



SAMRUK
K A Z Y N A

ANNUAL REPORT

2016

Volume I

Sharing values

Please accept the Annual Report of Samruk-Kazyna JSC for 2016, released under the headline - Sharing values. Corporate values of the Fund are expressed in abbreviation PRIME - Partnership, Respect, Integrity, Meritocracy and Excellence. These are not just words, they are ideas, principles and beliefs shared by each employee. These are five elements of energy that drive us towards achievement of Samruk-Kazyna JSC strategic goals.



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

RESPECT

We take care of everything that surrounds us
We operate trustfully and respectfully
We obey laws and respect traditions

INTEGRITY

We keep our promises
We do what we say
We are honest and fair

MERITOCRACY

We select worthy professionals
We give everyone opportunity to speak up regardless of his/her role
We reward results

EXCELLENCE

We work smart at the high quality bar using best practices and technologies
We take responsibility and act to create value
We are curious, we learn constantly and develop the Fund

ANNUAL REPORT 2016

Sharing values



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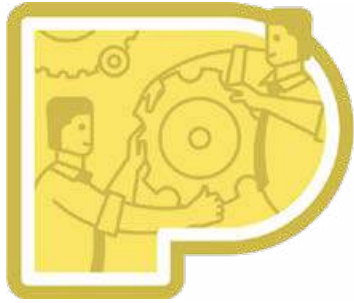
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ΠΑΡΤΗΡΕΣΤΒΟ

PARTNERSHIP

ΘΡΠΠΤΕΣΤΙΚ



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



SAMRUK
K A Z Y N A

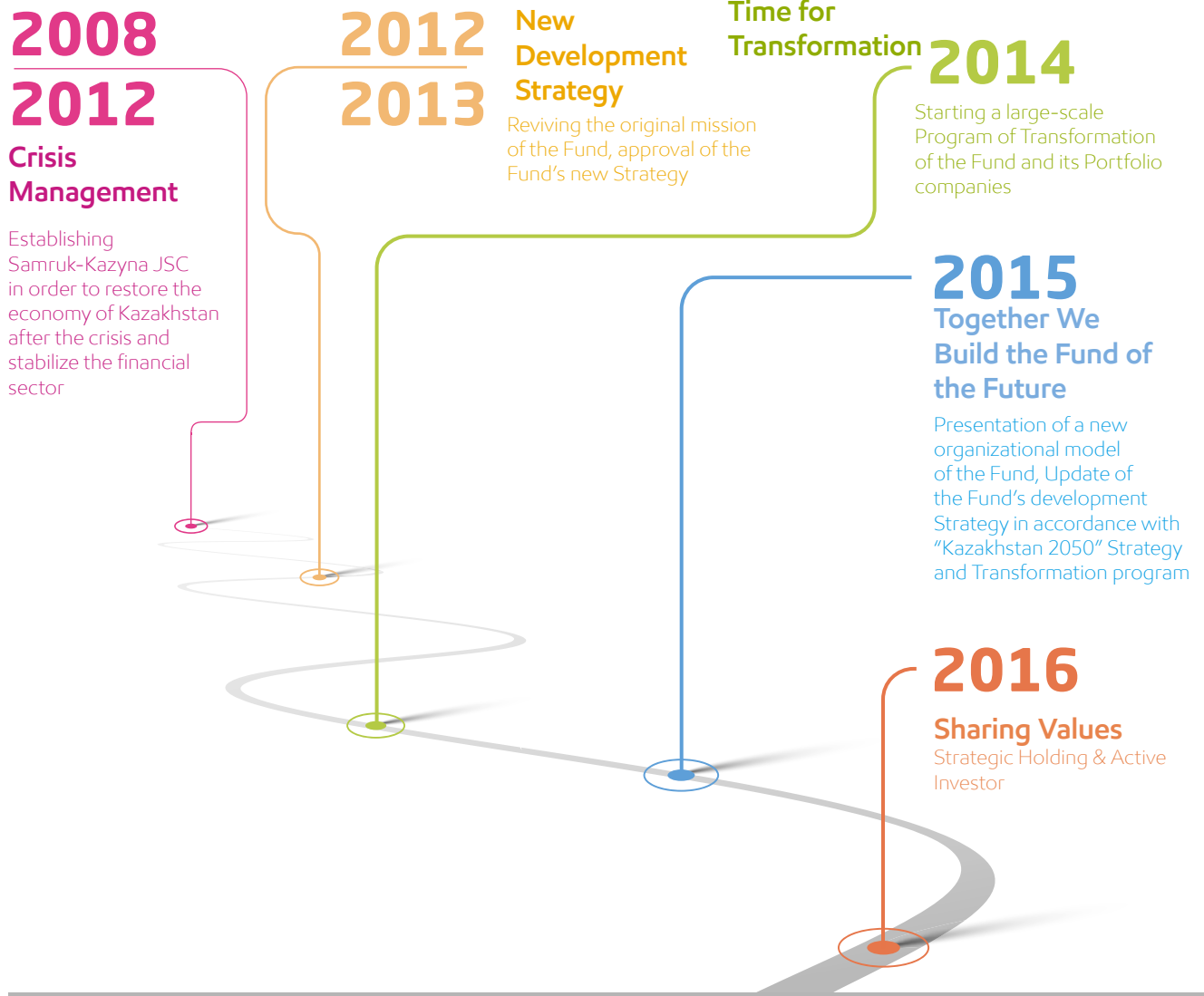


OVERVIEW

Welcome address by the Chairman of
the Board of Directors

Welcome address by the Chairman
of the Management Board
of Samruk-Kazyna JSC

Long journey within a short space of time



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 to support the modernization of the national economy.

The Fund fulfils its **Mission** through the efficient management of Portfolio Companies for increasing their long-term value and sustainable development as well as through making catalytic investments into the development of priority sectors of the national economy.

Vision of the Fund and criteria of performance assessment

In the long term, we see the **Fund** as a highly effective and fast-growing strategic holding.

We assess the effectiveness of our activity by comparing to major sovereign wealth funds and large private equity funds, which have reached a level of the best global practices in the following three areas:

- ▶ Acting as an active investor in relation to its Portfolio Companies, which are competitive players on a world market
- ▶ Optimal choice of catalytic investments that promote the accelerated development of non-resource sectors of the economy, and efficient management of such investments
- ▶ Acting as a role model for the business community and population of Kazakhstan in the sphere labour productivity, capital and resources, as well as for implementation of standards, set of values and principles of the OECD

Our fundamental management principles

Efficient management

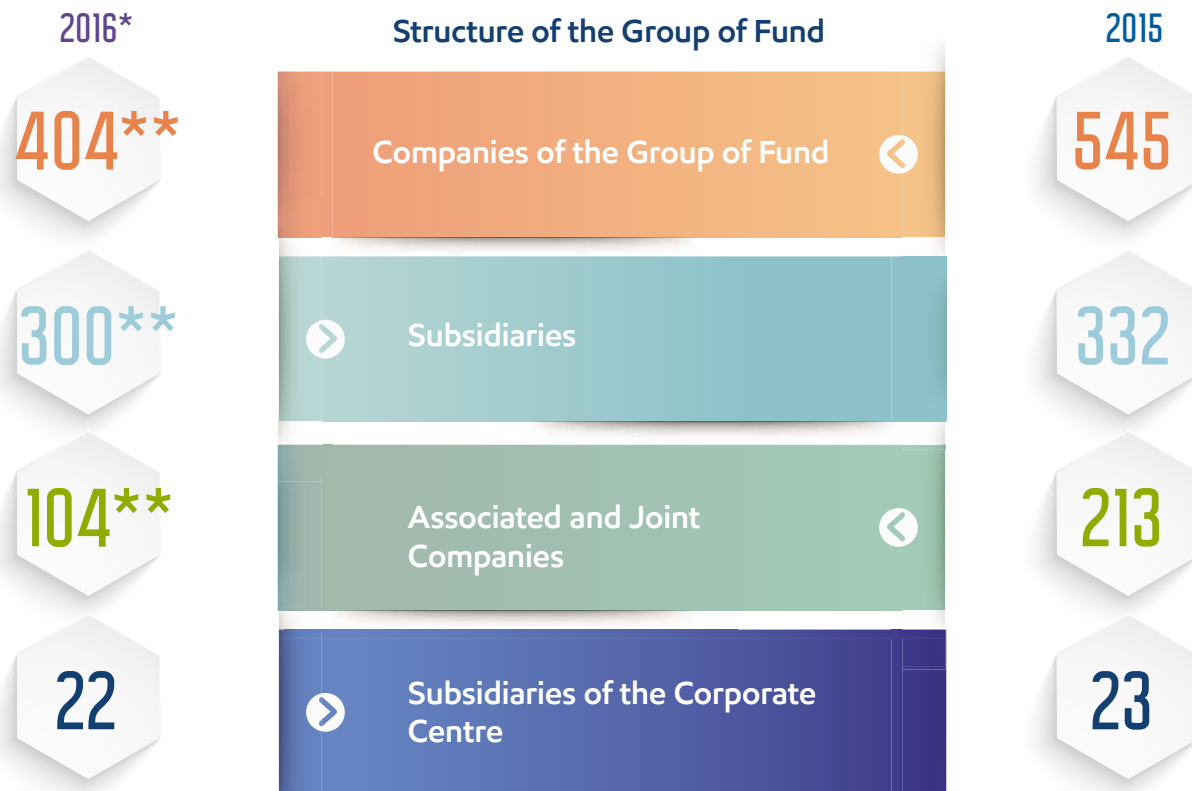
- ▶ We manage Portfolio Companies by implementing the Shareholder's functions as well as through the Boards of Directors of Portfolio Companies
- ▶ The System of Key Performance Indicators (KPIs) is a key element for assessment of effectiveness of the Fund and Portfolio Companies
- ▶ Our main goal is to create an economic value. A key assessment criterion is the return on investments (ROI). The ultimate goal of portfolio management is – to increase economic value of assets and to prepare them for a complete or partial privatization

Efficient investment

- ▶ Our new assets should become leading companies of the country, and leading companies of the country must be competitive at the international level
- ▶ The majority of our investments are contributed to the development of the national economy in cooperation with strategic partners. Investments abroad can be made only in strategic assets that provide a significant synergistic effect for Portfolio Companies, or with the aim to transfer technological and managerial know-how

Completeness



- ▶ All of the Fund's functional units first of all are targeted at improving the efficiency of its business units in the field of creation of value



* In compliance 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.

