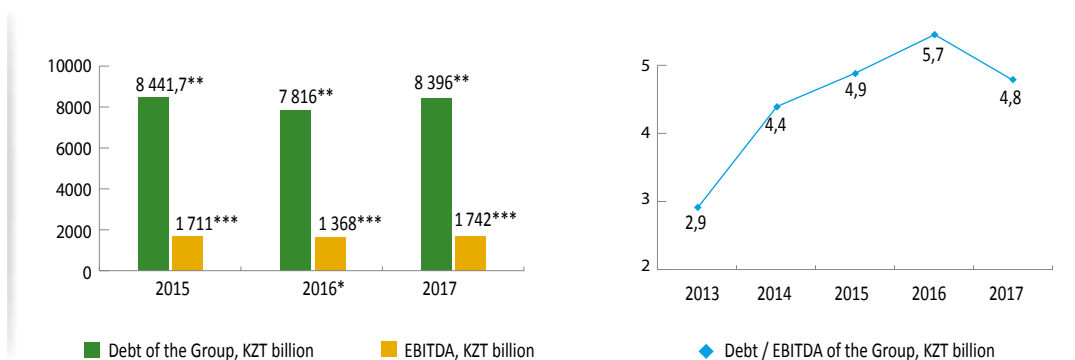
### Assets by segments, KZT billion



### Liabilities by segments, KZT billion



### Financial sustainability of the Group of the Fund

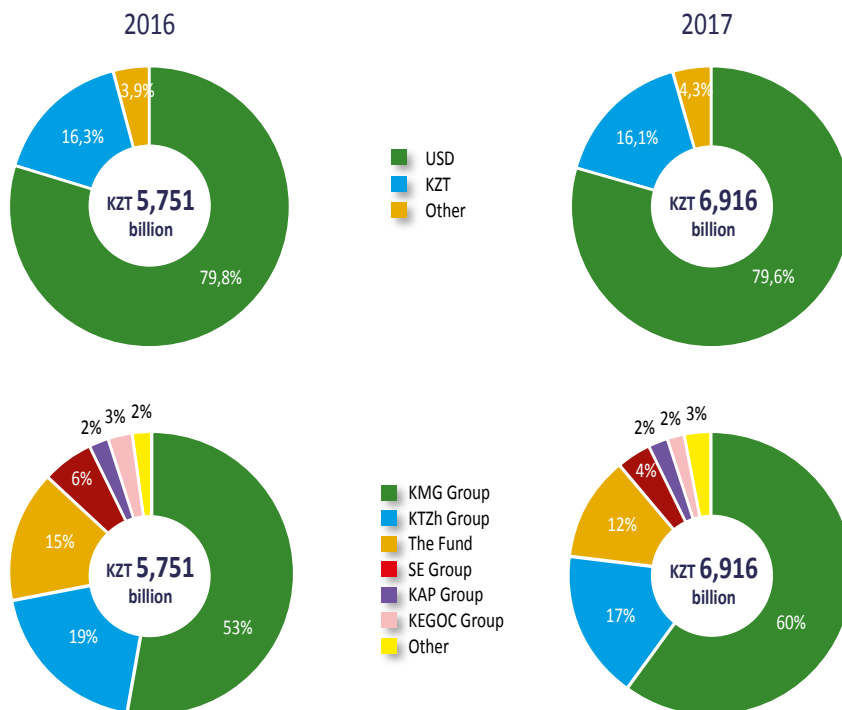


\*The figures for 2016 have been recalculated according to the methodology of the Debt and Financial Stability Management Policy in the new edition dated January 27, 2017.

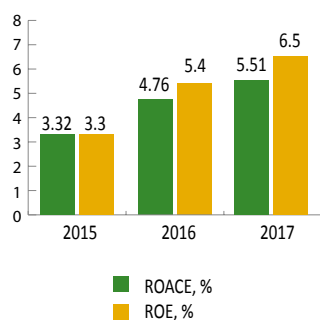
\*\* Including loans / bonds received from financial institutions in the amount of KZT 5,751 billion.

\*\*\*EBITDA - net income before tax expenses, depreciation (tangible and intangible assets) and interest payable for the 12 months preceding the reporting date.

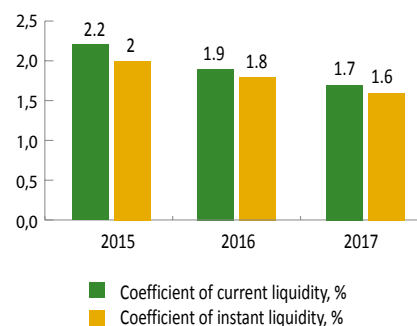
### The structure of loans received from financial institutions in 2017 (total: KZT 6,916 billion)



**Effectiveness of capital structure  
in the Group of the Fund**



**Coefficients of liquidity**



## 2018 projections

Despite the high results, the Fund sets relatively cautious forecasts for 2018, due to the volatility of prices for major energy resources and the accompanying changes in currency rates. The Fund expects the value of Net Assets to grow by 4% minimum in 2018. The return on assets and equity showed an increase compared to the previous year, mainly due to the growth of net profit of the Fund (over KZT 161 billion in comparison with 2016). Despite more restrained expectations in 2018, the planned indicators are above the average for the last 3 years.

## TRANSFORMATION PROGRAM

2014 witnessed the start of the implementation of a large-scale Transformation Program covering the Fund and its portfolio companies.

The main aspects of the Transformation Program are as follows:

- ▶ increase in value of the portfolio companies;
- ▶ change in the portfolio structure and the Fund's approach to the investment activities;
- ▶ redistribution of powers and responsibilities in the management system of the Fund and its portfolio companies.

The transformation of the Fund and its portfolio companies covers three areas – people, processes and technology.

The Transformation Program is aimed to boost operational effectiveness of the companies up to the level held by peer international companies.

### On the Fund's way to reach a global level

In May 2017, the Fund successfully completed the reengineering of business processes of the Corporate Center and it keeps following its path to become a world-class sovereign fund.

For reference

*Over 2,000 business processes were rebuilt, a new KPI tree was implemented, a new horizontal organizational structure was implemented, the staff of the Corporate Center of the Fund was renewed by 40%, some experts - including Kazakhstan citizens - from international sovereign funds, investment companies and other international corporations joined. Additionally, 15 reference modes were developed considering international approaches being proactively implemented in the companies.*

In September 2017, IX International Forum of Sovereign Wealth Funds (IFSWF) was successfully held for the first time in the CIS territory. In total, the forum gathered more than 200 delegates in the capital of Kazakhstan, including representatives of sovereign wealth funds, international organizations, transnational companies and businesses.

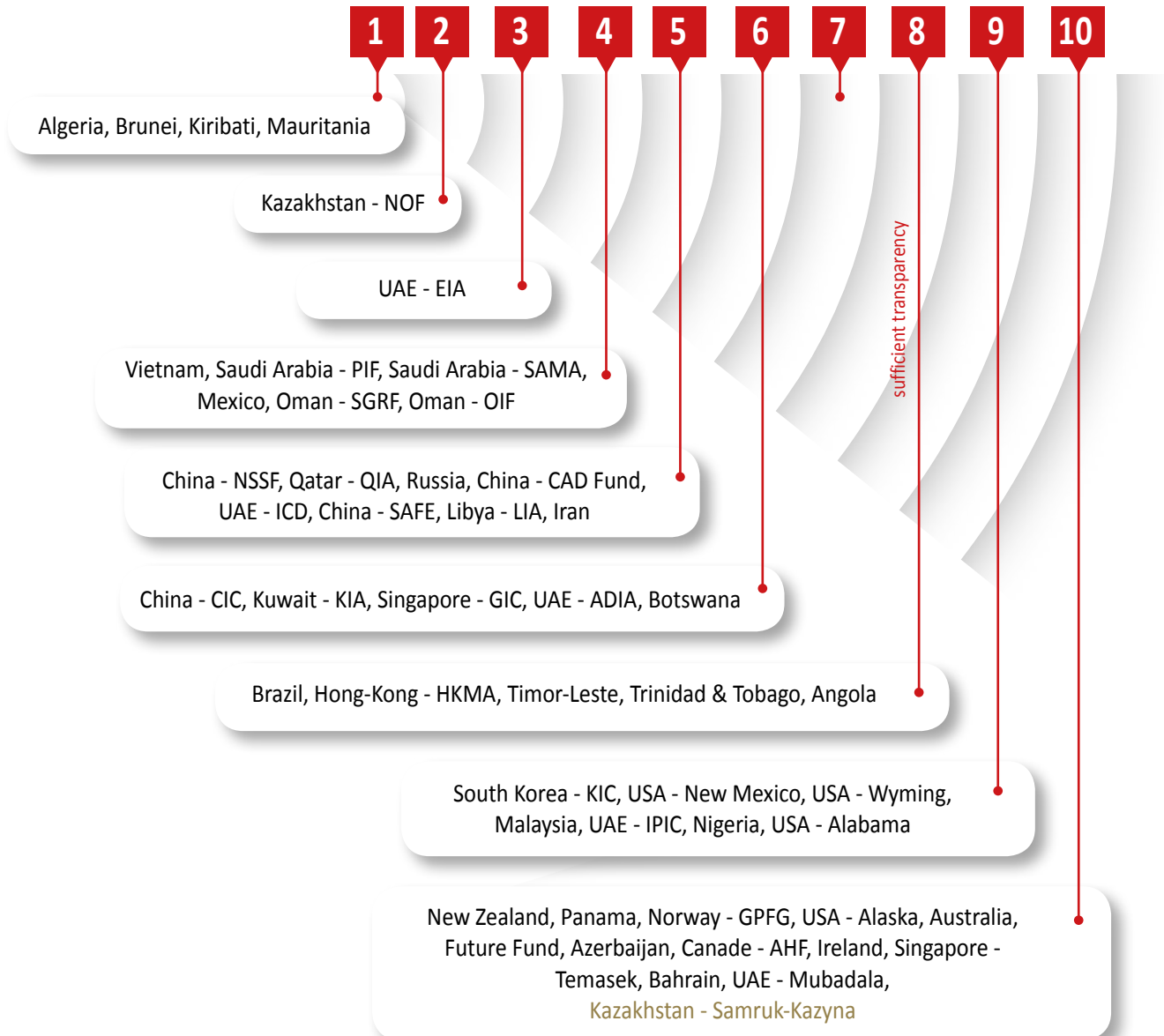
Within the IFSWF forum, the Fund signed three preliminary cooperation agreements with:

- ▶ the World bank, aimed to perform joint social and economic analytical work in the “green” development area;
- ▶ General Electric Digital, aimed to investigate the possibilities for cooperation in establishment of digital ecosystem for industrial enterprises of the Fund Group;
- ▶ CDP Equity and KazAgro Holding, aimed to create new production capabilities in industries and agriculture in the territory of Kazakhstan.

One of the 2017 achievements is that the Fund obtained the top rate in the LMTI transparency index and was rated 15th among 100 top public investors, in advance of Temasek, Russian Direct Investment Fund, Mubadala and Khazanah.



### Maximum transparency index (LMTI)



On September 5-7, 2017, the Fund organized Annual meeting of the International Forum of Sovereign Wealth Funds (IFSFW) in Astana



### **Simplifying the ownership structure and legal form of the portfolio companies**

The complex management structure including 600 legal entities (9 ownership levels) implied complex procedures of corporate governance and low transparency of activities.

As of the end of 2017, the number of companies held by the Fund was 358. Within the framework of shrinking the number of ownership levels, they were decreased to 6 (it was planned to have 5 in 2017).

### **Implementing active investment approach**

The active investor model implies making investment decisions based on a clear portfolio management strategy, analysis and optimization of the investment portfolio-level performance and effective redistribution of assets in the investment portfolio. Active investment management will raise the Fund's shareholder earnings and allow the Fund to diversify in other industries, with the priority given to the industries bearing potential multiplicative effect for the Kazakhstani economy.

In September 2017, to achieve its strategic financial objectives, the Fund approved the new Investment Policy that became the fundamental document governing the investment activities of the Fund and defining general investment aims and principles. This policy was developed in accordance with the best practice of managing investment activities of leading sovereign wealth funds.

The same month witnessed the start of the Investment and Strategic Committee that significantly facilitated and improved management of the investment and strategic activities. Prior to the ISC establishment, the investment issues were treated by three committees with no integral approach to the Fund portfolio and activity of the Fund companies.

For the year 2017, over 100 ideas were analyzed, 10 investment concepts were elaborated, with 8 of the concepts considered by the ISC, 8 – approved and 2 being prepared for submission for the ISC review.

Industry-wise, the Fund focused on three top-priority areas:

- ▶ Industrial automation and innovations;
- ▶ Agricultural business and food processing;
- ▶ Infrastructure and logistics.

## Reviewing the structure of powers, connections, and responsibilities in the Fund system

To enhance interaction with government authorities in the Fund and all portfolio companies, GR functions were created, following the example of the best world practices. The main aim of the GR function is to identify the areas of interaction with government authorities requiring improvement from the point of view of international corporate governance practices, as well as development of a set of measures to reduce the scope of interaction with government authorities, including a set of amendments to the existing legislation, establishment of working groups to improve the industrial and tariff regulations, reduction of document turnover with government authorities, etc.

As of the end of 2017, the GR function was created in 14 large portfolio companies of the Fund Group. With that, the document turnover with government authorities for the Fund Group decreased by 16% comparing with 2014, and the flow of the documents requiring substantive response was successfully reduced by 84% comparing with 2014.

Since the start of the Transformation, the Fund has been paying great attention to the establishment of an effective corporate governance system. With the assistance of the OECD, the Corporate Governance Code was developed, the industry expertise of the Boards of Directors was strengthened, the emphasis on strategic management of the company was increased, some of the best international experts were attracted, the investment competences were raised, which is especially important in the upcoming IPO.

From the date of starting the Transformation Program, the Boards of Directors of all 6\* portfolio companies, included into the transformation perimeter (NC KTZh JSC, Kazpost JSC, NAC Kazatomprom JSC, KEGOC JSC, NC KazMunayGas JSC, Samruk-Energy JSC) were renewed in accordance with the Corporate Governance Code.

\* Except for the compositions of the BoD of KTZh and KAP, where Deputy Prime Minister of the Republic of Kazakhstan is the Chairman.

For reference

## HR transformation

Within the Transformation Program, the Fund carries a large-scale work to transform the personnel management (HR) function, namely, introduction of three-level model – business partnership, expertise center and general service center.