** Capital structure of PCs are available in annual reports on official websites of PCs.

List of companies included in the consolidated financial statements as of December 31, 2016*

	2016	Ownership ratio	2015
Oil and gas			
 "National Company "KazMunaiGas" JSC and subsidiaries	90%		90% – 1
KMG Kashagan B.V.	100%		100%
Mining			
 "National Atomic Company "Kazatomprom" JSC and subsidiaries	100%		100%
"National Mining Company "Tau-Ken Samruk" JSC and subsidiaries	100%		100%
"Kazakhstan Nuclear Power Plants" JSC	–		100%



Transportation

2016 Ownership ratio 2015

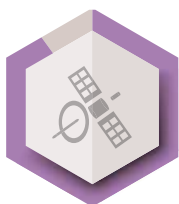
	2016	2015
"National Company "Kazakhstan Temir Zholy" JSC and subsidiaries	100%	100%
"Air Astana" JSC	51%	51%
"Atyrau International Airport" JSC	100%	100%
"Aktobe International Airport" JSC	100%	100%
"Pavlodar Airport" JSC	100%	100%
"Qazaq Air" JSC	100%	100%
"Aviation Company "Air Kazakhstan" JSC	53.55%	53.55%



Energy

2016 Ownership ratio 2015

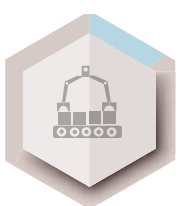
	2016	2015
"Samruk-Energy" JSC and subsidiaries	100%	100%
Kazakhstan Electricity Grid Operating Company JSC ("KEGOC") and subsidiaries	90%+1	90+1%
"KOREM" JSC (Kazakhstan operator of electricity and power market)	100%	100%



Telecommunication

2016 Ownership ratio 2015

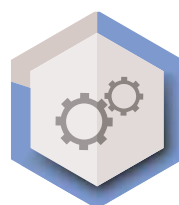
	2016	2015
"Kazpost" JSC and subsidiaries	100%	100%
"Kazakhtelecom" JSC and subsidiaries	51%	51%



Industrial

2016 Ownership ratio 2015

	2016	2015
"National Company "Kazakhstan Engineering" JSC and subsidiaries	100%	100%
"United Chemical Company" LLP and subsidiaries	100%	100%



Other

2016 Ownership ratio 2015

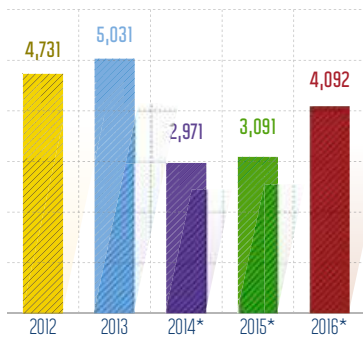
	2016	2015
"Real Estate Fund "Samruk-Kazyna" JSC and subsidiaries	100%	100%
"Samruk-Kazyna Invest" LLP	100%	100%
"Samruk-Kazyna Contract" LLP	100%	100%
"Samruk – Kazyna Business Service" LLP and subsidiaries	100%	100%

* For management purposes, in 2016, changes were made to the division of the Group into operating segments in accordance with the type of products and services provided. See Note 40 of the Group's Consolidated Financial Statements for the year ended December 31, 2016.

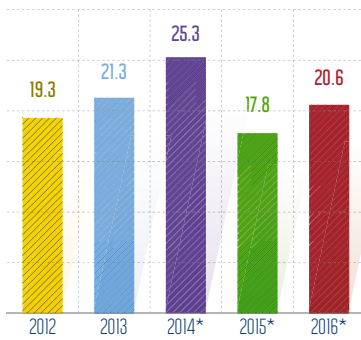
Key Performance Indicators

Financial Indicators

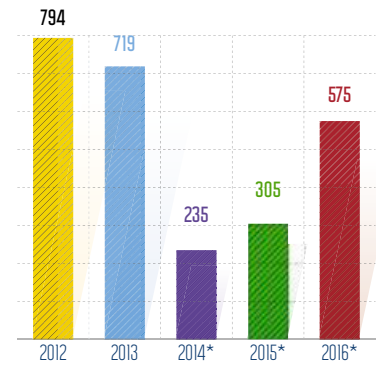
Revenue, KZT billion



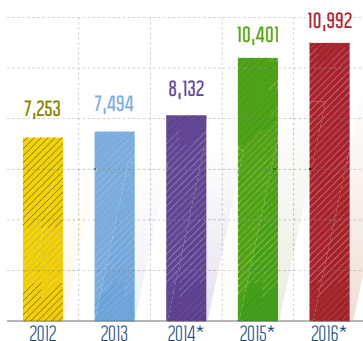
EBITDA MARGIN*, %



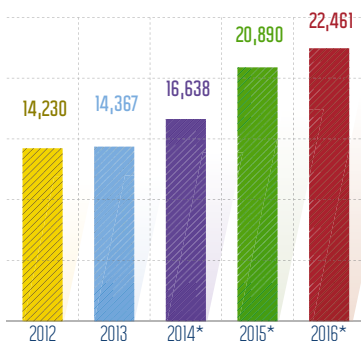
Consolidated net income, KZT billion



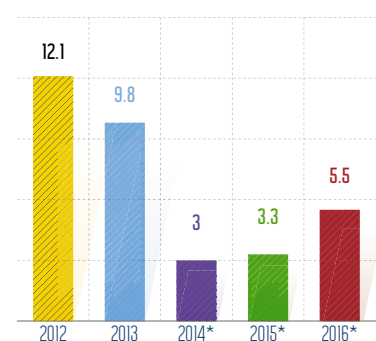
EQUITY, KZT billion



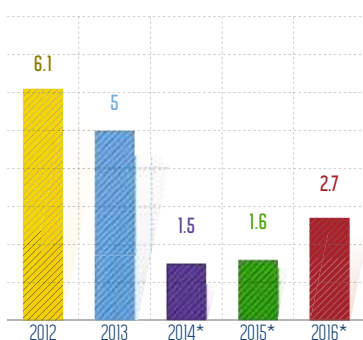
ASSETS, KZT billion



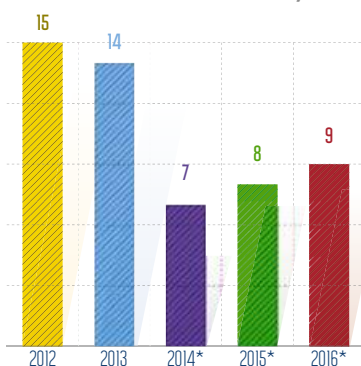
ROE (return on equity), %



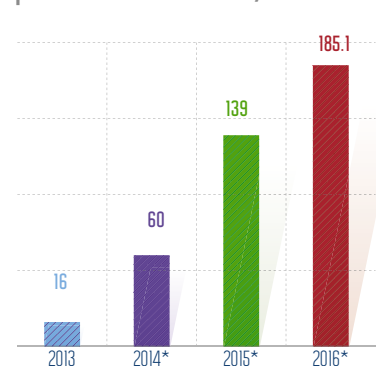
ROA (return on assets), %



Amount of consolidated revenues to the national GDP, %

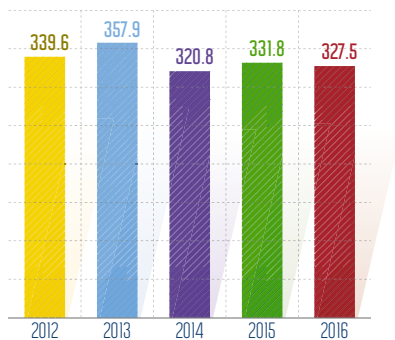


Savings according to the procurement results, KZT billion

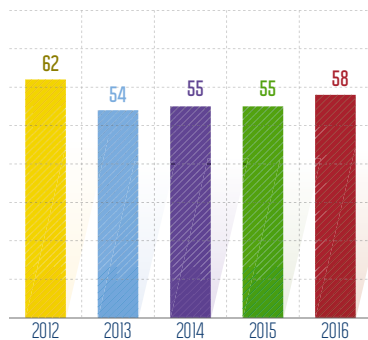


Non-financial indicators

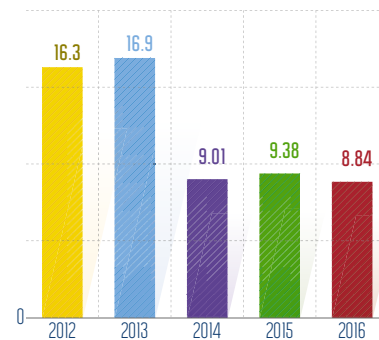
Headcount within the Group of Fund, thousands people



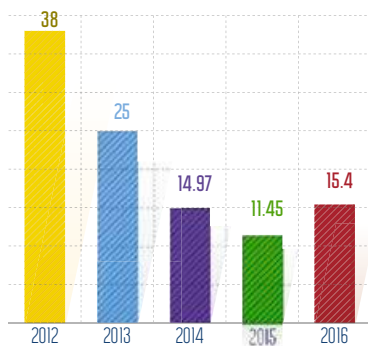
Personnel engagement degree within the Group of Fund, %



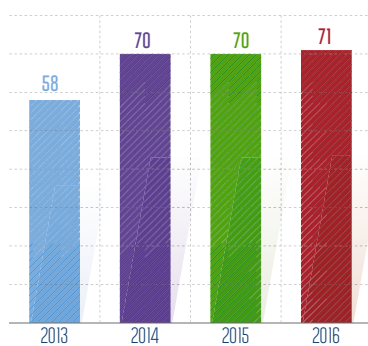
Personnel turnover within the Group of Fund, %



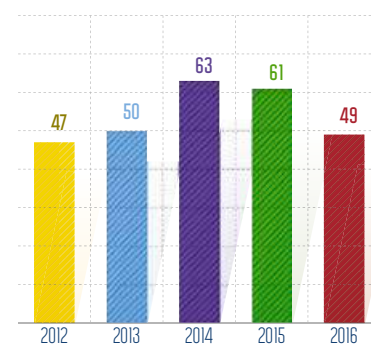
Personnel turnover within the Fund, %



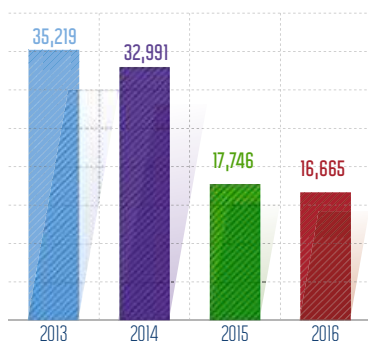
Social stability rating, %



Personnel engagement degree within the Fund, %



Sponsorship and Charity contributions, KZT million



* Operating EBITDA = (Income from sales – Cost of sales – GAE* – TSE*) + (Depreciation of FA and IA in the COGSS, GAE and TSE). Operating EBITDA for 2015 and 2014 was calculated on the assumption that KMG International N.V. had retired from the Group, therefore, intra-group revenues from sale of crude oil to the benefit of KMG International N.V. were restored in the operating income.