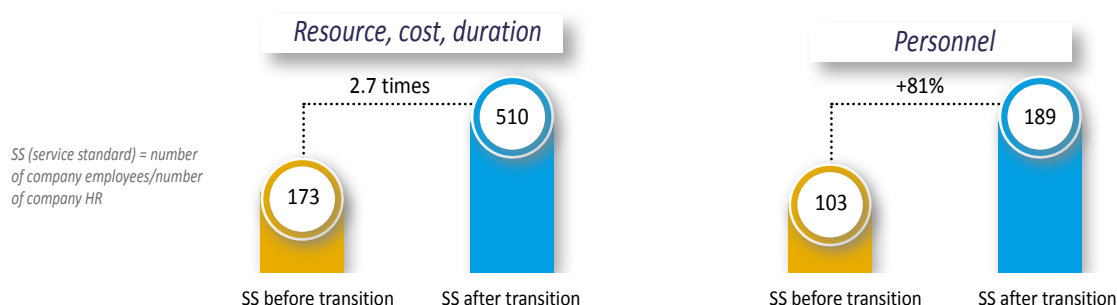
In June 2016, the Fund and NC KazMunayGas JSC established general service center HR Qyzmet for the Fund portfolio companies and KMG subsidiaries. It is a unique center in Kazakhstan and Central Asia in terms of the coverage of the companies from different industries.

HR Qyzmet is a centralized organization dealing with routine personnel-relating processes, such as HR administration, salary calculations, administration of social payments, management of personnel hiring, out-staffing, maintenance of foreign labor, administration of training and employee work assessment.

The advantages of HR Qyzmet introduction are increased effectiveness of HR processes and service quality by unification and standardization of the repeated routine operations for all client companies.

From January 1, 2017, HR Qyzmet was commissioned and provides its services to companies such as Samruk-Kazyna JSC, NC KazMunayGas JSC, Tau-Ken Samruk JSC, United Chemical Company LLP, Samruk-Kazyna Invest LLP, Samruk-Kazyna Contract LLP, Real Estate Fund Samruk-Kazyna JSC, Pavlodar Petrochemical Plant LLP.

## Performance increase – from the first days



## Transformation of the portfolio companies

It is worth noting that the activity vectors of our companies are actively changing to client-orientation, competitiveness and business digitalization.

Currently, Samruk-Kazyna Group of companies is implementing over 80 transformation projects and net economic benefit even today is already KZT 28 billion.

### 1. Job matching

In accordance with the Fund's Corporate Governance Code as well as within the framework of transition to a model of strategic holding company, the Fund is implementing a job matching project with the stricter requirements of CEO-1 positions in portfolio companies.

Transition to a new organizational structure in the Companies is carried out under the auspices of the Fund's Board of Directors; the Companies established Selection Committees (CEO-1 level) with participation of independent directors of the Fund and Companies, representatives of HR Fund, and Companies' CEOs.

In 2016-2017, the job matching was done at the level of CEO-1 in 8 companies of the Fund with an average staffing update of 20% (taking into account internal and external candidates).

### 2. Introduction of integrated planning system

In 2016, four companies (Kazpost JSC, NAC Kazatomprom JSC, Samruk-Energy JSC, NC KTZh JSC) completed prototypes of IPS (Integrated Planning System) for involvement of the companies' top management, training of PC working groups and detailed assessment of potential benefits. In 2017, the system started operation and first results were obtained.

IPS use in Kazpost JSC enabled increase in effectiveness of service sales in the representative offices. Changes in sales income planning were tested in a group of representative offices. Their results were better than those of other representative offices – totally, the sales grew up by more than KZT 900 million.

In Samruk-Energy JSC, the use of IPS at GRES-1 allowed reducing specific fuel consumption resulting in savings of over KZT 100 million in 2017. Based on the pilot project results, the first stage of IPS implementation was launched in another two subsidiaries.

In NAC Kazatomprom JSC, first stage of IPS implementation was also launched, it simulated production of four mining companies, that allowed defining tight KPI to these subsidiaries for 2018. It is planned to consolidate the plans of the whole group and transfer to the goal-oriented planning in 2018.

NC KTZh JSC tested the pilot functional capabilities allowing forecasting marketing sales plan with increased precision due to analysis of big data and identification of correlations with economic parameters, including those of the neighboring countries. The results of the comparative analysis with actual 2017 figures proved validity of the selected methods and defined the areas of further improvement. The works to start industrial operation of the forecasting module and development of the optimization model to simulate the wagon circulation were commissioned.

### 3. Introduction of a new procurement model and categorical management

In 2016, the Fund approved the procurement standards that enabled the Portfolio companies to start introduction of a comprehensive approach to procurement process management and categorical management in 2017.

Within the framework of introduction of categorical management, NC KTZh JSC, KEGOC JSC, Kazpost JSC and NAC Kazatomprom JSC developed 39 categorical strategies and got economic effect amounting to over KZT 2.3 billion in 2017.

### 4. Introduction of reference models

In 2017, Samruk-Energy JSC, NAC Kazatomprom JSC, Kazpost JSC, NC KTZh JSC and KEGOC JSC defined the first group of the introduced goal-oriented processes and launched the projects for their ERP-based automation with the completion period of 2018-2019. Kazpost JSC and NAC Kazatomprom JSC finished the projects to transfer to the goal-oriented information security management models. Introduction by NC KTZh JSC of a part of the goal-oriented model processes relating to marketing and sales, asset and repair management enabled getting net economic benefit of KZT 8.6 billion. Target HR-processes (personnel selection and recruitment, performance assessment and etc.) are introduced based on meritocracy principles according to the approved reference model for human resources management.



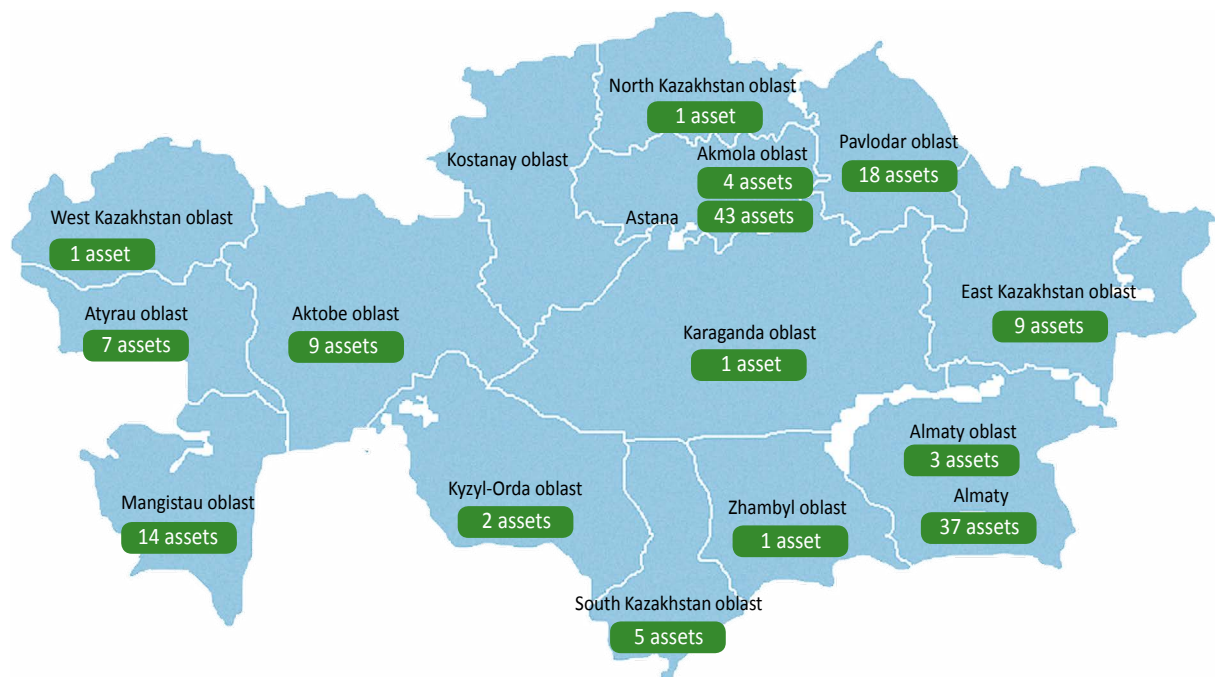
## PRIVATIZATION PROGRAM

In December 2015, the Government of the Republic of Kazakhstan adopted the Comprehensive Privatization Plan for 2016-2020 that planned to transfer about 900 assets to the competitive environment. The objective of the large-scope privatization program was to reduce the state participation in the GDP of the Republic of Kazakhstan and increase of the role of the private sector in the country economy development.

The Comprehensive Privatization Plan includes 215 assets of the Fund Group:

- List 1 covered 48 large assets with high social and economic significance for the country;
- List 2 covered 167 minor and medium assets.

### Samruk-Kazyna JSC: map of the assets under privatization



In 2016, the Fund focused on sale of minor and medium assets, while in 2017 it reached a significant progress in privatization of large assets from List 1.

As of December 31, 2017, in framework of implementation of the Comprehensive Privatization Plan, 129 legal entities withdrawn from the Fund Group, including:

- ▶ 65 sold and transferred to the competitive environment (17 assets in 2017);
- ▶ 64 sent for liquidation/reorganization due to lack of investor interest.

Total earnings from privatization is KZT 111.3 billion.

It is worth mentioning sales of shares of Aktobe TPP JSC, Mangystau Electricity Distribution Network Company JSC, East Kazakhstan Regional Energy Company JSC, Air company Euro Asia Air JSC, etc. among the most significant privatization-related transactions.

Besides, in 2017, approached were developed and the works commissioned to get ready for possible IPO/SPO transactions for 3 national companies: Kazakhtelecom JSC, Air Astana JSC and NAC Kazatomprom JSC. In favorable market conditions and demand, these companies are expected to possible enter the stock exchange in 2018.

For other 4 candidate companies, it is planned to start the preparatory works in 2018. These 4 companies are NC KazMunayGas JSC, Kazpost JSC and NC KTZh JSC, they preliminary plan to enter the stock exchange or sell to a strategic investor in 2019-2020.

### Assets of Samruk-Kazyna JSC Group sold within the Comprehensive Privatization Plan

## 2017

#### List 1

- |  |  |
|--|--|
| 1 Lokomotiv kurastyru zauyty JSC (KTZh)            | 5 Mangystau Electricity Distribution Network Company JSC(SE) |
| 2 KTZE – Khorgos Gateway LLP (KTZh)                | 6 Air company Euro Asia Air JSC (KMG)                        |
| 3 Aktobe TPP JSC (SE)                              | 7 Electrovoz kurastyru zauyty LLP (KTZh)                     |
| 4 EK REC JSC, including Shygysenergotrade JSC (SE) | 8 Maikainzoloto JSC  |

#### List 2

- |                                       |  |
|---------------------------------------|--|
| 9 JV Rare Metal Company LLP (KAP)     | 14 KazOilMash LLP (KMG)                  |
| 10 832 Avtoremontny zavod KE JSC (KE) | 15 Lyazzat LLC (KMG)                     |
| 11 ZPO Astra LLP (KE)                 | 16 KazMunayGas-Service Compass LLP (KMG) |
| 12 UCC Engineering LLP (UCC)          | 17 ZIKSTO JSC (KE)                       |
| 13 Emba oku ortalygy LLP (KMG)        |  |

## 2018 (as of April 30)

## List 1

по состоянию на 30 апреля

- 1 Transtelecom JSC (KTZh)

## List 2

- 2 Aktau petroleum equipment plant LLP (KMG)

- 3 Kazakh Transport and Communications Academy named after M. Tynyshpayev (KTZh)

- ▶ Akmola college KazTCA LLP
- ▶ Aktau transportcollege KazTCA LLP
- ▶ Aktobe transport and communications college KazTCA LLP
- ▶ Shymkenttransport college KazTCA LLP
- ▶ Almatytransport college KazTCA LLP
- ▶ RailwaysEcoEnergy LLP
- ▶ Engineering Center LLP, KazTCA JSC
- ▶ ATB+ LLP

In accordance with the mandate of the Head of the State, the principal privatization stage shall be completed before the end of 2018. Based on that, the Fund applies necessary efforts to sell 60 remaining assets (except for IPO/SPO) in 2018.

Particularly, it is expected that in 2018 the investors will be offered such large assets as Tulpar-Talgo, Machine-building plant named after S. Kirov, airports of Aktobe, Atyrau and Pavlodar, Kazmortransflot and others.

As a result, by the end of 2018, the number of companies in the Fund Group shall go down to 300 (now they are 358).

To ensure maximum transparency and attract investors, the Fund holds special informative meetings for public and investors both in the Republic of Kazakhstan and abroad.

2017 witnessed **10 top-level public events** devoted to privatization. The most significant of those are **Investor Days in London, Hong Kong and Almaty**, where the Fund was supported by the Ministry of National Economy of the Republic of Kazakhstan.

In 2018, the Fund will continue this activity and hold the **Investor Days in Shanghai and Saint-Petersburg**.

## INVESTMENT ACTIVITIES

The Fund's investment portfolio is divided into two large blocks.

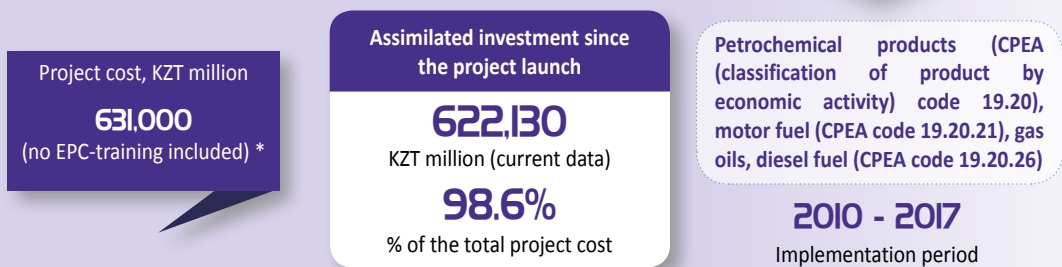
The first block consists of projects aimed at developing the traditional business directions of the Fund. These are the projects of NC KazMunayGas JSC, projects implemented within the framework of "Nurly-Zhol" program by NC KTZh JSC and Samruk-Energy JSC.

The second block of the investment portfolio consists of projects, the implementation of which, in addition to significant commercial profits, will encourage creating new industries that can become new locomotives of Kazakhstan's economy. These are, first of all, the projects of oil and gas chemistry, agrochemistry and mining industry. It should be noted that the development of these industries is a global trend and, within the framework of SPIID, the above projects are included in the list of priority sectors of the manufacturing industry.

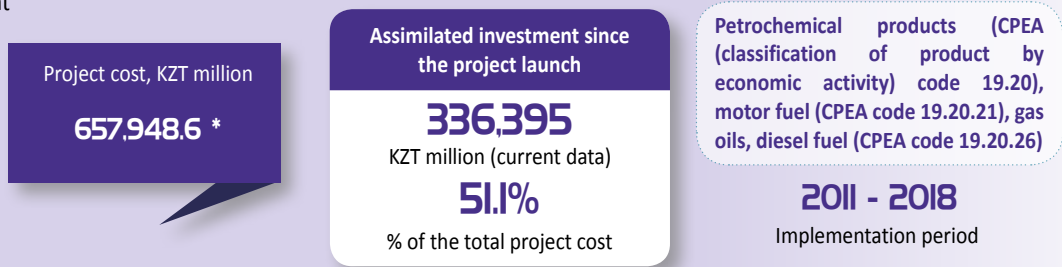
Due to macroeconomic changes happening in 2015-2016, including volatility of KZT exchange rate, as well as changes in the technological part of the projects, there are slight deviations from schedule and costs of projects.