WELCOME ADDRESS

BY THE CHAIRMAN OF THE BOARD OF DIRECTORS



**Prime Minister of
the Republic of Kazakhstan**

**Mr Bakytzhan
SAGINTAYEV**

Dear Partners, Colleagues and Investors!

Due to the anti-crisis measures taken under the instruction of the Head of State N. A. Nazarbayev, our economy demonstrated its resilience to the global crisis and achieved 1% of gross domestic product growth in 2016.

Samruk-Kazyna JSC and its portfolio companies were able to show positive results despite low commodity prices and slowdown in economic growth of the key trading partners of Kazakhstan.

Thus, the consolidated profit on the equity share in 2016 has increased in 2.8 times as compared to the previous year and amounted to KZT 455 billion. Also, the consolidated assets of the Fund's group for the reporting period increased by KZT 1.6 trillion (7.5%) and made KZT 22.4 trillion.

Positive results were achieved during the active phase of the Fund's Transformation Program in 2016. Samruk-Kazyna intends to continue the transition to the model of a strategic holding and active investor.

In addition, in 2016, the Fund started implementing the Comprehensive Privatization Plan for 2016–2020. This resulted in receiving additional KZT 17 billion due to the sale of 48 assets of the Fund.

The group of companies of the Fund also pays much attention to charitable and sponsorship activities. Last year, 89 social projects were realized under which about 200 thousand people obtained assistance.

In general, key initiatives of the Fund clearly define development trends for 2017–2021 and make it possible to achieve the set goals and greatly contribute to strengthening the economy of Kazakhstan.



WELCOME ADDRESS

BY THE CHAIRMAN OF THE MANAGEMENT BOARD OF SAMRUK-KAZYNA JSC



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

**Mr Umirzak
SHUKEYEV**

Dear ladies and gentlemen!

In 2016, Samruk-Kazyna JSC achieved growth in all key strategic indicators and completed the year with a positive financial result. Thus, the consolidated net profit for the shareholder's share in 2016 totaled KZT 455 billion, exceeding the indicator of 2015 by KZT 292 billion or 2.8 times. At the same time, the Fund's net asset value amounted to more than KZT 6.8 trillion, an increase of 7% from 2015. Return on equity increased from 3.3% in 2015 to 5.5% in 2016.

Positive results on the main strategic indicators were achieved due to an increase in the revenue base and a systematic reduction in costs. Thus, it was possible to achieve a reduction in operating costs for a group of companies of the Fund through a set of measures aimed at standardization and automation of business processes.

Through well-coordinated work, result orientation and constant striving for excellence in 2016:

- ▶ The Fund increased the revenue part of the state budget by KZT 610 billion in the form of taxes and other payments. Dividends and other distributions to the shareholder reached KZT 57 billion.
- ▶ The Fund remains one of the active participants of the Republican Industrialization Map and the state program "Nurly Zhol".
- ▶ The Fund continued to implement projects of high importance to the country, such as the modernization of the Shymkent Oil Refinery and Pavlodar Oil Refinery, the construction of a deep oil refinery at the Atyrau Refinery, the construction of the first integrated gas chemical complex in the Atyrau region and other.
- ▶ The Fund invested KZT 40 billion in growing companies in 2016. Thus, construction work continues on the large mining projects "Shalkiya" and "Aligyr", and the project in the chemical industry "Glyphosate".

All of 2016 we were in the active phase of the transformation program. On May 31, 2017, the Fund's reengineering initiative was completed, the main result of which was the transition to a new operating model. We reflected on the transformation of the corporate center, as a result of which the Fund completed the implementation of the main processes on introducing changes. As a part of this work, we achieved the following achievements in three areas:

People:

- ▶ A new organizational structure was developed. The Fund completely filled the new structure through a transparent competitive selection process, both internal and external candidates were evaluated. As a result, the Fund team has strengthened significantly and renewed by 40%.

Processes:

- ▶ New functions have been created, such as: strategy management, investment portfolio management, research and knowledge management, development of new industries, government relations, compliance.

Technologies:

- ▶ The portal for research and knowledge management has been launched, analytical tools for macro analysis have been introduced, SAP self-service systems have been improved, a 3-year IT improvement plan was developed in the Fund.

People – Processes – Technologies – is the basic model of the transformation of Samruk-Kazyna JSC, where People are the fundamental factor. We always understood that our main driving force and the basis of success are dedicated and professional people united by a common corporate culture and sharing the company's core values:

- ▶ **Partnership**
- ▶ **Respect**
- ▶ **Integrity**
- ▶ **Meritocracy**
- ▶ **Excellence**

PRIME – this is the five baselines formed in the process of activity and transformation of the Fund and which we are guided by every day.

It is expected that the next five years will become more complicated due to the continuing uncertainties in the world economy, especially given the low oil prices and other basic commodities, as well as the risks of slowing the growth of the economies of major trading partners such as China and Russia. But now our Fund, united by unified corporate goals, values and worldview, is able to withstand the most complex tests on strength.

In 2017, we confidently continue our transition to the model of an active investor and a strategic investment holding. To this end, we have identified for ourselves in the Development Plan for 2017–2021 a number of key development initiatives, such as improving portfolio management, implementing a privatization program, developing an investment portfolio with a focus on new industries, transforming portfolio companies, moving the Fund's corporate center to a new functional model and increasing financial sustainability.

Today we have a roadmap for all the Fund's main tasks, aimed at the qualitative evolution of business, the development of new industries and the creation of world-class benchmark companies in Kazakhstan. All this is the basis for the implementation of such strategic directions for the development of the Fund as an increase in the long-term value of companies, participation in the modernization of the national economy and social responsibility. All processes in the Fund are built on the achievement of these tasks. And it is the synergy of professionalism of all employees that will increase the value of our companies.

I am sure that our corporate values will help lead to sustainable development and implementation of strategic goals not only of the Fund, but of the entire country. For this, first of all, we ourselves must become those changes that we want to see in the future. Partnership, respect, honesty, meritocracy, perfection are not just words, they are our values, our key guidelines and principles.



УВАЖЕНИЕ

RESPECT

СЫЙЛАСТЫҚ



We take care of everything that surrounds us

We operate trustfully and respectfully

We obey laws and respect traditions



STRATEGIC REPORT

Our business model

Macroeconomic and external
environment outlook

Development strategy and KPI

OUR BUSINESS MODEL

Increasing the long-term value and sustainable growth

Our success is supported by our business model, which helps us to build a sustainable business aimed at the continuous improvement of our activities in accordance with the best practices and world analogues of the Fund.

OUR VALUES



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



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



Integrity

- We fulfill our commitments
- We do what we say
- We are people of honesty and integrity



Meritocracy

- We choose worthy professionals
- We give opportunity to speak out to everyone, regardless of role
- We encourage for the achievement of results



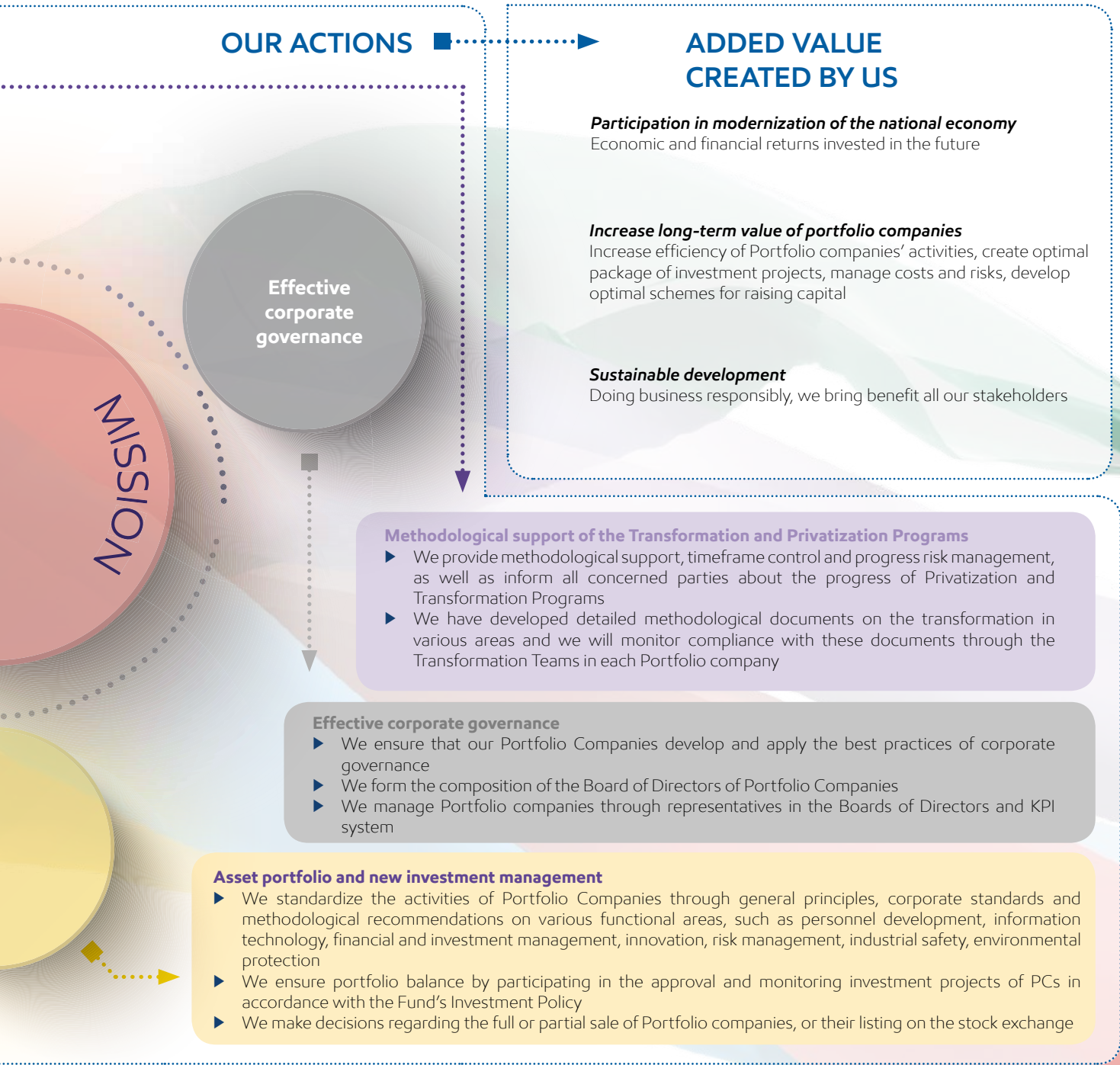
Excellence

- 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

Methodological support of the Transformation and Privatization Programs

Increasing the national welfare of the Republic of Kazakhstan and supporting the modernization of the national economy