### List of large investment projects of the Fund Group (as of April 30, 2018)

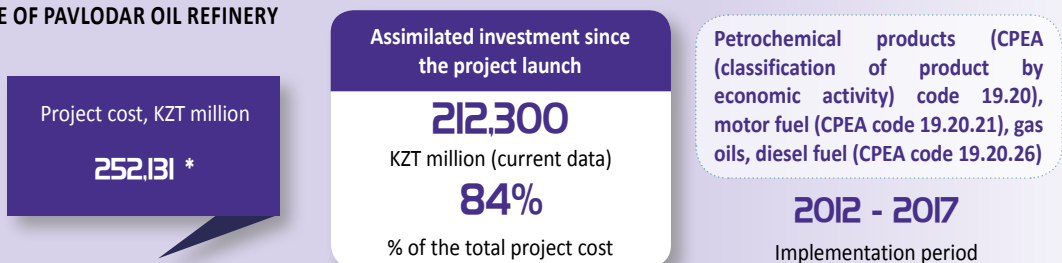
**CONSTRUCTION OF ADVANCED PETROLEUM REFINING COMPLEX**  
**2nd stage of the project "Reconstruction and modernization**  
**of Atyrau Oil Refinery" ANPZ LLP**  
 Atyrau



**RECONSTRUCTION AND UPGRADE OF SHYMKENT OIL REFINERY**  
 Shymkent



**UPGRADE OF PAVLODAR OIL REFINERY**  
 Pavlodar



\* The recalculated cost of the project was approved by the decision of the IC of NC KazMunayGas JSC dated September 9, 2016.



## EXPANSION AND RECONSTRUCTION OF CAPABILITIES OF EKIBASTUZ GRES-1 POWER PLANT (RECONSTRUCTION OF UNIT 1)

Ekibastuz

Project cost, KZT million

91,040.30

Assimilated investment since  
the project launch

18,860.00

KZT million (current data)

20.7%

% of the total project cost

Electric  
power  
generation

2012 - 2024

Implementation period

## CREATION AND COMPREHENSIVE DEVELOPMENT OF A SPECIAL ECONOMIC ZONE

"KHORGOS - EASTERN GATE"

Panfilov district, Almaty region

1. Customs operations.
2. Receipt and sending trains, their making-up and breaking-up.
3. Wagon sorting by the type of reloaded cargo.
4. Cargo reloading from wagons to wagons.
5. Issue of the commercial and transportation documents.

2014 - 2020

Implementation period

Assimilated investment since  
the project launch

33,296 (dry port)

36,811 (infrastructure)

KZT million (current data)

90.4%

% of the total project cost

ҚАЗАҚСТАН ТЕМІР ЖОЛЫ



Project cost, KZT million

78,310.00

## CONSTRUCTION OF A NEW RAILWAY LINE "ZHEZKAZGAN – BEYNEU"

Karagandy region, Aktobe region, Kyzylorda region, Mangystau region

Assimilated investment since  
the project launch

417,379

KZT million (current data)

97.3%

% of the total project cost

2012 - 2016

Implementation period

Project cost, KZT million

429,125

## CONSTRUCTION OF A NEW RAILWAY LINE "ARKALYK – SHUBARKOL"

Kostanay region, Karagandy region

Assimilated investment since  
the project launch

89,998

KZT million (current data)

99.0%

% of the total project cost

2012 - 2016

Implementation period

Project cost, KZT million

91,835

### CONSTRUCTION OF INTEGRATED GAS AND CHEMICAL COMPLEX (1ST PHASE)

Atyrau region

Project cost, KZT million

**890,888**

Assimilated investment since the project launch

**207,253**

KZT million (current data)

**23%**

% of the total project cost

Polypropylene

**2010 - 2021**

Implementation period

### CONSTRUCTION OF FEZ INFRASTRUCTURE FACILITIES "NATIONAL INDUSTRIAL PETROCHEMICAL TECHNOPARK IN ATYRAU REGION"

Atyrau region

Project cost, KZT million

**385,100**

Assimilated investment since the project launch

**103,400**

KZT million (current data)

**27%**

% of the total project cost

Gas turbine power plant (GTPP);  
Water treatment and water cleaning facility;  
Technical gas generation facility;  
General plant infrastructure.

**2014 - 2024**

Implementation period

### CREATION OF SPECIAL ECONOMIC ZONE "TARAZ CHEMICAL PARK"

Zhambyl region, Shu

Project cost, KZT million

**36,095**

Assimilated investment since the project launch

**25,243**

KZT million (current data)

**69.9%**

% of the total project cost

**2013 - 2018**

Implementation period

### CONSTRUCTION OF INTEGRATED GAS AND CHEMICAL COMPLEX (2ND PHASE)

Atyrau region

Project cost, KZT million

**2,309,280**

(preliminary data)

Assimilated investment since the project launch

**36,090**

KZT million (current data)

**2%**

% of the total project cost

Polyethylene

**2010 - I Q 2025**

(preliminary information)

Implementation period



## RISK MANAGEMENT AND INTERNAL CONTROL

The risk management and internal control system is used in strategic and operational management to ensure sufficient confidence in achieving the strategic and operational objectives of the Fund and its Portfolio companies.

RMICCS objectives are:

- ▶ developing the risk culture in all levels of organization, where the standard is defined at the top level – Board of Directors and management; the process owners understand the risks, manage them and duly inform the stakeholders of the risks; company internal environment allows taking effective decisions in response to the external challenges, facilitates open and constructive discussion of corresponding risks and opportunities; organizational structure of the company is based on the model of three lines of protection;
- ▶ continuous improvement of the risk management and internal control system of the Fund, including update of the regulations in RMCS to ensure their compliance with the objectives and scope of the Fund's activities, new regulatory requirements, as well as record-keeping of experience and best practices of risk management;
- ▶ ensuring compliance with the requirements of good corporate governance practices, pursuant to which the Fund shall pay special attention to risk accounting, risk monitoring, its management and due disclosure of information in this area by all risk owners;
- ▶ ensuring the protection of assets through the application of various risk management methods;
- ▶ preventing situations threatening the strategic objectives of the Fund; ensuring the use of new opportunities to increase the value of assets and profitability of the Fund in the long term.

The approach to the Fund risk management is based on the accumulated experience and considers the changes in global environment, internal environment changes, better developed risk culture of the organization. The need for successful and sustained implementation of the Fund's goals and objectives, especially those related to investment activities, sudden and unexpected political and economic changes were the prerequisites to the formation of the current risk management concept.

The existing risk management concept implies a more proactive approach to risk management; Identification of not only risks, but also opportunities, with the introduction of opportunity management processes at all levels of the Fund and companies, especially those actively working in a transnational environment and, accordingly, the most exposed to possible consequences of the non-compliance; strengthening the responsibility of process owners for risk management. At the same time, the main conceptual task of increasing the responsibility of process owners at all operational levels of the organization for managing risk factors is brought to the forefront. This implies a high level of risk culture.

Risk appetite, consolidated risk register and risk map of the Fund are approved annually; risk reports, including updated risk maps and risk management plans, are brought for the review of the Boards of Directors/Supervisory Boards of the PCs and the Fund on quarterly basis.

The corporate risk reinsurance program is implemented under the administration of the Fund, it ensures the shareholders' confidence in the quality of the risk reinsurance of the Fund companies.

The work to establish effective internal control system and systematize internal regulations of the Fund was continued. In 2017, electronic guiding library for the processes and general certification of the employees were introduced.

## Open-ended list of the Fund and PC risks

### Social instability risk

A risk relating to social tension of different groups of the Fund and PC employees. In 2017, the social stability rating was 72% and it has been stable since 2014. To reduce and prevent this risk, special focused communications and explanations to raise financial and legal knowledge of the employees are held, the proposals and claims received on the hot line and corporative website are analyzed, programs of social adaptation of the released personnel are carried out on a permanent basis.

### Reputational risk

A risk relating to negative perception of the Fund and PC by the clients, counterparts, shareholders, investors, loan holders, market analytic experts, supervisory authorities and public in general. To manage this risk, interaction with PC is held to build uniform image and communicative policy of the Fund Group, actions to ensure compliance with the legislative requirements and established ethical standards of conduct by the Fund and PC employees are taken on a permanent basis. In addition, training courses on the peculiarities of communication with mass media are continuously held, communication methodological base is updated.

### Accident risk

A risk that, due to specific nature of the activities, is significant mainly for the Fund PCs dealing with production. Every PC exposed to this risk builds an efficient occupational health and safety system, including OHS briefings, implements international standards (OHSAS 18001), monitors employees' compliance with the safety requirements, provides employees with the protection equipment in production. Besides, the employees are covered by mandatory accident insurance. To analyze and further develop occupational safety programs, they control timely notification of production accidents, prevention of incident concealment, monitor injure rates, identify the causes of the injures and provide reports on serious cases.

### Incident and catastrophe risk

A risk relating to potential natural or human-induced emergency as well as circumstances triggering such emergencies. To prevent the risk, monitoring of compliance with the rules of using production equipment and timely repair of the key equipment is performed. Besides, to mitigate the consequences, catastrophe risks are insured through the corporative risk reinsurance program of the Fund.



A risk relating to implementation of various projects of the Fund Group, that considers timelines, costs and other parameters. The Fund and PCs continuously monitor implementation of the investment project schedules, timely financing, works with strategic partners.

Innovation /  
investment project  
risk

A risk relating to the company inability to finance its activities. To manage this risk, different measures are taken to enhance financial stability of the Fund and ensure covenants of the PCs, with due consideration of periodic reporting analysis results.

Liquidity  
risk

A risk of losses due to non-fulfilment, untimely or incomplete fulfilment of the counterpart's obligations to the Fund and PCs. To manage this risk, treasury standards are established, different instruments common in the international practice (limiting, diversification, etc.) are used.

Credit  
risk

A risk relating to the Fund and PC activity compliance with the legislative requirements and law enforcement practice. To minimize this risk, measures are taken to preliminary settle disputes by means of negotiations, monitoring of the Fund obligations under existing agreements, clarification of the regulations by correspondence with competent authorities, control and monitoring of tax accounting, timely mandatory payments to the budget.

Legal  
risk

The Fund continuously develops RMICCS to ensure reasonable confidence in the Fund's achievement of its goals.



# CORPORATE GOVERNANCE REPORT

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Basic principles and structure of corporate governance

Key achievements of 2017 and plans for 2018

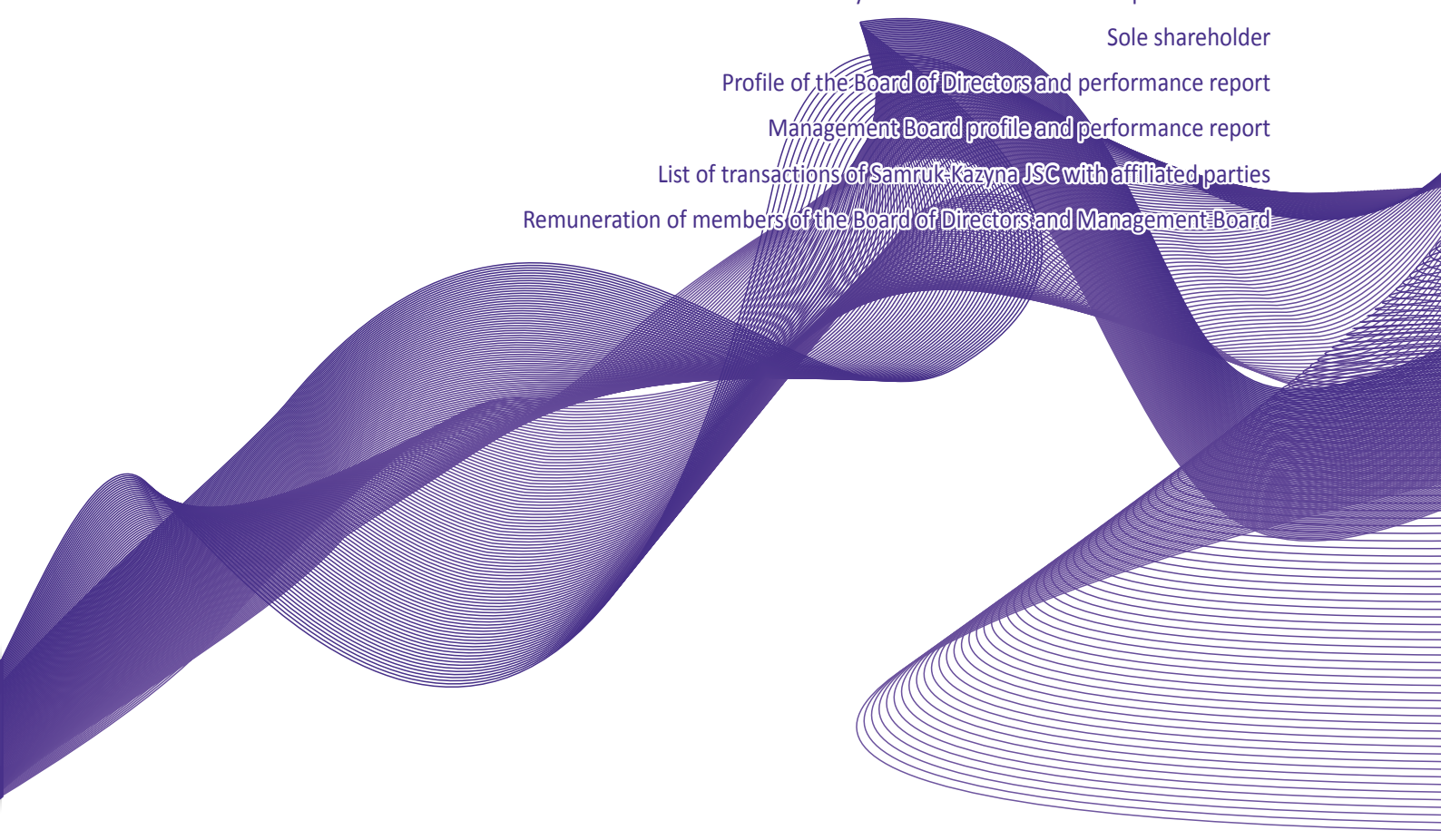
Sole shareholder

Profile of the Board of Directors and performance report

Management Board profile and performance report

List of transactions of Samruk-Kazyna JSC with affiliated parties

Remuneration of members of the Board of Directors and Management Board





## BASIC PRINCIPLES AND STRUCTURE OF CORPORATE GOVERNANCE

### Corporate Governance System

Sovereign Wealth Fund “Samruk-Kazyna” Joint Stock Company is a unified group of companies. Our corporate governance system covers management, control and responsibility of management bodies for the whole group of companies of the Fund, from the top to the bottom. In accordance with the Law on the Fund, the implementation of the best corporate governance practices within the Group of the Fund is a priority of the Fund, and which is also specified in the Fund’s Development Strategy.