Asset portfolio and new investment management



OUR ACTIONS

ADDED VALUE CREATED BY US

Effective corporate governance

Participation in modernization of the national economy

Economic and financial returns invested in the future

Increase long-term value of portfolio companies

Increase efficiency of Portfolio companies' activities, create optimal package of investment projects, manage costs and risks, develop optimal schemes for raising capital

Sustainable development

Doing business responsibly, we bring benefit all our stakeholders

Methodological support of the Transformation and Privatization Programs

- ▶ We provide methodological support, timeframe control and progress risk management, as well as inform all concerned parties about the progress of Privatization and Transformation Programs
- ▶ We have developed detailed methodological documents on the transformation in various areas and we will monitor compliance with these documents through the Transformation Teams in each Portfolio company

Effective corporate governance

- ▶ We ensure that our Portfolio Companies develop and apply the best practices of corporate governance
- ▶ We form the composition of the Board of Directors of Portfolio Companies
- ▶ We manage Portfolio companies through representatives in the Boards of Directors and KPI system

Asset portfolio and new investment management

- ▶ We standardize the activities of Portfolio Companies through general principles, corporate standards and methodological recommendations on various functional areas, such as personnel development, information technology, financial and investment management, innovation, risk management, industrial safety, environmental protection
- ▶ We ensure portfolio balance by participating in the approval and monitoring investment projects of PCs in accordance with the Fund's Investment Policy
- ▶ We make decisions regarding the full or partial sale of Portfolio companies, or their listing on the stock exchange



BALJEET KAUR GREWAL



***Managing Director for Strategy and Portfolio Investment,
member of the Management Board***

The link between Strategy and Values of the organization is extremely important since a strong corporate culture is a requirement for the successful implementation of the strategy.

The Culture will actually determine how flexible the Organization is, how adoptable it is to market condition, how effective it is to external changes.

If you think of an Organization as a Tree, then the Culture is the roots. It is very easy to replicate business models or strategy, but you cannot replicate Culture.

Today the Fund has its unique cultural environment, which is determined by its own business philosophy and principles, its approach to setting goals and achieving them. Our culture is an integral part of the promotion of strategic initiatives in the Fund. All of us should be guided by a common goal, a single culture and a unified value system.

I think a strong Corporate Culture assumes high moral ethics of the organization. Leading FTSE 500 companies are guided by high cultural values, confirming the fact that the culture of the company is one of the factors of competitive advantage. In my opinion, the strong corporate Culture, which has formed today in the Fund, determines success in achieving our strategy.

For this reason, it is very important for Samruk-Kazyna to drive this cultural experience for its employees to embrace this new Culture.

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 the 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 Subsoil and Subsoil Use”, “On Natural Monopolies and Regulated Markets” and etc.).

Also, the Fund and organizations of the Group of the Fund apply the provisions of such acts 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 Bodies authorities” dated March 29, 2002 No. 828.

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

- ▶ Development strategy of Samruk-Kazyna JSC for 2012–2022 (approved by the Government of the Republic of Kazakhstan dated September 14, 2012, No. 1202);
- ▶ 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 dated 14 December 2012 No. 1599);
- ▶ Code of corporate governance of Samruk-Kazyna JSC (approved by the Government of the Republic of Kazakhstan dated 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 Government of the Republic of Kazakhstan dated 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 to low-profitable (approved by the Government of the Republic of Kazakhstan dated 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 7,585 in 2016, 3 times more than Uzbekistan and 8 times more than Kyrgyzstan and Tajikistan.

Overview of Kazakhstan

GDP growth
2.5–3.3%

Kazakhstan's economy is expected to grow between 2.5% and 3.3% in the next five years of 2017–2021.

>USD 200 billion investments

Kazakhstan attracted more than USD 200 billion in gross investments since its independence in 1991, leading other CIS countries.

INVESTMENT GRADE

In 2002, the country became the first sovereign among CIS countries to receive an investment-grade credit rating from S&P.

Kazakhstan achieved its goal of entering the top 50 most competitive countries in 2013, and has maintained its position in the 2014–2015 World Economic Forum Global Competitiveness Report

TOP 50

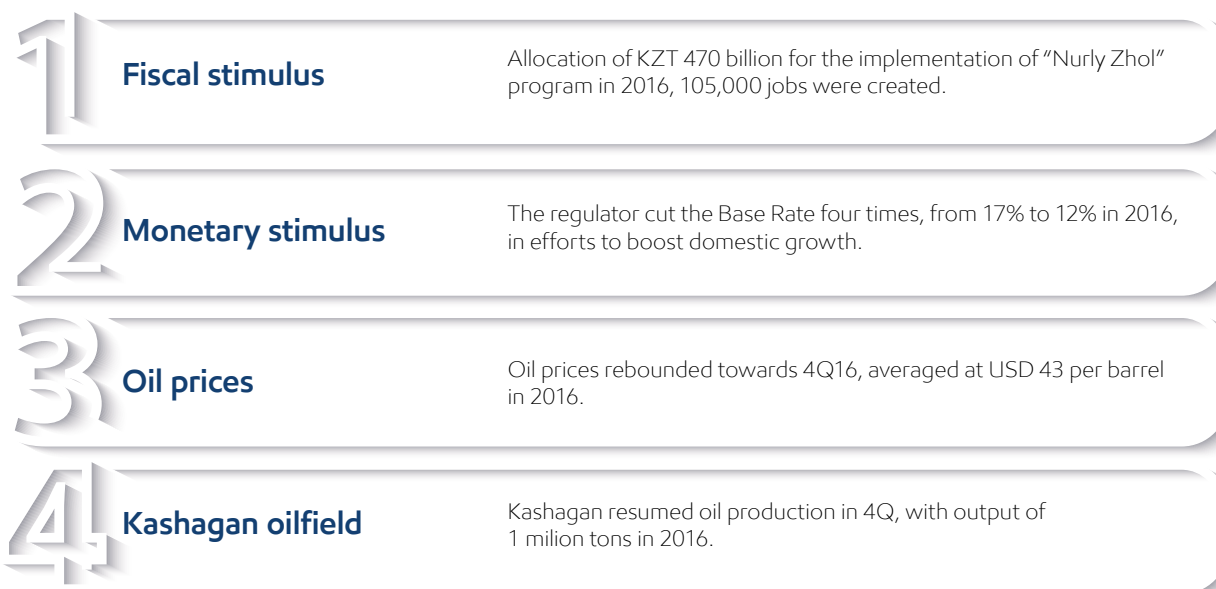
The World Bank's Doing Business 2017 ranks Kazakhstan as **No. 3 country** in terms of protecting the rights of foreign investors and minority shareholders.

Ranks 3rd globally

One Belt One Road

China's investments into 49 countries along the OBOR initiative amounted to USD 14.5 billion in 2016. Kazakhstan has been the biggest recipient of Chinese FDI in the region, receiving a total of **USD 27.5 billion** in investment from 1991–2016.

Key growth drivers in 2016



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 normal” environment.

In 2016, Kazakhstan achieved GDP growth of 1.0%, higher than the official forecast of 0.5%. A sectoral review of 2016 results showed that growth momentum was driven by the construction (7.9%), agriculture (5.5%), transportation services (3.7%) as well as manufacturing (0.7%) sectors.

In 2016 the government allocated KZT 470 billion for the implementation of the state infrastructure development programs, as well as the construction of affordable housing within the Nurly Zhol initiative. Consequently, the construction sector alone contributed more than 50% of the observed economic growth and 105,000 new jobs were created during the year.

At the same time, the commissioning of Kashagan oilfield in 4Q16 alongside the recovery in global oil prices towards the fourth quarter also boosted growth last year. External environment improved throughout the year, which in turn helped to stabilize the tenge. Declining inflationary pressure and the subsequent gradual easing of monetary policy that witnessed the Base Rate being reduced from 17% to 12% helped accelerate economic growth.

Outlook for 2017–2021

For 2017, GDP growth is expected to pick up to 2.5%, supported by higher global oil prices, increase oil production, continued fiscal stimulus as well as improved economic performance in key trading partners. The government allocated KZT 441.6 billion for the implementation of “Nurly Zhol” program in 2017 with the possibility of an increase to KZT 720 billion subject to budget revision depending on the economic situation. These funds will be used for the construction and reconstruction of infrastructure including highways, railways and airports. Other measures include construction of affordable housing as well as projects for the EXPO 2017. These measures are expected to have a multiplier effect on the economic growth. As such in the medium-term, GDP growth will hover at 2.5% and 3.3% between 2017 and 2021, in line with the Ministry of Economy’s projections. **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 five years up to 2021.**

On monetary policy, National Bank of Kazakhstan cut the Base Rate by an additional 150bps to 10.5% in 1H17. Based on the observed growth of business activity in the first half of this year and stable situation in the domestic financial markets, there is likelihood of further monetary policy easing for the remaining of 2017. Meanwhile, the general price level is projected to ease significantly this year, ranging at 6%–8% in 2017 to 3%–4% by 2021 (2016: 8.6%).

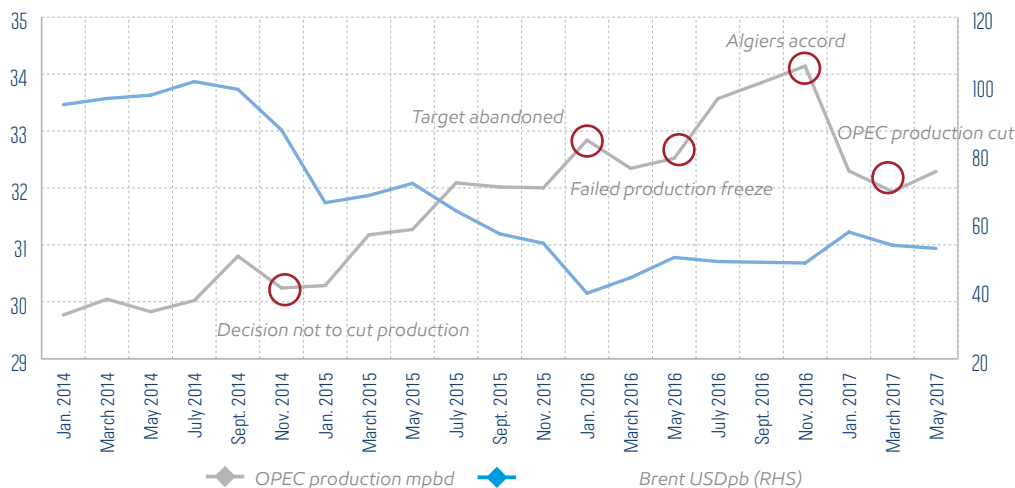
On external trade, total trade turnover is projected to improve by approximately 19.3% YoY to USD 77.75 billion in 2017, with exports and imports expected to increase by 20.8% YoY and 17.3% YoY respectively, underpinned by stronger global growth, gradual recovery in commodity prices and improved economic performance from key trading partners. Premised on these factors, Kazakhstan’s total trade turnover is projected to increase moderately over the next five years, potentially reaching USD 100 billion by 2021. Following this, current account balance is expected to improve gradually from –3.3% of GDP in 2017 to –1.9% of GDP in 2021.

On the currency front, the USDKZT exchange rate ranged at 310–334 in 1H17. As at 30 June 2017, it closed at 322.18/USD, an increase of 3.4% in the first half of the year. The tenge is expected to hold firm in the medium-term, hovering conservatively at 330 in 2017 (2016: 342 average) in anticipation of improved macroeconomic conditions on both the global and domestic fronts.

Global oil prices rebounded since December 2016 after OPEC and selected oil producing countries agreed to cut oil production into the first six months of 2017. Oil prices averaged at USD55.78pb in 1Q17, up by 2.5% QoQ. However, oil prices receded in 2Q17 to average at USD51.29pb, a decline of 8.1% QoQ, mainly attributable to strong US’ oil stockpiles and increased supply.

Volatility in global oil prices is expected to remain high for the remainder of 2017 due to factors arising from OPEC actions, slower-than-expected oil demand growth as well as geopolitical factors. Upside potential of oil prices is seen limited by strong rebound in US output. Market players have reduced oil price projections for 2017 and 2018 on concerns that OPEC and non-OEPC output cuts will rebalance the market. We anticipate oil prices to average at USD50–52pb in 2017, with medium-term expectations of USD60pb by 2021.

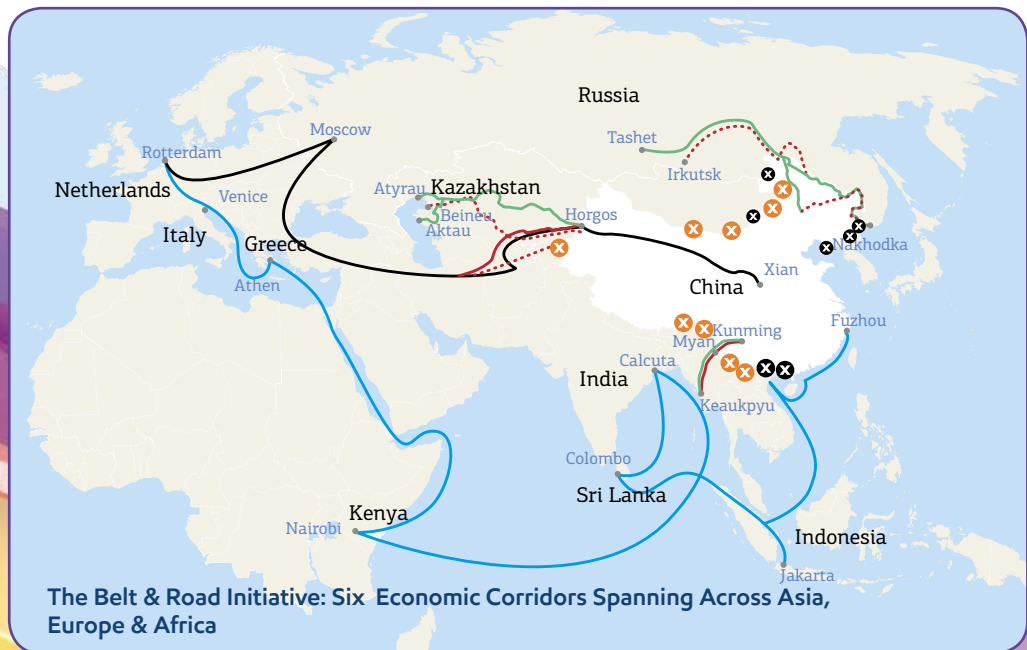
OPEC Oil Production vs. Brent Oil Price Trends (2014 – June 2017)



Source: Bloomberg, Samruk Kazyna Research

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 2017–2021, 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 2017 and beyond, benefitting from the projected recovery of economic growth and expansion of China’s export through Kazakhstan in the longer-term.

Kazakhstan continues to invest in infrastructure to support economic growth and improve transit.



Source: Kazakhstan Institute for Strategic Studies, official sources, companies, UN Comtrade, Samruk Kazyna Research

Proposed Silk Road routes	Pipelines	Railroad entry points
<ul style="list-style-type: none"> ◆ Silk Road Economic Belt ◆ 21st-Century Maritime Silk Road 	<ul style="list-style-type: none"> ◆ Crude oil ◆ Natural Gas ◆ Proposed/under construction 	<ul style="list-style-type: none"> ⊗ Existing ⊗ Proposed

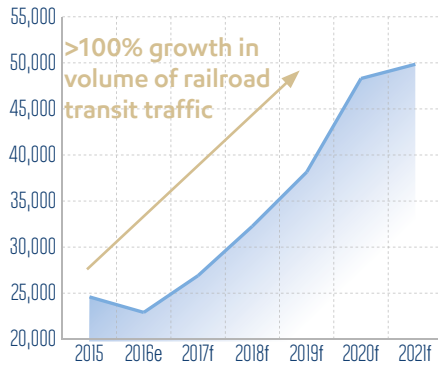
Nurly Zhol

- ▶ The current fiscal stimulus plan envisions additional government spending of more than **USD 9 billion** over 2014–2017, including **USD 4.7 billion** in 2017.

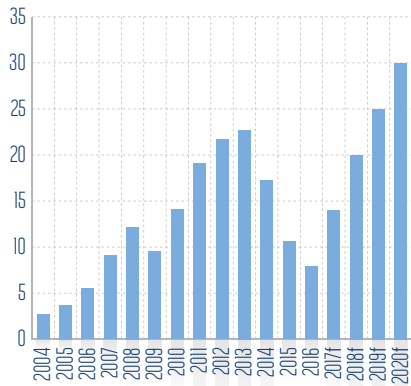
One Belt One Road

- ▶ In 2016, China’s investments into 49 countries along the OBOR initiative amounted to **USD 4.5 billion**.
- ▶ Kazakhstan has been the biggest recipient of Chinese FDI in Central Asia, receiving a total of **USD 27.5 billion** in investment from 1991–2016.

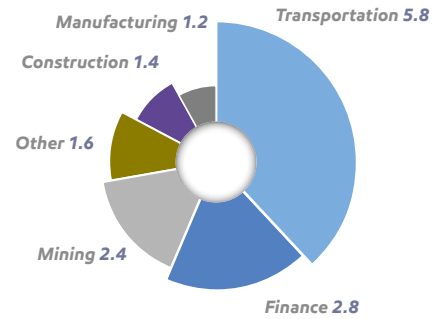
Volume of railroad transit traffic, million ton-km



Kazakhstan trade turnover with China, USD billion



China FDI stock in Kazakhstan, USD billion (2016)



Global economic activity improved in 2H16 and continued to pick up pace in 1H17, driven by major advanced (Japan and euro area) and emerging economies (China, India and ASEAN-5). Nevertheless, there is a wide distribution of possible outcomes of global growth outlooks, underpinned by uncertainties associated with the US policies and potential implications. Renewed steepening of the US yield curve following June 2017's rate hike, rise in equity prices reflecting market optimism on corporate earnings, and substantial appreciation of the USD reflect market expectations of fiscal stimulus and continued normalization of the monetary policy moving forward. The International Monetary Fund projects global GDP of 3.5% in 2017 vs. 3.2% in 2016, while the World Bank expects more subdued global growth of 2.7% in 2017 vs. 2.4% in 2016.

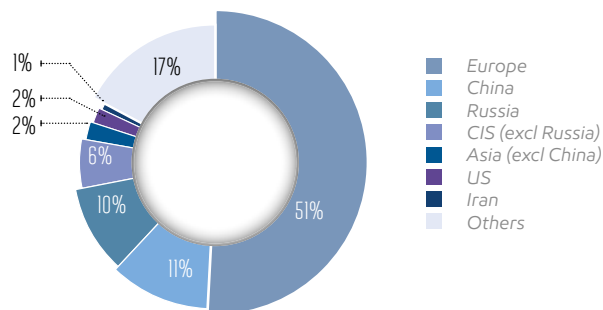
Being Kazakhstan's largest oil export market, Europe showed positive surprises in economic activity in late-2016 and 1H17. First quarter growth was above expectations for Germany, France, Italy and Spain. Solid readings on purchasing managers' indices in the second quarter indicated continued growth momentum and stronger domestic demand than previously anticipated. As such, World Bank has lifted its 2017 GDP projection for Europe from 1.5% to 1.7%, while the IMF raised the region's growth forecast from 1.7% to 1.9%.

China, being Kazakhstan's largest export market for oil and metal products, also witnessed stronger-than-expected growth with 1Q17 GDP of 6.7%, supported by continued fiscal stimulus. Premised on this, 2017 economic growth is expected to remain at 2016's level of 6.7%. Market consensus is that China's GDP growth is likely to moderate to between 6.2% and 6.5% over the medium-term as the economy rebalances and reforms are being implemented and calibrated by policy easing.

Russia's growth momentum started to accelerate as higher oil prices this year supported consumer confidence and reduced fiscal pressure. For 2Q17, Russia's GDP growth is estimated at 1.1%, accelerating from 0.5% YoY growth observed in 1Q17. Inflation is close to the central bank's target of 4%, allowing the regulator to further reduce the key interest rate, which is expected to further boost consumption and aggregate demand. Following a 0.2% contraction in 2016, GDP is forecasted to grow at 1.3%-1.8% in 2017.

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 11% and 10% respectively of the country's total exports, while European countries collectively account for ~50% of total exports.