The Board of Directors and the Management Board of the Fund are vested with appropriate powers and duties to fulfil their mandates. In turn, top level of corporate governance and high quality of the corporate reporting, ensuring a high degree of transparency, are crucial for maintaining the stakeholders’ confidence in the Fund, the Board of Directors and the Management Board of the Fund.

### FUND MANAGEMENT COUNCIL



### SOLE SHAREHOLDER



### BOARD OF DIRECTORS







**MANAGEMENT BOARD**



**BOARD OF DIRECTORS / SUPERVISORY BOARD of 1 LEVEL PCs**

**EXECUTIVE BODY of 1 LEVEL PCs**

**2 LEVEL PCs of THE FUND**

## KEY ACHIEVEMENTS OF 2017 AND PLANS FOR 2018

### Key achievements in 2017



**We conducted an independent assessment of corporate governance system in 6 PCs participating in Transformation Program**

In accordance with the new Corporate Governance Diagnostics Methodology, the Fund conducted diagnostics of the corporate governance in NC KazMunayGas JSC, NAC Kazatomprom JSC, NC KTZh JSC, Kazpost JSC, Samruk-Energy JSC, KEGOC JSC. Besides, recommendations based on the Fund PC Board of Directors' assessments were approved.



**We formed Boards of Directors in 4 PCs in accordance with the Code requirements**

In 2017, in accordance with the recommendations of the independent consultants, the compositions of the Boards of Directors of the following PCs were upgraded and strengthened: NC KazMunayGas JSC, NAC Kazatomprom JSC, Real Estate Fund Samruk-Kazyna JSC, Qazaq Air JSC, thus ensuring well-balanced composition of the Boards of Directors in terms of experience, gender composition as well as the number.



**We raised the information transparency and disclosure level in the Fund and PCs**

To ensure the required level of transparency in the PCs and comply with the interests of the stakeholders, there was an initiative to develop internal regulations to cover information disclosure that defines principles and approaches to the information disclosure and protection as well as the list of information to be disclosed to the stakeholders.



**We defined Sustainable Development Initiatives in the Fund**

2017 witnessed the Fund approval of the Sustainability Report in accordance with the G4 Global Reporting Initiative (GRI). In its first Sustainability Report, the Fund describes the Initiatives in the sustainable development area and provides 2016 sustainability indicators.

### Key initiatives for 2018



**Independent corporate governance system diagnostics in 12 PCs of the Fund**

In 2018, it is planned to conduct an independent diagnostics of corporate governance system in 12 PCs of the Fund. Corporate governance rating is a strategic KPI for the year 2018.



**Enhancing performance of the PCs' Boards of Directors**

Bringing the compositions of the PCs' Boards of Directors in compliance with the Corporate Governance Code to ensure optimal number of members, required production experience as well as gender diversity of the PCs' Boards of Directors.



**Raising information transparency and disclosure in the Fund and PCs**

The Fund continuously works to update its internal regulations to ensure high transparency level. The PCs will continue development and approval of the documents relating to information disclosure. Besides, within the framework of the transparency initiative, a number of training courses and workshops on information disclosure will be held in 2018.

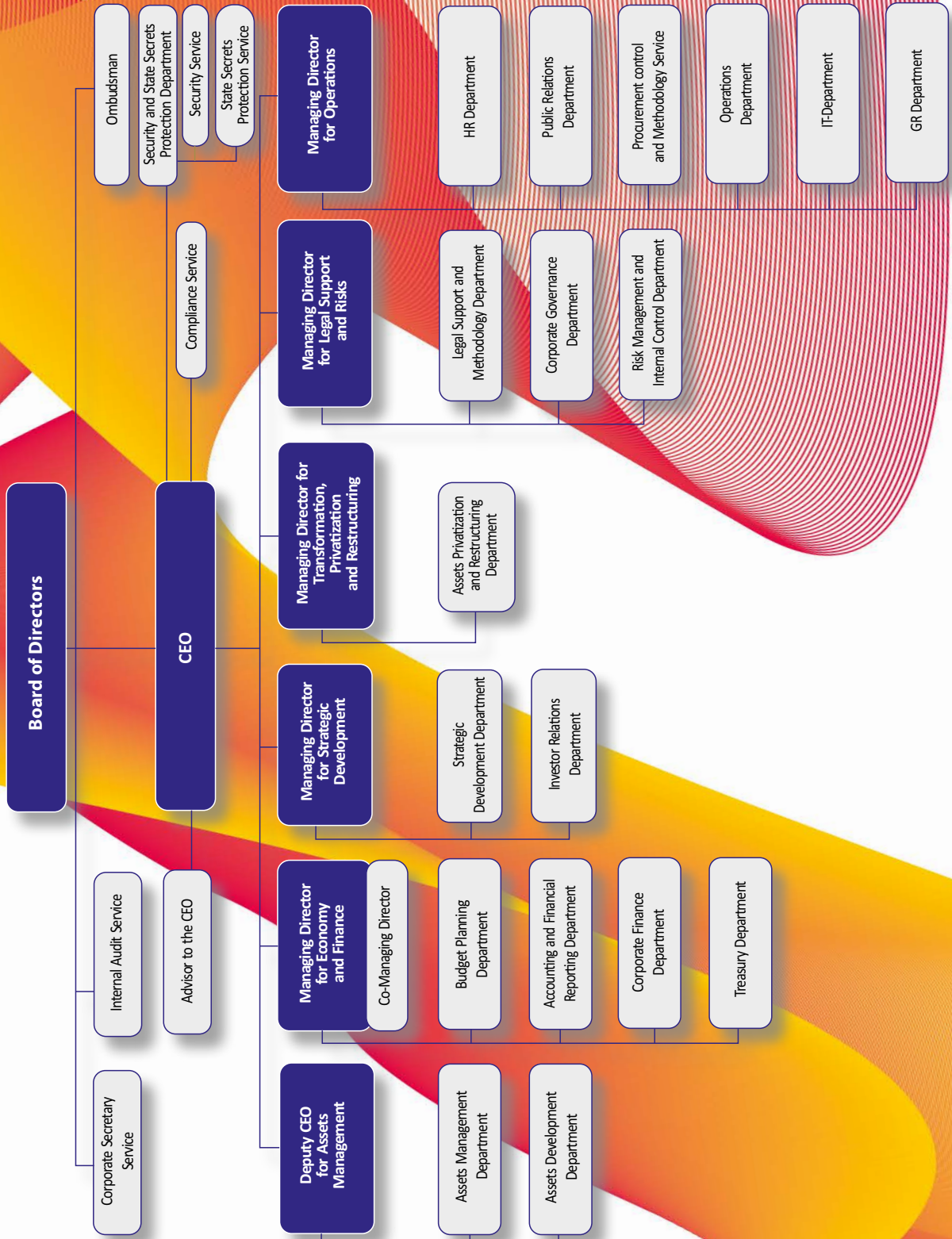


**Implementing Sustainable Development Initiatives in the Fund**

The Fund will continue pursuing its aim to implement 8 Initiatives in sustainable development in 2018; the results will be presented in the consolidated Sustainability Report of the Fund.



# Organizational structure of SWF Samruk-Kazyna JSC as of March 31, 2018



## SOLE SHAREHOLDER

The Sole Shareholder of the Fund is the Government of the Republic of Kazakhstan. Relations between the Fund and the Sole Shareholder are governed by **the Law of the Republic of Kazakhstan “On Sovereign Wealth Fund Samruk-Kazyna” and interaction between the Government of the Republic of Kazakhstan and Sovereign Wealth Fund Samruk-Kazyna Joint Stock Company**, which establishes the basic principles of interaction and requirements imposed by the Government to the Fund in relation to our activities.

The basic principles of interaction between the Government and the Fund are:

- ▶ Management of the Fund ruled by the Government, which is carried out exclusively by exercising the Sole Shareholder's powers provided by the Law of the Republic of Kazakhstan “On Sovereign Welfare Fund” and/or by the Charter of the Fund, and representation of members of the Government in the Board of Directors of the Fund
- ▶ Non-interference of the Government, its members and officials of public authorities in the operating (current) activities of the Fund's group, except in cases stipulated by the laws, regulations and orders of the President of the Republic of Kazakhstan
- ▶ Reporting and transparency of activities of the group of Fund

The Sole Shareholder of the Fund has a list of objectives, which shall be decided on directly by the Sole Shareholder. Overview of issues attributed to the exclusive competence of the Sole Shareholder is given below. These issues are fundamental to the Fund when summing up the strategic and financial performance results.

- ▶ Approval of the Charter of the Fund;
- ▶ Approval of the annual financial statements of the Fund;
- ▶ Approval of the Development Strategy of the Fund;
- ▶ Approval of the Corporate Governance Code of the Fund;
- ▶ Determination of the Fund's dividend policy, adoption of a decision on allocation of the Fund's net income at the end of the reporting period and making a decision on dividend payment;
- ▶ Adoption of decisions on voluntary reorganization or liquidation of the Fund;
- ▶ Determination of the quantitative composition, term of office of the Board of Directors of the Fund, election of its members and early termination of their powers;
- ▶ Appointment and early termination of appointment of Chairman of the Management Board;
- ▶ Alienation of shares of companies in accordance with a list determined by the Sole Shareholder of the Fund as well as transfer of said shares into the trust management;
- ▶ Adoption decisions of liquidation and reorganization of companies in accordance with a list determined by the Sole Shareholder of the Fund.

*A full list of issues attributed to the exclusive competence of the Sole Shareholder is provided in the Charter of the Fund at [www.sk.kz](http://www.sk.kz)*



## Equity capital

- ▶ The number of authorized shares is 3,500,000,000
- ▶ The number of outstanding shares of the Fund is 3,481,938,318
- ▶ The number of public float (unplaced shares) – 18,061,682

Information on major equity transactions in the reporting period:

- ▶ Contributions in cash  
In 2017, the Shareholder made contributions to the authorized capital of the Fund in cash amounting to KZT 74,552 million. This money is designated to finance the projects being implemented by the Fund subsidiaries – KTZh and UCC.
- ▶ Contributions by property  
On March 18, 2017, the State Property and Privatization Committee made a contribution to the authorized capital of the Fund amounting to KZT 266 million in the form of property contribution. This property was transferred to the authorized capital of the subsidiary – National Atomic Company Kazatomprom JSC.

In total, in 2017 it was allowed to issue and allocate 267,560 ordinary shares of the Fund.

## Dividends

In 2017, the Fund paid dividends to the Shareholder in the amount of KZT 11,899 million following the performance results of 2016 in accordance with the Decree of the Government dated November 13, 2017 (in 2016 the amount of dividends following the performance results of 2015: KZT 10,393 million).

*The Fund's Dividend Policy is available at [www.sk.kz](http://www.sk.kz)*

## PROFILE OF THE BOARD OF DIRECTORS AND PERFORMANCE REPORT

**The Fund's Board of Directors** is a managing authority accountable to the Sole Shareholder **ensuring strategic management and control over the activities of the Management Board of Fund**. The role of the Board of Directors is to manage the Fund by ensuring proper vertical management from top downwards.

**A list of key objectives attributed to the exclusive competence of the Board of Directors includes issues that require making decisions and approval with respect to:**

- ▶ Medium-term and short-term planning, key performance indicators of the Fund;
- ▶ Defining the audit organization, maximum amount of payment for audit services;
- ▶ Policies of Risk Management, Social Responsibility, Sponsorship and Charity, and Information Disclosure;
- ▶ Credit and Industrial - innovative Policies;
- ▶ Remuneration of Fund's independent directors;
- ▶ Committees of the Board of Directors;
- ▶ Quantitative composition, term of office of the Management Board, election and termination of powers of members of the Management Board, with the exception of the Chairman of the Management Board;
- ▶ Quantitative composition, term of office of Internal Audit Service, appointment and termination of powers of its head in charge;
- ▶ Fund's acquisition of ten and more percent of shares of other legal entities;
- ▶ Evaluation of corporate governance and performance appraisal of Fund's Board of Directors;
- ▶ Transactions with related parties;
- ▶ Fund's annual report.

*The full list of issues attributed to the exclusive competence of the Board of Directors is disclosed in the Fund's Charter at [www.sk.kz](http://www.sk.kz)*

## Board of Directors as of March 31, 2018



### **BAKYTZHAN SAGINTAYEV**

Chairman of the Board of Directors,  
Prime Minister of the Republic of Kazakhstan

**Citizenship: Republic of Kazakhstan**

Mr Sagintayev is the Chairman of the Board of Directors since September 2016.

Born on October 13, 1963.

Mr Sagintayev is a graduate of Kazakh State University; he holds a degree of Candidate of Sciences in Economy.

He started his career at Alma-Ata Institute of National Economy as a lecturer of political economy department.

In 1988-1992, he worked in the Kazakh State University and advanced in his career from assistant to assistant professor of the sociology department.

From 1992 to 1998, Mr Sagintayev was involved in entrepreneurial activities.

In 1998, he was appointed a Deputy Akim of Zhambyl region.

From 1992 to 2002, he served as the Deputy Chairman of the Agency for Small Business Support, Deputy Chairman of the Agency for Regulation of Natural Monopolies, Competition Protection and Small Business Support of Kazakhstan.

In 2002-2004, he served as the First Deputy Chairman of the Agency for Regulation of Natural Monopolies and Competition Protection of Kazakhstan.

2004-2007 – Chairman of the Agency for Regulation of Natural Monopolies of Kazakhstan.

In 2007-2008 – B. Sagintayev worked as the Head of Kazakhstan Prime Minister's Office.

On 30 September 2008, he was appointed Akim of Pavlodar region.

On 20 January 2012, he was appointed Minister of Economic Development and Trade of Kazakhstan.

On 24 September 2012, he became First Deputy Head of the Nur Otan National Democratic Party.

Under Presidential Decree of 16 January 2013, he was appointed First Deputy Prime Minister.

Under Presidential Decree of September 2016, he was appointed as Prime Minister of the Republic of Kazakhstan.

### **Membership in Committees of the Board of Directors:**

Chairman of Nomination and Remuneration Committee;

Chairman of the Committee for control over the implementation of the Transformation program.





**TIMUR SULEIMENOV**

Member of the Board of Directors,  
Minister of National Economy of the Republic of Kazakhstan

**Citizenship: Republic of Kazakhstan**

Mr Suleimenov is a Member of the Board of Directors since January 2017.

Born on April 5, 1978.

Mr Suleimenov graduated from Pavlodar State University, he holds a degree in Management; He holds the second degree in Law.

He is a graduate of the University of Maryland with a Master's Degree in Business Administration (under Bolashak program).

He holds a Master's Degree in Business Administration specializing in Finance; ACCA Certificate.

He started his career at "Ernst and Young Kazakhstan" in Almaty as a chief consultant. Lately, worked as a Director of Tax Accounting and Planning Department at "KazMunayGas Exploration Production" JSC.

In 2009-2010, he served as Vice-Minister of Economy and Budget Planning of the Republic of Kazakhstan; the Ministry was reorganized to Ministry of Economic Development and Trade.

In 2010-2012, he served as Vice-Minister of Economic Development and Trade of the Republic of Kazakhstan.