Exports by Region/Country (2016)



Source: Statistics Committee, Samruk Kazyna Research

External factors can potentially affect growth in 2017

- 1 Commodity prices**

Oil accounts for 20% GDP, 50% of government revenue and almost 60% of exports.
- 2 Economic performance of key trading partners**

Key trading partners' economies, which are China and Russia, have effect on Kazakhstan through trade and commodity prices.
- 3 Currency performance of key trading partners**

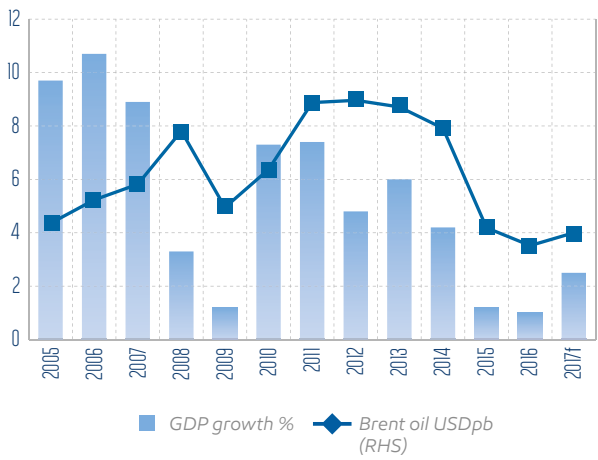
Russia's currency performance will impact Kazakhstan's trade competitiveness and exchange rate policy.
- 4 US monetary policy stance**

Rising US interest rates impact global financial & capital flows on emerging markets.

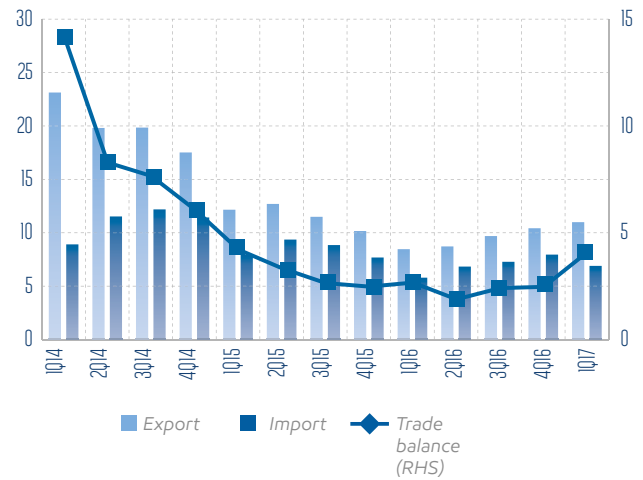


Kazakhstan: Charting Growth

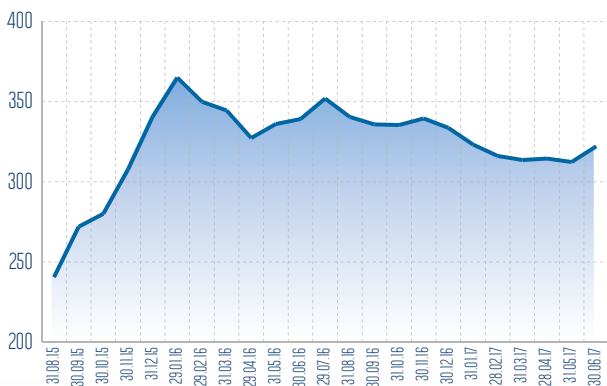
GDP Growth vs. Brent Price (2005–2017f)



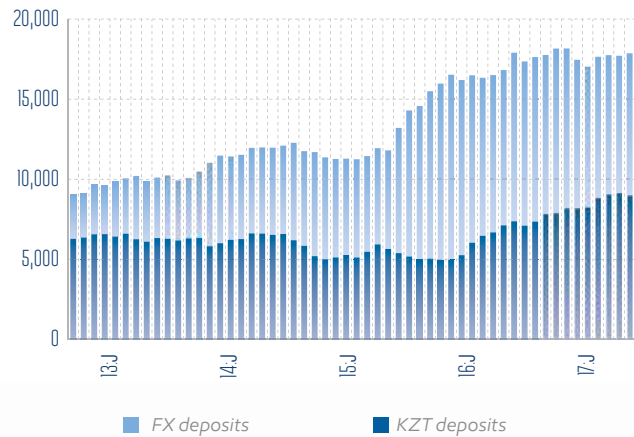
External Trade, USD billion



USDKZT Trend

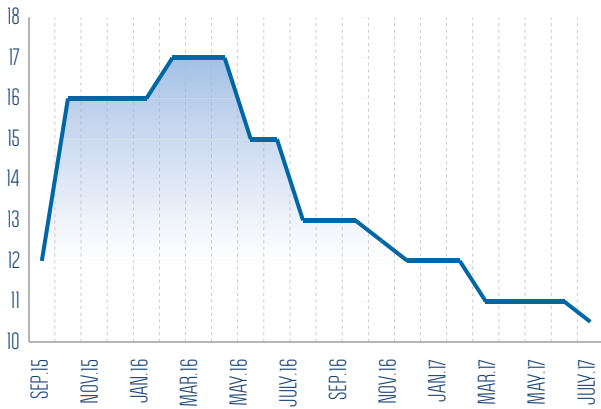


Retail Deposits, KZT billion

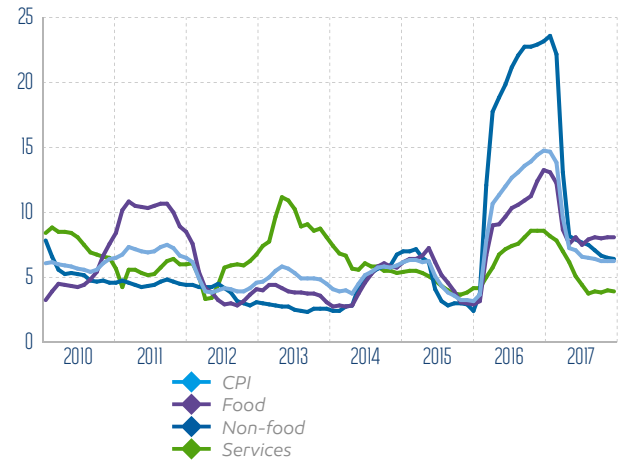


Source: The Ministry of National Economy, National Bank of Kazakshtan, Bloomberg, Samruk Kazyna Research
 Charts were prepared as at 10 August 2017.

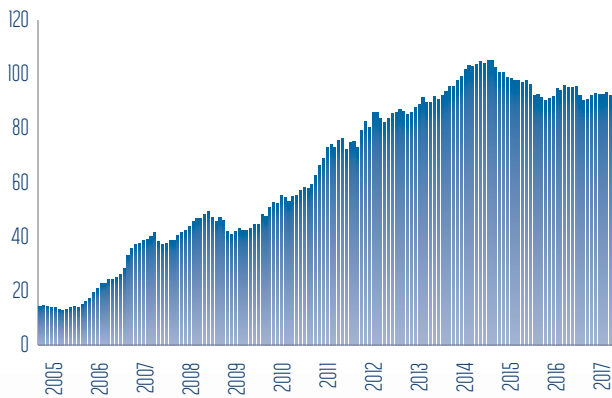
Base Rate



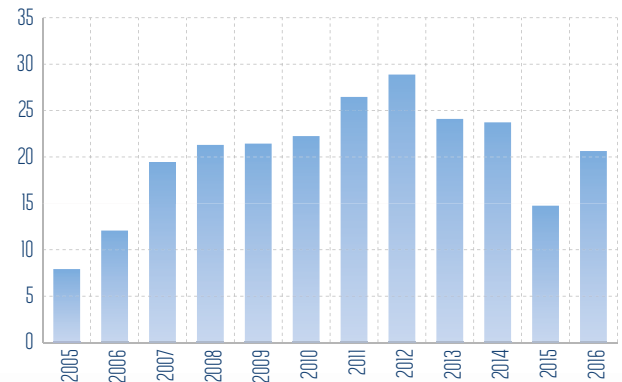
Inflation Trends



International Reserves, USD billion



Foreign Direct Investments, USD billion



DEVELOPMENT STRATEGY AND KPI

We implement our strategy using key strategic initiatives and measure our effectiveness using relevant key performance indicators (KPI).

Despite a challenging and uncertain macroeconomic environment, our 2016 results reflected progress in overall performance of the Fund and its Portfolio companies.



Corporate governance rating

MODERNIZATION OF NATIONAL ECONOMY

Volume of investments in new and growing companies

SUSTAINABLE DEVELOPMENT

Sustainable development report

Strategic KPI from 2018

Approved Funds new Methodology for assessment of corporate governance in the Group of Fund and in 2017 launched a project for independent diagnostics of corporate governance system in 6 PCs of the Fund

KZT 40 billion

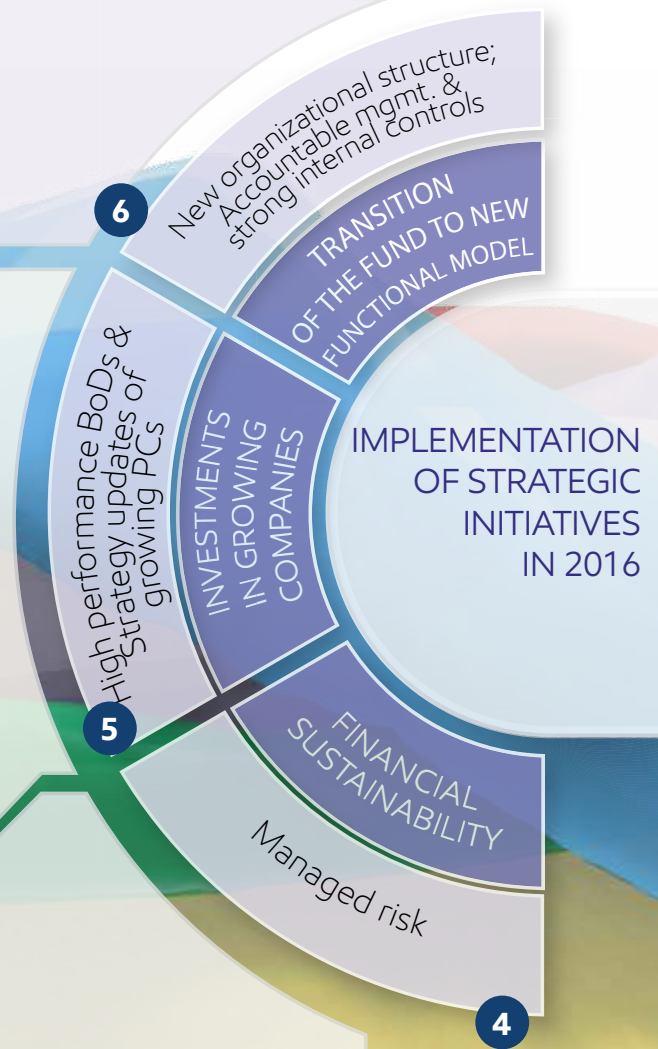
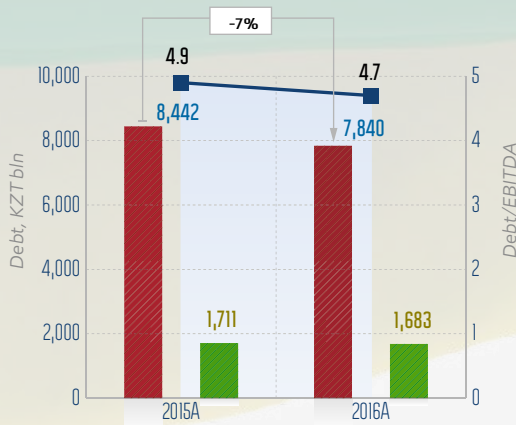
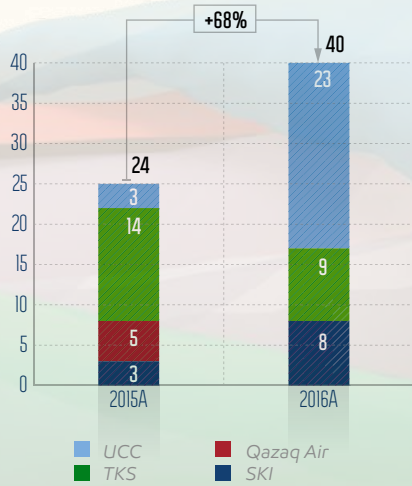
In 2016, the construction of 4 projects in UCC (chemical industry) and TKS (mining sector)