In 2012-2016, he was a Member of the Board (Minister) in charge of Economy and Financial Policy, Eurasian Economic Commission.

Since December 2016, he serves as Minister of National Economy of Kazakhstan.

**Membership in Committees of the Board of Directors:**

N/A



**BAKHYT SULTANOV**

Member of the Board of Directors,  
Minister of Finance of the Republic of Kazakhstan

**Citizenship: Republic of Kazakhstan**

Mr Sultanov is a Member of the Board of Directors since October 2008.

Born on November 29, 1971.

In 1994 he graduated from the Faculty of automation and management system of the Kazakh National Technical University, and Kazakh State Academy of Management in 1995.

2002-2003 – Director of Budget Policy Department of the Ministry of Economy and Budget Planning of the Republic of Kazakhstan.

2003-2006 – Vice-Minister of Economy and Budget Planning of the Republic of Kazakhstan.

2006-2007 – Chairman of the Agency of the Republic of Kazakhstan on Statistics.

In 2007, he served as Vice Minister of Finance of the Republic of Kazakhstan.

In 2007-2010, he was Minister of Economy and Budget Planning of the Republic of Kazakhstan, then assistant to the President of the Republic of Kazakhstan.

2012-2014 – Deputy Head of the Administration of the President of the Republic of Kazakhstan.

Since 2014, he has served as Minister of Finance of the Republic of Kazakhstan.

**Membership in Committees of the Board of Directors:**

Chairman of the Specialized Committee.





**ALIKHAN SMAILOV**

Member of the Board of Directors,  
Assistant to the President of the Republic of Kazakhstan

**Citizenship: Republic of Kazakhstan**

Mr Smailov is a Member of the Board of Directors since December 2015.

Born on December 18, 1972.

In 1994, he graduated from Al-Farabi Kazakh National University as a specialist in Applied Mathematics; in 1996, he obtained his Master's Degree in Public Administration from Kazakhstan Institute of Management, Economics and Planning under the President of the Republic of Kazakhstan.

1999-2003 – Chairman of national agency for statistics.

2003 – Vice-Minister of Foreign Affairs of the Republic of Kazakhstan.

2003-2006 – Chairman of the Board at State Insurance Company for the Insurance of Export Credit and Investment JSC.

2006-2007 – Vice-Minister of Finance of the Republic of Kazakhstan.

2007-2008 – President of National Holding KazAgro JSC.

2008-2009 – Vice-Minister of Finance of the Republic of Kazakhstan.

2009-2014 – Chairman of Kazakhstan Agency for Statistics.

2014-2015 – Chairman of the Committee on statistics under the Ministry of the National economy

2015-Assistant to the President of the Republic of Kazakhstan.

**Membership in Committees of the Board of Directors:**

Member of the Committee for control over the implementation of the Transformation program.



**ALPER AKDENIZ**

Member of the Board of Directors,  
Independent Director

**Citizenship: United Kingdom and Turkey**

Mr Alper Akdeniz is a Member of the Board of Directors since March 2018.

Born on August 11, 1960.

Alper's career spanned over 30 years in PwC in the United Kingdom, Turkey, South East Asia and latterly Central Asia. He has accumulated extensive and broad experience in auditing, advisory, corporate finance, governance and other related work covering a range of clients in the manufacturing, financial services, utilities and government sectors.

His career began in Price Waterhouse, London in 1984 where he became a qualified Chartered Accountant. In 1989 he took up a position in Istanbul, Turkey providing auditing and advisory services to local and international companies and banks. Alper was admitted into the Price Waterhouse partnership in 1992. In 1996 he returned to London where he worked on the global merger of Price Waterhouse and Coopers & Lybrand. Alper's work extended to the implementation of the global merger in countries such as Japan, India, Hong Kong, Singapore, Thailand, South America and Sweden. He later served in the Asia leadership team in Singapore.

From January 2007 to June 2015, Alper was the Managing Partner, and later Chairman of PwC Eurasia until June 2017, covering Kazakhstan, Azerbaijan, Georgia, Armenia, Uzbekistan, Turkmenistan, Kyrgyzstan, Tajikistan and Mongolia serving clients in the public and private sectors in this region. Alper also served as a member of the PwC Central and Eastern European (CEE) Management Board.

Alper is a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW). He holds a Masters degree in Business Studies from Bath University, United Kingdom.

He was awarded an honorary Doctorate by Kazakhstan Institute of Management, Economics and Strategic Research (KIMEP). Alper also attended an International Business Program at Harvard Business School.

**Membership in Committees of the Board of Directors:**

Member of Audit Committee;  
Member of Nomination and Remuneration Committee.



**SIR RICHARD EVANS**

Member of the Board of Directors,  
Independent Director

**Citizenship: United Kingdom**

Sir Richard Evans is a Member of the Board of Directors since October 2008.

Born on July 9, 1942.

Graduated from Royal Masonic School (Hertfordshire, London) in 1960.

1960-1967 – worked at the Ministry of Transport and Civil Aviation and, shortly afterwards, work at the newly formed Ministry of Technology.

1967-1969 – Government Contracts Officer at Ferranti in Manchester.

1969-1978 – Commercial Manager of the British Aircraft Corporation (BAC) Military Aircraft Division.

1978-1981 – Commercial Director of the BAC.

1981-1983 – Assistant Managing Director of British Aerospace plc Military Systems.

1983-1987 – Deputy Managing Director and a Member of the British Aerospace plc. Aircraft Group Board.

1987-Director of Marketing, British Aerospace plc.

1988-1990 – Chairman of the British Aerospace Defence company.

1990-1992 – CEO of British Aerospace plc.

1992-2002 – Member of the Supervisory Board of Airbus Industry.

1998-2000 – Non Executive Director of NatWest plc.

1998-2004 – Chairman of the BAE Systems.

2001-2008 – Chairman of the United Utilities plc.

2006-2008 – Chairman of the Board of Directors at the Kazakhstani Holding for Management of State Assets Samruk JSC.

2009-2016 – Chancellor of the University of Central Lancashire.

**Membership in Committees of the Board of Directors:**

Chairman of Audit Committee;

Member of Nomination and Remuneration Committee;

Member of the Committee for Control over Transformation Program Implementation.





**WILHELM BENDER**

Member of the Board of Directors,  
Independent Director

**Citizenship: Germany**

Wilhelm Bender is a Member of the Board of Directors since March 2018.

Born on August 3, 1944.

Graduated from Goethe University in Frankfurt. PhD from Justus Liebig University at Gießen.

1974-1983 – various positions with "Deutsche Bahn".

1983-1989 – Managing Director of „German Transport Forum“– leading industrial organization of Germany's logistic companies. President at that time: Hermann-Josef Abs (Deutsche Bank).

1989-1993 – Chairman of forwarder group "Schenker" and "Schenker Waggon- und Beteiligungs" AG, Board member of "Schenker-Rhenus".

Start of Fraport's international business:

1993-2009 – Chairman of "Fraport AG" - owner and operator of Frankfurt airport and some thirty airports worldwide.

2001 – under the leadership of Dr. Bender the "Fraport AG" company successfully entered IPO.

2009 – Inauguration of 4th runway at Frankfurt airport.

2008 – Honorary Professor Goethe University Frankfurt.

2009 – today Senior Advisor.

2010 – Chairman of the Association of friends and supporters of Goethe University Frankfurt.

2014 – Chairman of the Association supporting Vietnamese-German University Ho-Chi-Minh-City.

2016-2018 – Member of the Board, Independent Director of NC "Kazakhstan Temir Zholy" JSC.

Former or current member of Supervisory Board: "Bombardier Transportation" (Chairman), "Eintracht Frankfurt Fußball" AG (Chairman), "Thyssen Krupp Services", "Adtranz, Signal Iduna", "Voedag", "Techem", "Lufthansa City Line", "Delvag", "Lufthansa Cargo", "MTU", "The Germany Funds".

Former or current member of Advisory Board: "Royal Bank of Scotland", "Stinnes", "DZ-Bank", "Allianz", "Deutsche Bank".

**Membership in Committees of the Board of Directors:**

Member of Audit Committee;

Member of Nomination and Remuneration Committee.





**AKHMETZHAN YESSIMOV**

Member of the Board of Directors,  
CEO of Samruk-Kazyna JSC

**Citizenship: Republic of Kazakhstan**

Mr Yessimov is a Member of the Board of Directors since December 2017.

Born on December 15, 1950.

In 1974, Mr Yessimov graduated from the Kazakh Agricultural Institute with major in Mechanization of Agricultural Production Processes.

In 1991 graduated from socio-political faculty of the Russian Academy of Social Sciences with major in Theory of Sociopolitical Relations. He received PhD in Economics in 1999.

1990 – First Deputy Chairman of Gosagroprom of the Kazakh SSR, and in 1991 – the First Deputy Minister of Agriculture and Food of Kazakh SSR.

1991-1992 – Chairman of Almaty Oblast Congress of People’s Deputies.

1992-1994 – Head of Alma-Ata regional administration.

1994-1996 – Deputy Prime Minister of the Republic of Kazakhstan.

1996-1998 – State Secretary of the Republic of Kazakhstan, First Deputy Prime Minister of the Republic of Kazakhstan – Chairman of the State Committee on Investments, Head of Administration of President of the Republic of Kazakhstan.

1998-2001 – Ambassador Extraordinary and Plenipotentiary of the Republic of Kazakhstan to the Benelux countries (The Kingdom of Belgium, The Kingdom of the Netherlands and The Grand Duchy of Luxembourg). He also headed the Representative Office of the Republic of Kazakhstan to the EU and the NATO.

2001-2006 – Minister of Agriculture of the Republic of Kazakhstan, Deputy Prime Minister of the Republic of Kazakhstan.

Since January 2006 through April 2008 – Minister of Agriculture of the Republic of Kazakhstan.

Since April 2008 through August 2015 – Mayor of Almaty, Chairman of Almaty affiliate of Nur Otan Party.

Since August 2015 through December 2017 – Chairman of the Management Board of NC Astana EXPO-2017 JSC.

Since December 2017 – Chairman of the Management Board of Samruk-Kazyna JSC.

Mr Yessimov is the awardee of Kazakhstan Labor Hero, Badge of Honor, Friendship Order, Otan Order, Parasat Order.

**Membership in Committees of the Board of Directors:**

Member of Committee for Control over Transformation Program Implementation.

## Changes in the composition of the Board of Directors in 2017-2018

Date	Member of the Board of Directors	Event
January 25, 2017	Mr Kuandyk Bishimbayev	Dismissed as a member of the Board of Directors
January 25, 2017	Mr Timur Suleimenov	Appointed as a member of the Board of Directors
December 15, 2017	Mr Umirzak Shukeyev	Dismissed as a member of the Board of Directors
December 23, 2017	Mr Akhmetzhan Yessimov	Appointed as a member of the Board of Directors
January 16, 2018	Baron Olivier Descamps	Dismissed as a member of the Board of Directors
March 27, 2018	Mr Alexander Mirtchev	Dismissed as a member of the Board of Directors
March 27, 2018	Mr Alper Akdeniz	Appointed as a member of the Board of Directors
March 27, 2018	Mr Wilhelm Bender	Appointed as a member of the Board of Directors

## Board of Directors Performance Report

### Activities of the Board of Directors

In 2017, the Board of Directors held 9 ordinary meetings, out of which 6 meetings in-person and 3 meetings in absentia. In total, the Board reviewed 103 issues, against which the Board approved 151 decisions, and issued 55 instructions.

### Participation of members of the Board of Directors at meetings of BoD and Committees in 2017

BoD / Committee Member	Independent	BoD	Audit Committee	Nomination and Remuneration Committee	Committee for Control over Transformation Program	Specialized Committee
Mr Bakytzhan Sagintayev	No	9/9		6/6	4/4	
Mr Alikhan Smailov	No	7/9			3/4	
Mr Bakhyt Sultanov	No	9/9				2/2
Mr Timur Suleimenov	No	9/9				
Sir Richard Evans	Yes	9/9	22/22	6/6	4/4	
Dr. Alexander Mirtchev	Yes	8/9	11/22	6/6		
Baron Descamps Olivier Edouard Emmanuel	Yes	3/8	13/20	2/5		
Mr Umirzak Shukeyev	No	8/9			3/4	

The Board of Directors approved:

- ▶ Development plan of Samruk-Kazyna JSC for 2017–2021;
- ▶ Annual report of Samruk-Kazyna JSC for 2016;
- ▶ Code of conduct of Samruk-Kazyna JSC;
- ▶ Debt and financial stability management policy of Samruk-Kazyna JSC in the new edition;
- ▶ Whistleblowing Policy of Samruk-Kazyna JSC;
- ▶ Regulations on the Ombudsman of Samruk-Kazyna JSC and member organizations of the Group of Samruk-Kazyna JSC ;
- ▶ Pre-approved annual consolidated and separate financial statements of Samruk-Kazyna JSC for 2016;
- ▶ Unified Rules for Assets Realization, Restructuring by Joint-Stock Company “Sovereign Wealth Fund “Samruk-Kazyna” and organizations which more than fifty percent of voting shares (interest) is directly or indirectly owned by Samruk-Kazyna JSC on the right of property (in the new edition);
- ▶ Sustainable Development Report of Samruk-Kazyna JSC for 2016;
- ▶ Investment policy of Samruk-Kazyna JSC in the new edition;
- ▶ Lists of participant of the long-term remuneration program for 2016-2018 and for 2017-2019, long-term key performance indicators for the CEO and members of the Management Board of Samruk-Kazyna JSC with target values for 2016-2018 and for 2017-2019 are approved. At the same time, by Minutes of the Board of Directors No.145 of December 13, 2017 it was decided to provide submission for consideration of the Council for Management of Sovereign Wealth Fund of the issue of launch of the Long-Term Remuneration Program and about payment of remuneration to the executive employees of Samruk-Kazyna JSC;
- ▶ KPI charts of executive employees of Samruk-Kazyna JSC with the actual values for 2015, and decision to make payment to the executives of Samruk-Kazyna JSC of remuneration following the results of work for 2015 taking into account actually worked time for 2015;
- ▶ KPI charts of the CEO and members of the Management Board of Samruk-Kazyna JSC with the actual values for 2016 and decision on payment of short-term remuneration to the CEO and members of the Management Board of Samruk-Kazyna JSC following the results of work for 2016 taking into account actually worked time for 2016.

### Internal audit

- ▶ Reports of the Internal Audit Service, report on implementation of the Transformation Program of Samruk-Kazyna JSC and reports on risks of Samruk-Kazyna JSC are considered on a quarterly basis;
- ▶ The Board of Directors approved the annual Audit Plan of Internal Audit Service of Samruk-Kazyna JSC for 2018.

### Risk management and Internal control

- ▶ The Board of Directors reviewed risk reports on a quarterly basis;
- ▶ The Board of Directors approved risk appetite, risk register, risk map, Risk Management Action Plan.

## COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has four Committees:

- ▶ Audit Committee;
- ▶ Nomination and Remuneration committee;
- ▶ Committee for Control over Transformation Program Implementation;
- ▶ Specialized Committee.



## Audit Committee

**SIR RICHARD EVANS**

**Committee Chairman**

Audit Committee is in charge for analysis of effectiveness of financial reporting process of the Fund, internal control policy and procedures for identification, assessment and reporting of risks. At the same time, Audit Committee monitors the integrity of separate and consolidated financial statements of the Fund, monitors communications with external auditors, including the volume, level and value of non-audit services performed by external auditors, and monitors the role and efficiency of Internal Audit Service.

### Audit Committee composition and participation in meetings

Audit Committee Member	Participation in the meetings of Audit Committee			
	Total	In-person	In absentia	In-person (out of Audit Committee)
Sir Richard Evans	22/22	13/13	6/6	3/3
Dr. Alexander Mirtchev	11/22	5/13	6/6	0/3
Baron Olivier Descamps	13/20	8/11	4/6	1/3

## Activities of Audit Committee

In 2017, the Audit Committee held a total of 19 meetings, including 13 meetings in-person and 6 meetings in absentia.

During the meetings, the Audit Committee reviewed 60 issues in various areas within its competence.

Three additional meetings in-person with the participation of the Audit Committee members relating to the issues within the Audit Committee competence were held beyond the Audit Committee meetings. Moreover, the Audit Committee reviewed internal documents as related to the risk management for their following submission for consideration of the Board of Directors.

### Internal audit:

- ▶ Audit Committee studied audit reports of inspections performed in accordance with the Annual Audit Plan for 2016 and 2017 relating to:
  - comprehensive audit of human resources management system;
  - audit of financial risks management procedures effectiveness;
  - monitoring of external auditor's recommendations fulfilment;
  - self-assessment for compliance with international occupational standards of internal audit;
  - review of the status of moving to a new operating model;
  - audit of key performance indicators of the Fund's management;
  - review of implementation of business transformation program within Samruk-Kazyna JSC group.
- ▶ Audit Committee also reviewed audit reports following inspections held in relation to: 1) information technology infrastructure; and 2) implementation of Transformation Program in a number of the Fund's subsidiaries based on a synergistic approach. In particular, Audit Committee studied audit reports related to:
  - audit of general IT controls of NC KazMunayGas JSC;



- maturity assessment for IT processes at KEGOC JSC;
  - assessment of IT investment projects execution at Kazpost JSC;
  - information security audit at NC Kazakhstan Temir Zholy JSC;
  - review of implementation of Transformation Program at NC KazMunayGas JSC, Samruk-Energy JSC, Kazpost JSC, KEGOC JSC.
- ▶ Quarterly reviewed and evaluated the effectiveness of Internal Audit Service of the Fund, as well as held meetings separately with each staff member of Internal Audit Service for discussion of individual development plans.
  - ▶ Elaborated the recommendations for the Board of Directors for appointment of the head of Internal Audit Service and staff members of Internal Audit Service.
  - ▶ Had a series of interviews with candidates for the position of head of Internal Audit Service.
  - ▶ Reviewed and preliminarily approved the annual audit plan of Internal Audit Service of the Fund for 2018.
  - ▶ Analyzed quarterly internal audit reports prepared for the Board of Directors of the Fund.

### External audit

- ▶ Reviewed the audit results of consolidated and separate financial statements of the Fund for the year ended December 31, 2016, and received confirmation of the auditors' independence.
- ▶ Studied reports of external auditor about deficiencies in the internal control system of the Fund and the Fund's Group of companies.
- ▶ Considered outcomes of limited review procedures of interim condensed consolidated and separate financial statements of the Fund for six-month period ended June 30, 2017.
- ▶ Considered and approved the plan for audit of consolidated and separate financial statements of the Fund for the year ended December 31, 2017.
- ▶ Repeatedly considered the issue of approval of consulting non-audit services for the Fund and the Fund's subsidiaries by the Fund's audit organization.

### Financial statements

- ▶ Reviewed the status of implementation of the Single Action Plan for elimination of significant deficiencies in the process of preparation of financial statements, as identified by external auditors of companies of the Fund's Group.
- ▶ Examined financial statements and judgments contained in the financial statements. Preliminary approved and recommended to the Board of Directors for preliminary approval the Fund's financial statements for the year ended December 31, 2016.
- ▶ Reviewed and commented on the amendments to the Corporate accounting policy of Samruk-Kazyna JSC.

### Risk management and internal control system

- ▶ Reviewed the outcomes of systematization of Policies and Procedures in the Fund for 2017.
- ▶ During the year, Audit Committee reviewed quarterly risk reports.
- ▶ Reviewed and commented on the risk map and register, risk-appetite of the Fund for 2017 and 2018.
- ▶ Reviewed and commented on the Policy of Samruk-Kazyna JSC for fixing limits for counterparty banks.
- ▶ Reviewed and commented on the Policy of Samruk-Kazyna JSC for risks management and internal control.

### Corporate Governance

- ▶ Reviewed the report on conformance/non-conformance with the principles and provisions of Corporate Governance Code of Samruk-Kazyna JSC, approved by the Decree of the Government of the Republic of Kazakhstan dated November 5, 2012, No.1403;
- ▶ Reviewed the outcomes of corporate governance independent diagnostics in Samruk-Kazyna JSC portfolio companies.



## Nomination and Remuneration Committee

**BAKYTZHAN SAGINTAYEV**

**Committee Chairman**

**Nomination and Remuneration Committee** is in charge for giving recommendations and proposals on attracting qualified specialists to the composition of the Board of Directors, Management Board, for a position of Corporate Secretary, for approving remuneration of independent directors, terms of remuneration and bonuses to members of the Management Board and Corporate Secretary.

### Composition of Nomination and Remuneration Committee and participation in the meetings of Nomination and Remuneration Committee

Nomination and Remuneration Committee Member	Participation in the meetings of Nomination and Remuneration Committee		
	Total	In-person	In absentia
Mr Bakytzhan Sagintayev	6/6	5/5	1/1
Sir Richard Evans	6/6	5/5	1/1
Dr. Alexander Mirtchev	6/6	5/5	1/1
Baron Olivier Descamps	2/5	2/4	0/1

## Activities of Nomination and Remuneration Committee

In accordance with Work Plan of Nomination and Remuneration Committee for 2017, the Committee held 6 meetings, including 5 meetings in-person and 1 in absentia, where reviewed 21 issues within the competence. The Board of Directors approved relevant protocol decisions on all the issues; none of the Committee's proposals and/or recommendations was rejected.

The following issues were reviewed at the Committee meetings:

- ▶ On Determination of Official Salaries of CEO and Members of the Management Board of Samruk-Kazyna JSC;
- ▶ Approval of results for long-term Key Performance Indicators achievements of CEO and Management Board members of Samruk-Kazyna JSC for 2013-2015 and the payment of long-term remuneration for 2013-2015;
- ▶ On Approval of Key Performance Indicators of the CEO and Members of the Management Board of Samruk-Kazyna JSC for 2017;
- ▶ On approval of long-term KPI of executive employees of Samruk-Kazyna JSC for 2016-2018 and 2017-2019;
- ▶ On approval of key performance indicators with actual values for the executive employees of Samruk-Kazyna JSC for 2016 and the amount of remuneration based on the results of work for 2016;
- ▶ On approval of long-term key performance indicators with actual values for the executive employees of Samruk-Kazyna JSC for 2014-2016 and the amount of remuneration based on the results of work for 2014-2016.



## Committee for Control over Transformation Program Implementation

**BAKYTZHAN SAGINTAYEV**

**Committee Chairman**

**Committee for Control over Transformation Program Implementation** is a consulting and advisory authority of the Fund’s Board of Directors and is in charge for monitoring and evaluating the implementation of the Fund’s Transformation Program and for preparing the necessary recommendations to the Fund’s Board of Directors.

### Composition of the Committee for Control over Transformation Program Implementation and participation in the meetings of the Committee

Committee for Control over Transformation Program Implementation Member	Participation in the meetings of the Committee for Control over Transformation Program Implementation
	Total meetings in-person
Mr Bakytzhan Sagintayev	4/4
Sir Richard Evans	4/4
Mr Umirzak Shukeyev	3/4
Mr Alikhan Smailov	3/4

CEOs of the Portfolio Companies involved in the implementation of the Transformation program also attended and reported during the meetings of the Transformation program Oversight Committee under the Board of Directors of Samruk-Kazyna JSC.

### Activities of the Committee for Control over Transformation Program Implementation

During the year the Transformation program Oversight Committee considered 10 issues, among of which the issue on status check of Transformation program implementation has been considered several times. In particular, the Transformation program Oversight Committee considered the following issues:

- ▶ Implementation status of the Transformation Program;
- ▶ On completion of the initiative of Samruk-Kazyna JSC Transformation program “1A: Reengineering of business processes of Samruk-Kazyna JSC;
- ▶ Amendments and supplements to the Transformation program of Samruk-Kazyna JSC;
- ▶ On the consideration of external quality assurance approaches of the Transformation Program of Samruk-Kazyna JSC;
- ▶ On Report on activities of the Transformation Program Oversight Committee under the Board of Directors of Samruk-Kazyna JSC for 2016;
- ▶ On approval of Work Plan of the Transformation Program Oversight Committee under the Board of Directors of Samruk-Kazyna JSC for 2017 and 2018.

Members of the Committee provided suggestions on the improvement of the content of the Progress report on the implementation of the Transformation program, as well as comments on amendments and supplements to the Transformation program of Samruk-Kazyna JSC.

In general, the Transformation program Oversight Committee’s meetings have been held on a regular basis in accordance with the Work plan, approved by the decision of the Transformation program Oversight Committee # 9 dated January 27, 2017.



## Specialized Committee

**BAKHYT SULTANOV**

**Committee Chairman**

**Specialized Committee** performs a comprehensive and objective analysis of activity impact of organizations belonging to Samruk-Kazyna JSC group on development of the economy or a particular sector, with the exception of issues related to utilization of funds of National Fund of the Republic of Kazakhstan, republican budget, as well as governmental guarantees and assets.

### The composition of Specialized Committee and participation in meetings of the Committee

Specialized Committee member	Position, voting power	Participation in the meetings of Specialized Committee
Mr Bakhyt Sultanov	Minister of Finance of the Republic of Kazakhstan, Member of the Board of Directors of Samruk-Kazyna JSC Chairman of the Committee	2/2
Mr Adylgazy Bergenov	Member of the Accounts Committee for Control over Execution of the Republican Budget Expert with the right to vote	1/2
Ms Aigul Mukhametkarim	Member of the Accounts Committee for Control over Execution of the Republican Budget Expert with the right to vote	1/2
Mr Yernar Zhanadil	Acting Managing Director for Finance and Operations of Samruk-Kazyna JSC Expert with the right to vote	2/2
Ms Kalima Aitpayeva	Head of Control Service Samruk-Kazyna JSC Expert with the right to vote	2/2
Ms Yelena Bakhmutova	Managing Director for Finance and Operations of Samruk-Kazyna JSC Expert with the right to vote	0/2
Mr Gabdulkamit Tuleshov	Head of the Department for Control over Execution of the Republican Budget of Financial Control Committee of the Ministry of Finance of the Republic of Kazakhstan Expert with the right to vote	2/2
Ms Ardak Kiyakbayeva	Acting Head of Department for Monitoring the Effectiveness of Management of State Property Facilities of the Committee for State Property and Privatization of the Ministry of Finance of the Republic of Kazakhstan Expert with the right to vote	2/2
Ms Ainur Bushmukhambetova	Head of the Department of the National Fund of the Republic of Kazakhstan and Interaction on the Financial Sector of the Budget Lending Department of the Ministry of Finance of the Republic of Kazakhstan Expert with the right to vote	1/2
Mr Amangeldy Issenov	Director of Budget Lending Department, National Fund of the Republic of Kazakhstan and the interaction with the financial sector of the Ministry of Finance of the Republic of Kazakhstan, a permanent member of the Committee Expert with the right to vote	0/2



## Activities of Specialized Committee

In 2017, Specialized Committee under the Board of Directors of Samruk-Kazyna JSC held 2 meetings in-person, where reviewed the following issues:

- ▶ On amending the List of the Organizations of Samruk-Kazyna JSC to be subject to the complex analysis in 2017.
- ▶ On the Work Plan of the Specialized Committee under the Board of Directors of Samruk-Kazyna JSC for 2018.
- ▶ On consideration of results of the complex analysis of activities and impact of assessment on development of national economy and its separate industries of Samruk-Energy JSC, Tauken-Samruk JSC, Samruk-Kazyna Invest LLP, United Chemical Company LLP.
- ▶ On consideration of results of monitoring of execution of the recommendation of the Specialized Committee under the Board of Directors of Samruk-Kazyna JSC for 2013 - 2016.

All proposals and the recommendations of the Committee were submitted for consideration of the Board of Directors on which the relevant legal decisions were made.

In compliance with the Work Plan of the Specialized Committee under the Board of Directors of Samruk-Kazyna JSC (hereinafter - the Committee) for 2017 and the “List of Organizations subject to the Comprehensive Analysis in 2017” approved by the Committee, the comprehensive analysis of the 4 companies of the group of Samruk-Kazyna JSC was held, including:

1. Samruk-Energy JSC;
2. Tau-Ken Samruk JSC;
3. United Chemical Company LLP;
4. Samruk-Kazyna Invest LLP.

By Order of the CEO of Samruk-Kazyna JSC No.63-p dated August 21, 2017 to analyze the performance of the member companies of the Fund group it was created an audit group consisting of employees of the Control Service of Samruk-Kazyna JSC and employees of Dostyk Advisory LLP in consortium with NURTEAM AUDIT LLP with which it was concluded the agreement following the results of procurement procedures on acquisition of consulting services for complex analysis.

Due to the staff changes in the Ministry of Finance of the Republic of Kazakhstan and in Samruk-Kazyna JSC, by Minutes of the Board of Directors of Samruk-Kazyna JSC No.142 of September 26, 2017 it was made the decision to withdraw Isenov Amangeldy from the structure of the Specialized Committee under the Board of Directors of Samruk-Kazyna JSC due to release from a post and Bakhmutova Yelena due to job change and to include Bushmukhambetova Ainur – Head of the Department of the National Fund of the Republic of Kazakhstan and Interaction on the Financial Sector of the Budget Lending Department of the Ministry of Finance of the Republic of Kazakhstan.

Also due to the staff changes at the Accounts Committee for Control over Execution of the Republican Budget, by Minutes of the Board of Directors No.143 of October 27, 2017 it was made the decision to withdraw Mukhametkarim Aigul from the structure of the Specialized Committee and to include Bergenev Adylgazy – Member of the Accounts Committee for Control over Execution of the Republican Budget instead of her.