Strategic KPI from 2018

Reference Model of Sustainable Development is approved and Funds first Sustainability report for 2016 is published

The Fund continues to keep 6 development initiatives in priority for the successful implementation of the Fund's strategy. In general, in 2016 there is a positive progress in the implementation of key development initiatives:

- ▶ In May 2017 the Corporate Center of the Fund completed the transformation to the Target Op Model;
- ▶ Completed 17 projects & 12 quick wins



IMPLEMENTATION OF STRATEGIC INITIATIVES IN 2016



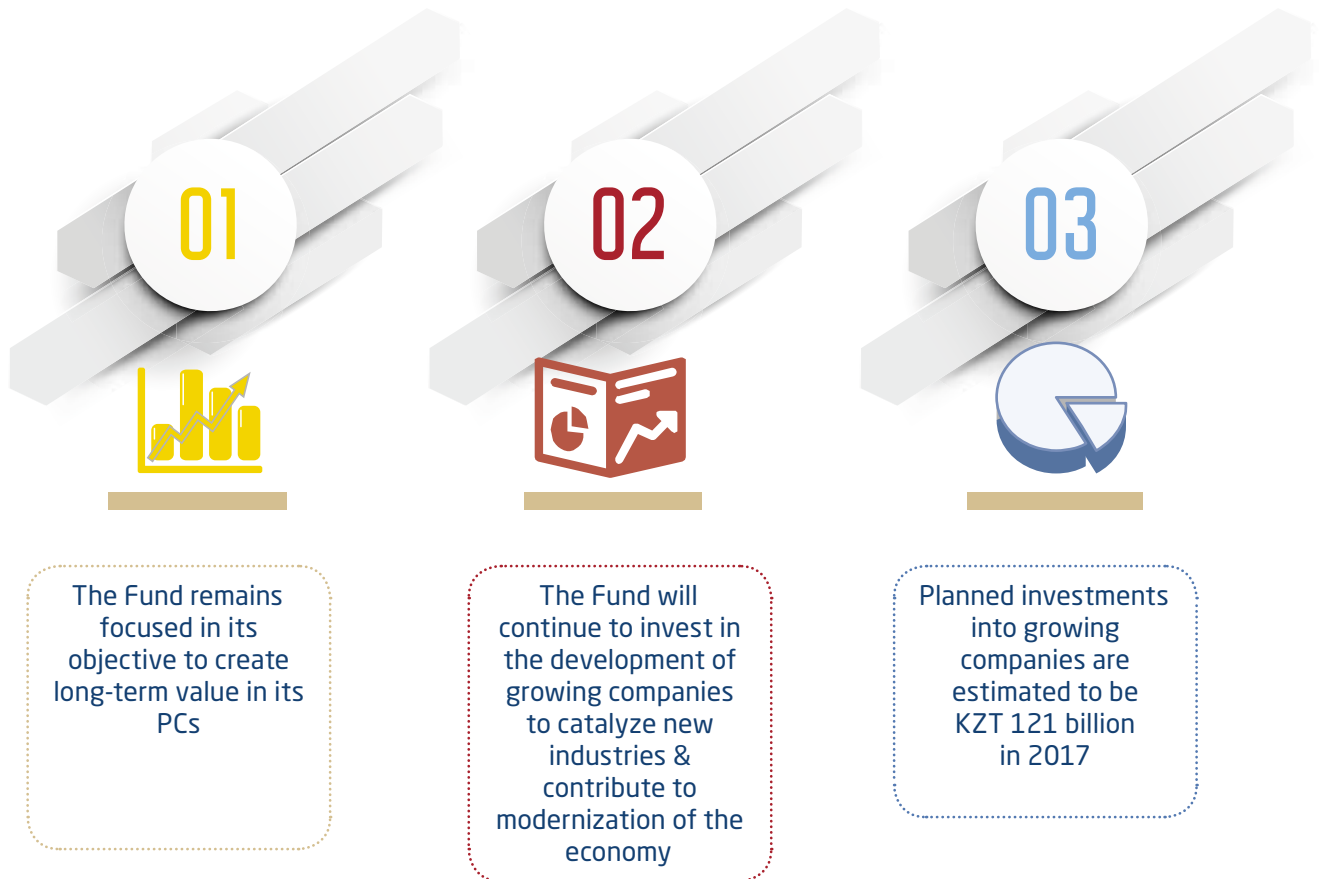
- ▶ Principles & Approaches on the **Identification & Building New Industries** approved;
- ▶ Fund-level **strategic DCF Model** developed.

- ▶ **Uniform Rules** for assets' privatization approved
- ▶ Fund's Project Office set up;
- ▶ **Sold – 48 assets** (KZT17 bln); reorganized – 6, liquidated – 18;
- ▶ **Roadmap for sale** of 9 large PC approved.

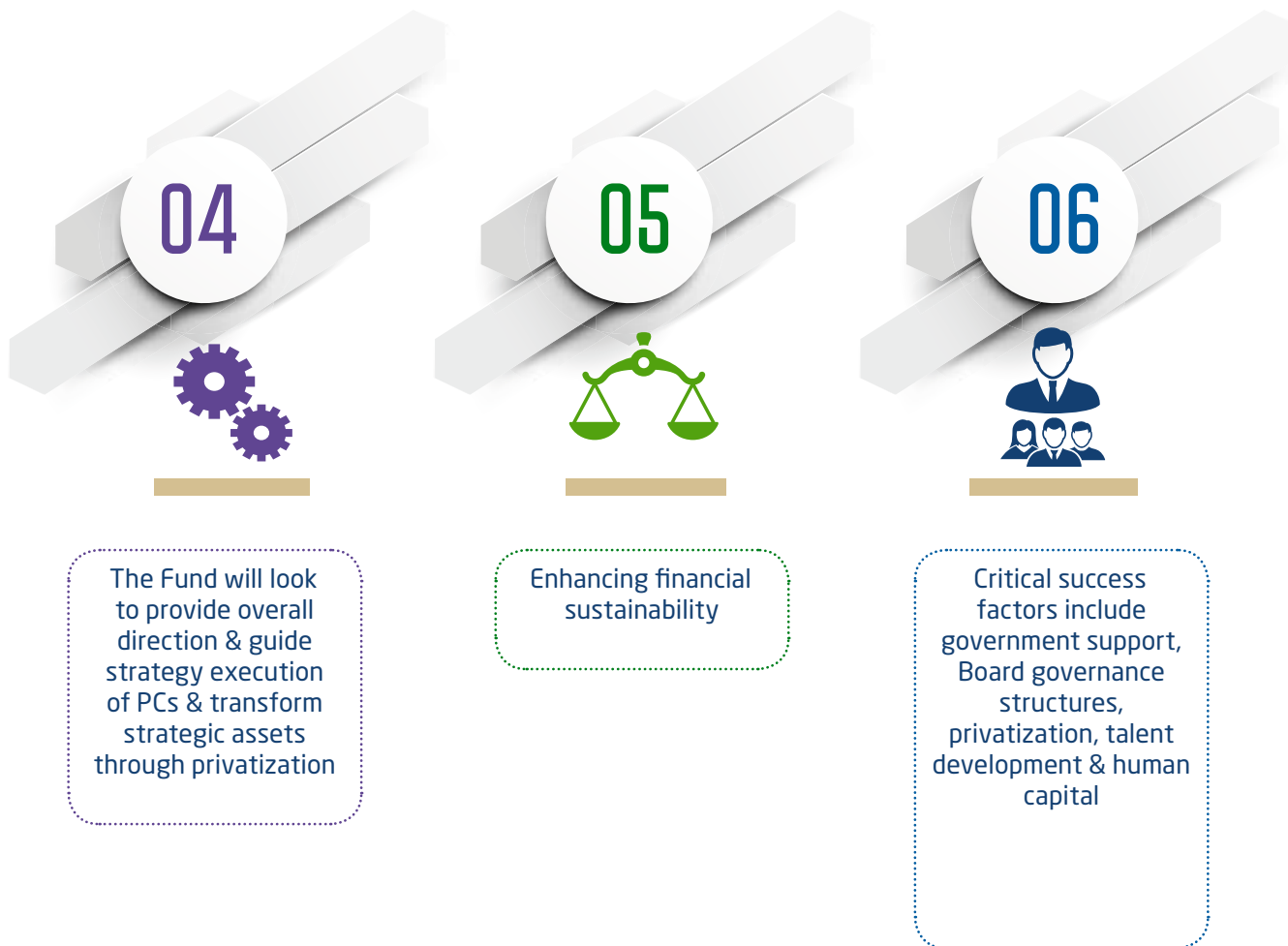
- ▶ Completed **diagnostic & design stages** 6 PCs;
- ▶ Released **14 reference models** to PCs;
- ▶ Released biz **automation platform** to PCs;
- ▶ 3 successful prototypes of **Integrated Planning System**.