## Management Board composition as of march 31, 2018



**AKHMETZHAN YESSIMOV**

**Chairman of the Management Board**

Appointed as Chairman of the Management Board in December, 2017



**ALIK AIDARBAYEV**

**Deputy Chairman of the Management Board for Assets Management**

Throughout his career, he held various management positions at Yuzhkazneftegaz, Kumkol-Lukoil (later, the company was renamed to Turgai Petroleum CJSC), Mangistaumunaygas JSC, NC KazMunayGas JSC. He was also Director General at KazMunayGas Exploration Production JSC from December 2011 to 2013, Governor of Mangistau region from 2013 to 2017, First Vice-Minister for Investments and Development of the Republic of Kazakhstan from March 2017 to January 2018. Since 15 January 2018, Mr Aidarbayev serves as Deputy Chairman of the Board Management of Samruk-Kazyna JSC.

He has PhD in Engineering Science, and is honorary professor of Kanysh Satpayev National Technical University. He holds MBA from Academy of National Economy under the Government of the Russian Federation in Moscow. Mr Aidarbayev was awarded Kurmet, Parasat and II degree Barys orders.



**GANI BITENOV**

**Managing Director for Legal Support and Risks**

Throughout his career, he held various management positions at the Ministry of Justice, Eurasian Development Bank and in Kazakhstani law firms. He worked at Bracewell & Giuliani LLP – an international law firm where he represented interests of EBRD, Merrill Lynch International, JPMorgan Chase Bank NA and other large global investment banks, NAC Kazatomprom JSC, KazMunayGas EP JSC, Development Bank of Kazakhstan JSC and largest second tier banks of Kazakhstan. Mr Bitenov holds a Master's Degree in Economics and Doctorate degree in Law; he completed further professional training in Harvard. He is an arbitrator of the Shanghai International Arbitration Centre.

Currently, he is in charge for coordinating the Fund's activities related to Legal Support, Risk Management, Corporate Governance, and issues related to preparation of regulatory legal acts.



**BALJEET KAUR GREWAL**

**Managing Director for Strategic Development**

She has 15 years of international experience at senior management positions in financial and banking companies as well as in sovereign welfare funds. She held the following positions: Senior Advisor of the Development Program of the National Fund of the Asian Development Bank, Managing Director and Vice-Chairman of the Kuwait Investment Authority & Kuwait Finance House (strategy and investments), Vice-President in ABN AMRO Bank, Maybank Malaysia and Deutsche Bank.

She is in charge for development and monitoring of implementation of the Fund's strategy, including monitoring the achievement of target values of key performance indicators (KPIs) of the Fund and portfolio companies, as well as achieving the tasks outlined in key strategic documents.



**YERZHAN TUTKUSHEV**

**Director of Assets Development Department**

Mr Tutkushev began his career with J.T.I. for Marketing and Sales CJSC (Japan Tobacco International) in St. Petersburg in 2004 as an accountant, later, he served as a senior manager of Strategic Planning Department at Development Bank of Kazakhstan JSC. He has an experience at such international consulting companies as Ernst & Young and PricewaterhouseCoopers. He held a number of leadership positions within Astana-finance, Samruk-Kazyna Invest JSC, Samruk-Kazyna JSC. Since July, 2014, he served as Deputy Director of Business Development, Co-Managing Director for New Industries Development of Samruk-Kazyna JSC.

Mr Tutkushev has served as Director of Assets Development Department of Samruk-Kazyna JSC since January 11, 2018.

He holds a Master's degree in Finance from the University of Illinois at Urbana-Champaign.



**YERNAR ZHANADIL**

**Co-Managing Director for Economics and Finance**

Throughout his career, he held various positions at Phillip Morris Kazakhstan, Elitstroy LLP, PricewaterhouseCoopers international audit company. When beginning his career at Samruk-Kazyna JSC, he was responsible for the activity of Internal Audit Service, as well as served as a Secretary of the Audit Committee and Committee for Control over Transformation under the Board of Directors of the Fund, and served as a member of the Audit Committee under the Board of Directors and Committees of several Fund's subsidiaries. In 2016, he was appointed to the position of Financial Controller of Samruk-Kazyna JSC with the subsequent approval for the position of Managing Director for Finance and Operations.



## MANAGEMENT BOARD PROFILE AND PERFORMANCE REPORT

The list of key objectives attributed to the competence of the Management Board includes:

- ▶ Determination of conditions and procedure for conversion of the Fund's securities as well as amendment thereof;
- ▶ Determination of the amount of payment for appraiser's services for evaluation of the market value of property transferred in return for the Fund's shares or being the subject of a major transaction;
- ▶ Determination of a list of, and making decisions on activities of companies more than fifty percent of voting shares (participatory interest) of which are owned by the Fund on the right of ownership or trust management, which are attributed by the legislation of the Republic of Kazakhstan and companies' charters to the competence of general meetings of shareholders (members) of companies, decisions on which shall be adopted by the Management Board or the Chairman of the Management Board (except for the decisions on activities of companies, which shall be adopted by the Sole Shareholder or by the Board of Directors of the Fund according to the Law), as well as the procedure for making such decisions;
- ▶ Approval upon issues relating to appointment or early termination of powers of chief officers of executive bodies of the companies, all voting shares (participatory interest) of which are owned by the Fund on the right of ownership and (or) trust management;
- ▶ Adoption of prompt measures in relation to companies with the aim to prevent disruption of completeness and terms of the implementation of investment decisions and investment projects;
- ▶ Formation of unified policies in the field of finance, investment activities, production and economic activities, money management and human resources management;
- ▶ Approval of methodical recommendations and corporate standards in relation to PCs, more than fifty percent of voting shares (participatory interest) of which are owned directly or indirectly by the Fund;
- ▶ Approval of the staffing list and organizational structure of the Fund;
- ▶ Adoption of decisions on the establishment of branches and representative offices of the Fund;
- ▶ Adoption of decisions on the establishment of committees of the Management Board of the Fund composed of employees of the Fund, companies and other persons for the purpose of elaboration of proposals for the Management Board of the Fund;
- ▶ Determination of information on the Fund or its activity, which is treated as official, commercial or other legally protected secret;
- ▶ Annual hearing of PCs' performance results and submission of reports on the companies' performance results to the Board of Directors of the Fund.



## Management Board performance report

The Management Board of Samruk-Kazyna JSC held 46 meetings in 2017, of which 27 meetings in-person and 19 meetings in absentia. Thus, compared to the same period in 2016, the number of in-person meetings increased from 23 to 27.

In total, during the reporting period, the Fund's Management Board reviewed 361 issues.

In general, the Fund's Management Board meetings were held on a regular basis in accordance with the Work Plan of the Fund's Management Board.

In order to ensure acceleration of decision-making relating to current issues and reducing administrative barriers, as well as to ensure maximum efficiency of business-processes, a new model of the Fund's organizational structure was developed.

Due to transition to the new organizational structure of the Fund:

1. Authorities of the following members of the Fund's Management Board were terminated:
  - **Mr Beisengaliyev**, Managing Director for Asset Optimization, as per the application received;
  - **Mr Tazhibayev**, Managing Director of Human Resources Management, as per the application received.
2. The following members of the Fund's Management Board were elected:
  - **Mr Aidarbayev**, Deputy Chairman of the Management Board for Assets Management;
  - **Mr Tutkushev**, Director of Assets Development Department.

Among decisions, approved by the Fund's Management Board during the given period, the following can be noted:

### ► Corporate governance

- The results of independent corporate governance diagnostics in 6 (six) Portfolio companies of Samruk-Kazyna JSC;
- Regarding approval of Report on compliance/non-compliance with the principles and provisions of the Corporate Governance Code of Samruk-Kazyna JSC, approved by the decree of the Government of the Republic of Kazakhstan No.1403 dated November 5, 2012;
- Regarding approval of Diagnostics methodology for assessing corporate governance at limited liability partnerships in which the Samruk-Kazyna JSC owns directly or indirectly more than 50% of interests;
- Regarding approval of Methodical recommendations on the evaluation of the Board of directors and its committees, Chairman, members of the Board of directors and Corporate secretary of Samruk-Kazyna JSC organizations;
- Regarding approval of the Corporate Standard for Human Resource Management of Samruk-Kazyna JSC Group.

### ► Assets management

- Regarding approval of Advisor Election Procedure for the purpose of implementing activities relating to the assets sales and restructuring by Sovereign Wealth Fund Samruk-Kazyna Joint Stock Company and by organizations, in which Samruk-Kazyna JSC owns directly or indirectly more than 50% of the voting shares;
- Regarding transfer of assets of gas pipeline system to NC KazMunayGas JSC;
- Regarding sales of 25% of shares in authorized capital of UCC Engineering LLP, owned by United Chemical Company LLP;
- Regarding preliminary approval of sale of KTZh Express JSC share in authorized capital of Eurotransit-KTC LLP equal to 25% by means of direct sale to the second partner – Eurotransit Terminal LLP.

### ► Investment activity

- Regarding financial operational activity of Qazaq Air JSC in 2018 with the changes of terms of credits given to Qazaq Air JSC;
- Regarding several issues of "Equipping airports with inspection equipment" investment project implementation;

- Regarding conclusion of indemnity contract with China Development Bank Corporation relating to Chem-Plus LLP liabilities in terms of “Caustic soda and chlorine production” project financing;
- Regarding signing of a Memorandum of Understanding between Samruk-Kazyna JSC and CDP Equity S.p.A Sovereign Fund;
- Regarding approval of M&A project, considering acquisition of 49% of Sumitomo Corporation shares at SARECO JV LLP charter capital by NAC Kazatomprom JSC;
- Regarding several issues of “Development of Astana railway junction, including construction of railway station complex” investment project implementation.

### ► **Medium-term and short-term planning**

- Regarding expectations (medium-term) of Samruk-Kazyna JSC with regard to the boards of directors, supervisory boards of organizations, where Samruk-Kazyna JSC holds fifty and more percent of voting shares (participatory interest) on the right of ownership for 2018-2022.

### ► **Performance results**

- Regarding approval of KPI charts of top managers with actual values for 2016 and payment of remuneration following performance results for 2016;
- Regarding provision of Samruk-Kazyna JSC Board of Directors with information about major key performance indicators of Samruk-Kazyna JSC Group following preliminary performance results for 12 months of 2016;
- Regarding Samruk-Kazyna JSC Transformation Program Implementation;

### ► **Creation regulatory and legal framework of the Fund**

- Regarding approval of Policy for interaction with portfolio companies of Samruk-Kazyna JSC;
- Regarding approval of a new edition of Corporate accounting policy of Samruk-Kazyna JSC;
- Regarding approval of the Rules of labor remuneration and social support of Samruk-Kazyna JSC staff;
- Regarding approval of the Rules of Samruk-Kazyna JSC administrative and managerial staff performance assessment;
- The Rules of Samruk-Kazyna JSC administrative and managerial staff searching and recruitment;
- Regarding acceptance of Conceptual development approaches for HR (Strategy - People) at Samruk-Kazyna JSC for 2017-2021;
- Regarding approval of the Rules of Samruk-Kazyna JSC relating to the issues of communication system organization under Comprehensive Privatization plan for 2016-2020;
- Regarding approval of the Rules of transport support by Samruk-Kazyna JSC representations abroad.

## LIST OF TRANSACTIONS OF SAMRUK-KAZYNA JSC WITH AFFILIATED PARTIES

No.	Transaction	Decision of Samruk-Kazyna JSC
1	Conclusion of Framework Agreement and Supplementary Agreement to BTA Bank JSC Share Purchase and Transfer Agreement No. 373-и dated January 31, 2014, based on the form according to Annexes No.1 and No.2 to this decision, accordingly.	Decision № 139 of meeting in absentia of the Board of Directors of Samruk-Kazyna JSC dated May 30, 2017.
2	Conclusion of Agreement for exchange of SAP software using rights between the Fund and Kazpost JSC;	Decision of the Management Board of Samruk-Kazyna JSC № 04/17 dated February 7, 2017.
3	Conclusion of Agreement for exchange of SAP software using rights between the Fund and Kazatomprom NAC JSC	Decision of the Management Board of Samruk-Kazyna JSC № 11/17 dated April 12, 2017.
4	Conclusion of Supplementary Agreements to Line of Credit Agreement No. 10/ФН dated August 18, 2009, and Loan Agreements No. 187-и dated September 5, 2012, No. 575-и dated March 31, 2016, No. 581-и dated May 27, 2016, concluded between Samruk-Kazyna JSC and Real Estate Fund Samruk-Kazyna JSC	Decision of the Management Board of Samruk-Kazyna JSC № 14/17 dated May 25, 2017.
5	Regarding transactions with affiliated parties and terms of the Funds deposits transfer from Delta Bank JSC to Kazpost JSC;	Decision of the Management Board of Samruk-Kazyna JSC № 21/17 dated July4, 2017.
6	Purchase of NC Kazakhstan Temir Zholy JSC bonds;	Decision of the Management Board of Samruk-Kazyna JSC № 27/17 dated August 25, 2017.
7	Conclusion of Agreement for exchange of SAP software using rights between Samruk-Kazyna JSC and KTZh Freight-Transportation JSC;	Decision of the Management Board of Samruk-Kazyna JSC № 32/17 dated October 4, 2017.
8	Conclusion of Agreement for exchange of SAP software using rights between Samruk-Kazyna JSC and NC Kazakhstan Temir Zholy JSC.	Decision of the Management Board of Samruk-Kazyna JSC № 33/17 dated October 10, 2017.

## REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS AND MANAGEMENT BOARD

### Remuneration of members of the Board of Directors

In accordance with the Code of Corporate Governance, the level of remuneration of members of the Board of Directors should be sufficient to attract, retain and motivate each member of the Board of Directors at the level required for successful management of the Fund. At the same time, no person should participate in making decisions related to his/her own remuneration.

Remuneration and reimbursement of expenses to independent directors of the Fund is made in accordance with the Rules for Payment of Remuneration and Reimbursement of Expenses of Independent Directors of the Fund approved by the Fund's Board of Directors on April, 27, 2009 (Minutes No. 18) and in line with agreements signed with independent directors. At the same time, an expected positive effect on the Fund from this person's participation in the Board of Directors is taken into account. Nomination and Remuneration Committee of the Fund's Board of Directors shall make proposals on the amount of remuneration for an intending independent director.

While determining the amount of remuneration, the responsibilities of members of the Board of Directors, the scope of the Fund's activities, long-term goals and tasks defined by the development strategy, the complexity of issues considered by the Board of Directors, the level of remuneration in similar companies (benchmarking, remuneration overview) shall be taken into account.

Independent directors shall be paid a fixed remuneration and additional remuneration for participating in full-time meetings of committees under the Board of Directors.

Payment of remuneration to independent directors is subject to the following conditions:

1. diligent fulfillment of duties of a member of the Board of Directors applying the methods that mostly reflect the interests of the Fund;
2. being guided by the legislation of the Republic of Kazakhstan, the Charter and internal documents of the Fund while making decisions;
3. participation in meetings of the Fund's Board of Directors, unless the member is ill, on vacation or a business trip.

### Remuneration of members of the Management Board

The Fund's Board of Directors shall define the amount of official salaries, conditions of remuneration for the Chairman and members of the Management Board of the Fund. Nomination and Remuneration Committee of the Fund's Board of Directors plays a key role in determining their remuneration.

The remuneration system of the Chairman and members of the Fund's Management Board shall be determined in accordance with Conditions of Remuneration and Bonuses of the Chairman and members of the Management Board of Samruk-Kazyna JSC approved by the Board of Directors of the Fund, and shall include salary, remuneration based on performance results for a relevant period, as well as lump sum bonus on the occasion of the Independence Day of the Republic of Kazakhstan.

Remuneration based on performance results for a relevant period is paid depending on performance appraisal of the Chairman and a member of the Management Board aimed at encouraging him/her with incentive for the attained success and at increasing performance efficiency.

The main condition for payment of remuneration is positive consolidated final profit for a reporting year.

Performance of the Chairman and members of the Management Board of the Fund shall be appraised by the Board of Directors. The main criterion for appraisal is the KPI achievement.

Nomination and Remuneration Committee of the Fund's Board of Directors (hereinafter - NRC) shall draft the motivational KPIs of the Chairman and members of the Management Board of the Fund by cascading the strategic goals of the Fund into specific indicators of business processes/activities and the Fund's Board of Directors shall approve thereof.

Remuneration to the Chairman and members of the Fund's Management Board shall be paid in accordance with the recommendations of Nomination and Remuneration Committee (NRC) following the results of the annual audited financial statements within the remuneration limits established by the Fund's Board of Directors on the basis of the decision of the Fund's Board of Directors.



Upon NRC's recommendation, the Chairman and members of the Management Board will not get remuneration for performance when:

- 1) they fail to meet the threshold values of individual KPIs;
- 2) the total KPI result is 50% (inclusive) or less.

Therefore, in order to increase the performance efficiency of managers, the motivation system ensures a clear connection between the manager's remuneration and his/her performance efficiency growth.

In case, pursuant to a decision of the authorized body, an employment contract with the Chairman or a member of the Management Board of the Fund is terminated before expiry, he/she shall be compensated for the early termination of the employment contract in the amount of four official salaries.

The total amount of remuneration to members of the Management Board paid in the year ended December 31, 2017, was KZT 541 million. Remuneration paid to members of the Management Board consisted of wage costs, including taxes and pension contributions, and other payments following the performance results for the year.

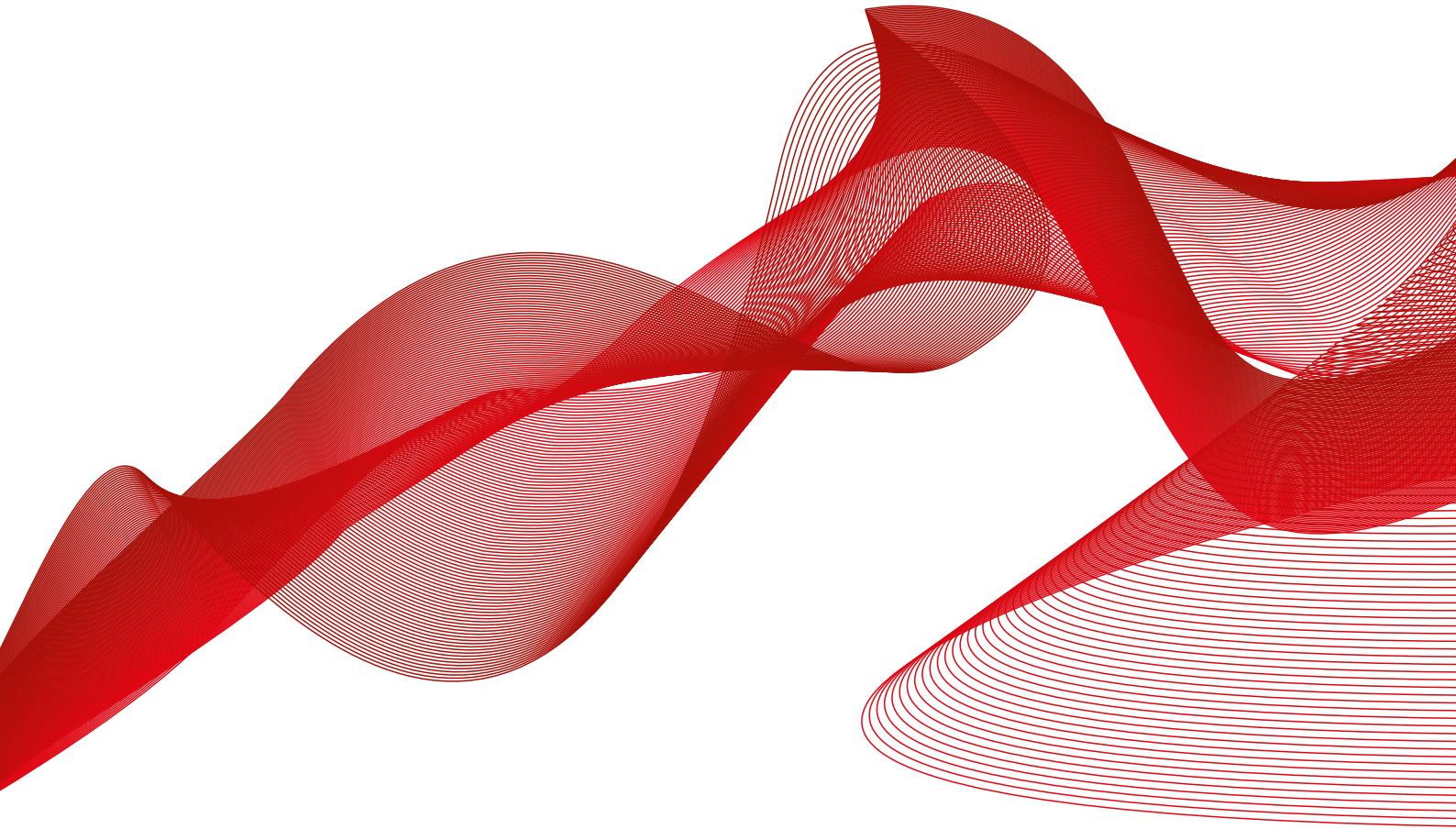


# ANNEXES

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Glossary

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## GLOSSARY

The following definitions and abbreviations are used in this Annual Report:

<b>Fund, Samruk-Kazyna JSC</b>	Sovereign Wealth Fund Samruk-Kazyna Joint Stock Company
<b>%</b>	Per cent
<b>BAC</b>	British Aircraft Corporation
<b>CFaR</b>	Constant false alarm rate, CFAR adaptive algorithm
<b>CIMA</b>	Chartered Institute of Management Accountants
<b>CNCEC</b>	China National Chemical Engineering Co.,Ltd
<b>EMBA</b>	Executive MBA, Master of business administration of remote learning
<b>EVA</b>	Economic value added
<b>GAP-analysis</b>	Gap analysis - a strategic analysis method used for searching for steps to achieve a specified goal
<b>GR</b>	Government Relations
<b>GRI</b>	Global Reporting Initiative
<b>HR</b>	Human Resources
<b>IFSWF</b>	International Forum of Sovereign Wealth Funds
<b>IoD</b>	Institute of Directors of Great Britain
<b>IPO</b>	Initial Public Offering
<b>KZT</b>	Kazakhstan tenge
<b>LLM</b>	Master of Laws
<b>MBA</b>	Master of Business Administration
<b>MD&amp;A</b>	Management discussions and analysis
<b>PhD</b>	Doctor of Philosophy
<b>QAZAQ AIR, QAZAQ AIR JSC</b>	QAZAQ AIR Joint Stock Company
<b>ROIC</b>	Return on invested capital
<b>USD, \$, US Dollar</b>	United States Dollar
<b>ADB</b>	Asian Development Bank
<b>ACCA</b>	The Association Of Chartered Certified Accountants
<b>AMS</b>	Administrative and managerial staff
<b>AEF</b>	Astana Economic Forum
<b>STBRoK</b>	Second-tier banks of the Republic of Kazakhstan
<b>WB</b>	World Bank
<b>GDP</b>	Gross domestic product
<b>All-Russian Research Institute</b>	Federal State-Owned Enterprise All-Russian Research Institute of the Ministry of Internal Affairs of the Russian Federation
<b>FOCL</b>	Fiber optic communication line
<b>SACSA</b>	State Architectural and Construction Supervision Authority
<b>SCDB</b>	State China Development Bank
<b>Fund Group</b>	The Fund, companies, their subsidiaries, more than 50% of voting shares (participatory interests) of which are owned by companies, as well as legal entities, more than 50% of voting shares (participatory interests) of which are owned by said subsidiaries
<b>SDPS</b>	State district power station
<b>CDIA</b>	Chief Directorate of Internal Affairs



<b>SA</b>	Subsidiaries and affiliates
<b>EBRD</b>	European Bank for Reconstruction and Development
<b>Ea.</b>	Unit
<b>EIB</b>	European Investment Bank
<b>USIIGGTS</b>	Uniform Stock Item Identification Guide of Goods, Work and Services
<b>EPC-contract</b>	Engineering, procurement and construction, a contracting method used in construction
<b>EU</b>	European Union
<b>ECB</b>	European Central Bank
<b>UESRoK</b>	Unified Energy System of the Republic of Kazakhstan
<b>HPU</b>	Housing and public utilities
<b>IS</b>	Information system
<b>EPIS</b>	Electronic procurement information system of Samruk-Kazyna JSC
<b>KEGOC, KEGOC JSC</b>	Kazakhstan Electricity Grid Operating Company Joint-Stock Company, KEGOC
<b>Kazpost</b>	Kazpost Joint Stock Company
<b>KazSSR</b>	Kazakh Soviet Socialist Republic
<b>KAP, NAC Kazatomprom JSC</b>	National Atomic Company Kazatomprom Joint Stock Company
<b>kWh</b>	Kilowatt-hour
<b>KHS</b>	Karaganda Higher School of the Ministry of Internal Affairs of the Republic of Kazakhstan
<b>Construction Committee</b>	Committee for Construction, Housing and Utilities Infrastructure and Land Resources Management of the Ministry of the National Economy of the Republic of Kazakhstan
<b>KE, KE JSC</b>	National Company Kazakhstan Engineering Joint Stock Company
<b>KIMEP</b>	Kazakhstan Institute of Management, Economics and Strategic Research
<b>CGC</b>	Corporate Governance Code
<b>km</b>	Kilometer
<b>KMG, NC KMG JSC</b>	National Company KazMunayGas Joint Stock Company
<b>PRC</b>	People's Republic of China
<b>Companies, Portfolio Companies of the Fund</b>	National companies and other legal entities, more than 50% of voting shares (participatory interests) of which are owned by the Fund on the right of ownership or trust management
<b>AHPC</b>	Aromatic Hydrocarbons Production Complex
<b>AORC</b>	Advanced oil refinery complex
<b>KPI</b>	Key performance indicator
<b>KEI</b>	Key efficiency indicator
<b>RMICCS</b>	Risk Management and Internal control corporate system
<b>KT</b>	Kazakhtelecom Joint Stock Company
<b>KTZh, NC KTZh JSC</b>	National Company Kazakhstan TemirZholy Joint Stock Company
<b>CC SK</b>	Corporate Centre of Samruk-Kazyna JSC
<b>m3</b>	Cubic meter
<b>MIA</b>	Ministry of Internal Affairs of the Republic of Kazakhstan
<b>mW</b>	Megawatt
<b>IMF</b>	International Monetary Fund
<b>mln</b>	Million

## ANNEXES

<b>bln</b>	Billion
<b>MNERoK</b>	Ministry of National Economy of the Republic of Kazakhstan
<b>LC</b>	Local content
<b>SME</b>	Small and medium entrepreneurship
<b>IFRS</b>	International financial reporting standards
<b>MESI</b>	Moscow Economics and Statistics Institute
<b>NBK, NBRK</b>	National Bank of the Republic of Kazakhstan
<b>IA</b>	Intangible assets
<b>OR</b>	Oil refinery
<b>NCE</b>	National Chamber of Entrepreneurs
<b>PCP</b>	Petrochemical plant
<b>GAE</b>	General and administrative expenses
<b>FA</b>	Fixed asset / Fixed assets
<b>DCP</b>	Domestic commodity producers
<b>OECD</b>	Organization for Economic Cooperation and Development
<b>FDI</b>	Foreign direct investment
<b>PQS</b>	Pre-qualification selection
<b>EST</b>	Electrical signal tower
<b>CMB/CEO</b>	Chairman of the Management Board
<b>DED</b>	Design and estimate documentation
<b>RoK, RK</b>	Republic of Kazakhstan
<b>RDIA</b>	Regional Department of Internal Affairs
<b>TSE</b>	Transportation and selling expenses
<b>RF</b>	Russian Federation
<b>CFA</b>	Chartered Financial Analyst
<b>IAS</b>	Internal Audit Service
<b>ICS</b>	Internal Control System
<b>BoD</b>	Board of Directors
<b>SKM</b>	Portal "Marketing in procurements of goods, works and services of organizations included in Samruk-Kazyna JSC
<b>SM</b>	Mass media
<b>CIW</b>	Construction and installation works
<b>CIS</b>	Commonwealth of Independent States
<b>COGSS</b>	Cost of goods and services sold
<b>USSR</b>	Union of Soviet Socialist Republics
<b>SCB</b>	Signalling, centralization and blocking devices
<b>USA</b>	United States of America
<b>S-E, Samruk-Energo JSC</b>	Samruk-Energo Joint Stock Company
<b>CES</b>	Special economic zone
<b>TKS, Tau-Ken Samruk JSC</b>	Tau-Ken Samruk Joint Stock Company
<b>UCC, United Chemical Company LLP</b>	United Chemical Company Limited Liability Partnership

<b>trn.</b>	Trillion
<b>Thous.</b>	Thousand
<b>FS</b>	Feasibility study
<b>TPS</b>	Thermal power station
<b>SWF</b>	Sovereign (National) Wealth Fund(s)
<b>Centre</b>	Stewardship Asia Centre
<b>pc.</b>	Piece
<b>EBG</b>	Electronic bank guarantee
<b>Air Astana, Air Astana JSC</b>	Air Astana Joint Stock Company



### Contact Information

#### A Sovereign Wealth Fund Samruk-Kazyna Joint Stock Company

Address: 010000 Astana

Republic of Kazakhstan,

Legal Address: Block B, 8 Kunayev Str.

Actual address: Block B, 8 Kunayev Str.

Office: +7(7172) 554-002, 554-001

Fax: +7 (7172) 554-000

Hotline for notifications of supposed violations

Samruk Kazyna JSC: 8 (800) 080 19 94

E-mail: [sk.hotline@deloitte.kz](mailto:sk.hotline@deloitte.kz)

Website: [www.sk.deloitte-hotline.com](http://www.sk.deloitte-hotline.com)

Phone number for issues relating to the Fund's procurement control: + 7(7172) 559274

Phone number for issues relating to privatization of the Fund's assets: + 7 (7172) 552266.

Investor Relations Department

Questions to the Investor Relations Department can be sent at [ir@sk.kz](mailto:ir@sk.kz)

Questions regarding this Annual Report can be sent  
to the Corporate Governance Department at: [governance@sk.kz](mailto:governance@sk.kz)