KEY BUSINESS TARGETS OF THE FUND FOR 2017–2021

- ▶ During 2017–2021, the Fund will focus on achieving its strategic goals set out in the updated Development Strategy for 2012–2022, approved by the Fund’s Board of Directors in 2015. The KPI Tree developed has incorporated relevant KPIs from the Development Strategy to ensure consistency while introducing new ones to better measure success as the Fund evolves into an active investor and strategic holding.
- ▶ The Fund in the medium term continues to focus on six key development initiatives in order to successfully execute the Fund’s development strategy, such as improvement portfolio management, implementing a privatization program, development of the Fund’s investment portfolio with a focus on new industries, Transformation of the portfolio companies, transition of the Fund’s corporate center to the new functional model and enhancing financial sustainability.
- ▶ The Fund will continue to focus on efficient management of the portfolio Companies with the view to increase the long-term value of the companies. The Fund will start using EVA as one of its key performance indicators in 2018, while the portfolio companies have started to use EVA as a strategic KPI since 2017. Until then, the Fund’s economic performance will be measured by portfolio level ROIC and net income;



- ▶ The Fund will ensure positive free cash for its development and payment of dividends to the Shareholder;
- ▶ Corporate governance of the portfolio companies will remain at the core of the Fund as strategic holding. The Fund will ensure continuous improvement of corporate governance practices with respect to its Shareholder and Portfolio Companies. The Fund will strive to improve its corporate governance rating according to the new methodology of corporate governance rating;
- ▶ The Fund will continue to implement the Transformation Program in Portfolio Companies according to the plan. By 2020, all participating companies Will complete the implementation of the 4 stage of the initiative 1A: Business process reengineering;
- ▶ The Fund will promote modernization of the national economy by catalytic investments that will accelerate the development of the national economy.



04
 The Fund will look to provide overall direction & guide strategy execution of PCs & transform strategic assets through privatization

05
 Enhancing financial sustainability

06
 Critical success factors include government support, Board governance structures, privatization, talent development & human capital



ЦЕЛОСТНОСТЬ

INTEGRITY

ТҮТАСТЫҚ



We keep our promises

We do what we say

We are honest and fair



BUSINESS AND FINANCIAL REVIEW

Key events of the reporting period and following
the reporting period

Financial review of 2016

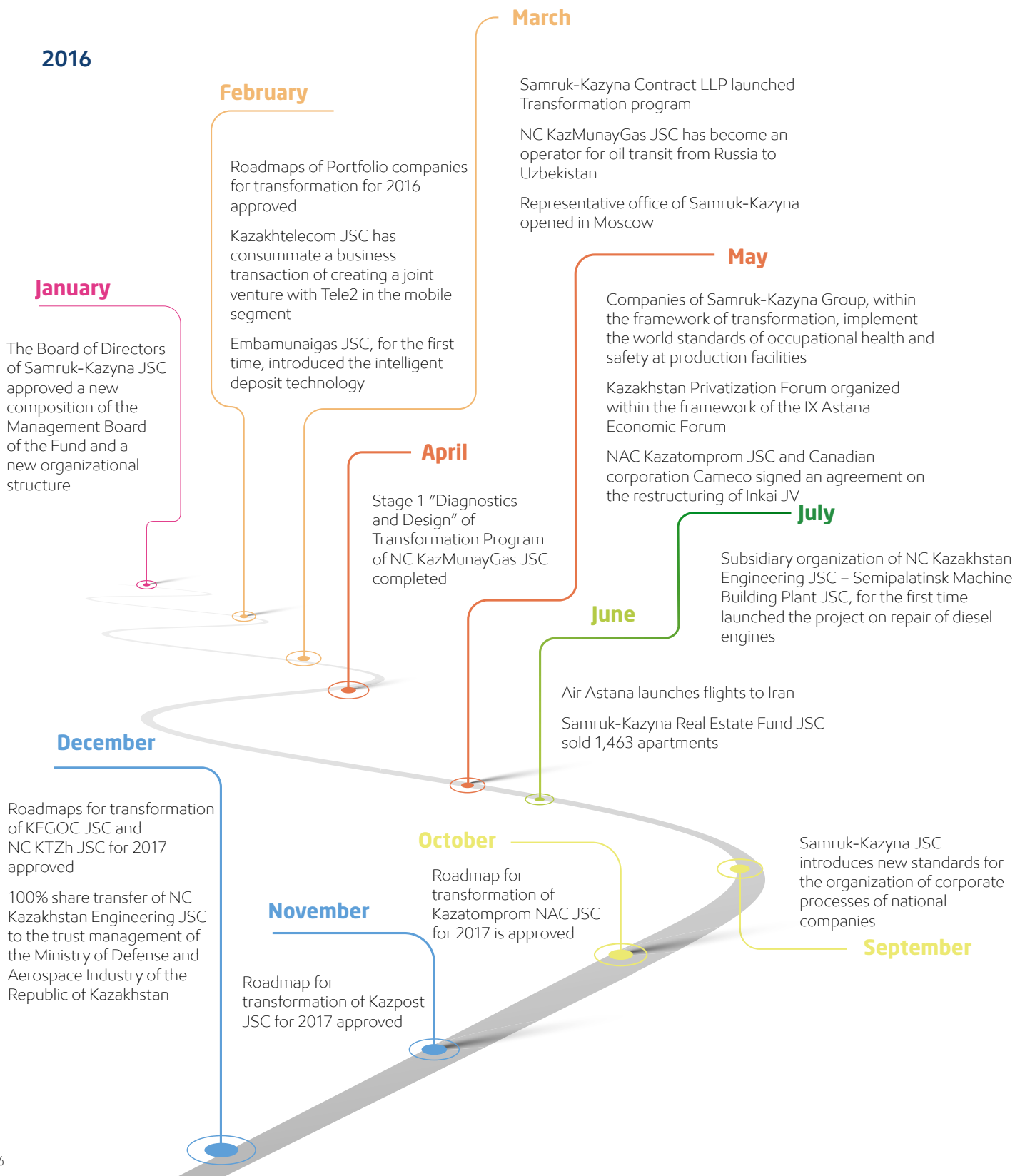
Transformation program

Privatization program

Investment activities

Risk management and internal control

KEY EVENTS OF THE REPORTING PERIOD AND FOLLOWING THE REPORTING PERIOD



2017

March

Business Modernization and Transformation Council approved the Roadmap for transformation of Samruk-Energy JSC for 2017

Models of category procurement management and prequalification of potential suppliers launched

Top management of Samruk-Kazyna held working lunch with American companies in New York, USA, in order to present investment opportunities and privatization program. The event was organized with the support of the Business Council for International Understanding and the Embassy of the Republic of Kazakhstan in the United States

January

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

February

Saken Sarsenov appointed as a Chairman of the Management Board of Kazpost JSC

Arman Zhetpisbaev appointed as a Chairman of the Management Board of Samruk-Kazyna Real Estate Fund JSC

Samruk-Kazyna's Briefing for diplomatic corps accredited to the Republic of Kazakhstan, large international companies, investors and bankers, took place in Astana

April

Samruk-Kazyna has conducted early investor meetings of Air Astana and Kazatomprom as part of its Investor Day at London Stock Exchange, also presenting privatization program and Samruk-Kazyna's development strategy for British and international investors

Pre-commissioning activities has been started at the facilities of the 1st stage of modernization project at Shymkent Refinery

NAC Kazatomprom JSC and Areva signed an agreement on development of uranium mining in Kazakhstan

Samruk-Kazyna Investor Day for local and regional investors was held in Almaty, Kazakhstan

May

The Fund hosted the Town Hall Meeting, which summarized the transformation of Corporate Center, following which the Fund completed the implementation of the main processes for introducing changes. Representatives of state authorities and expert community, top managers of portfolio companies and independent directors of the Fund's Group participated in the event

June

The Management Board of Samruk-Kazyna JSC made decisions related to the expiration of the term of tenure of the existing Board of Directors of NC KazMunaiGas JSC

The Management Board of Samruk-Kazyna JSC made decisions related to the approval of the new Board of Directors of QAZAQ AIR JSC

FINANCIAL REVIEW OF 2016

In 2016 the Fund's Group showed growth of major financial indicators compared to 2015.

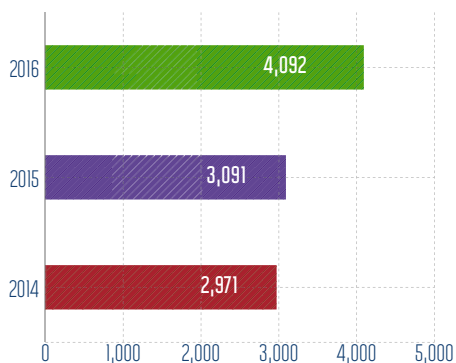
The amount of consolidated revenue in 2016 was about KZT 4.1 trillion, exceeding the same for 2015 by KZT 1 trillion, or by 32%. 65% of the revenue growth was provided by sale of additional volumes of crude oil, sale of refined gold and gas processing and petroleum products.

Consolidated assets of the Fund Group were more than KZT 22.4 trillion as of 31 December 2016, which is higher by KZT 1.6 trillion or 7.5% YoY. EBITDA and EBITDA margin in 2016 totaled KZT 982 billion and 20.6%, respectively, while similar indicators for 2015 were KZT 639 billion and 17.8%. The Fund's strategic indicator – the value of net assets – was more than KZT 6.8 trillion, an increase of 7% from 2015.

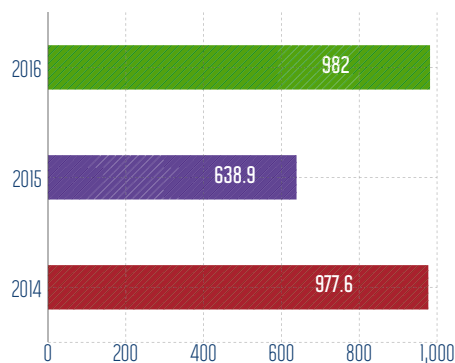
As at year end 2016, the Fund increased the revenue part of the state budget by KZT 610 billion in taxes. Dividends and other distributions to the shareholder reached KZT 57 billion. General and administrative expenses totaled about KZT 345 billion decreasing by KZT 36 billion against the same expenses in 2015.

Despite the high results, the Fund sets relatively low-key forecasts for 2017, due to the volatility of prices for major energy resources and the accompanying changes in foreign currency rates.

Consolidated revenue, KZT billion

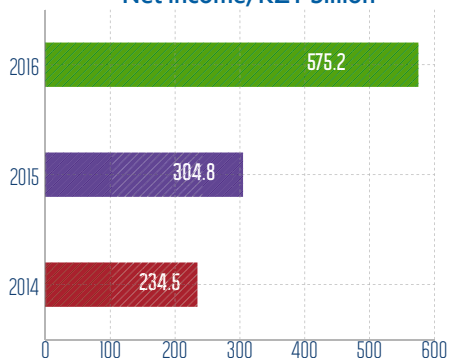


Operating EBITDA*, KZT billion

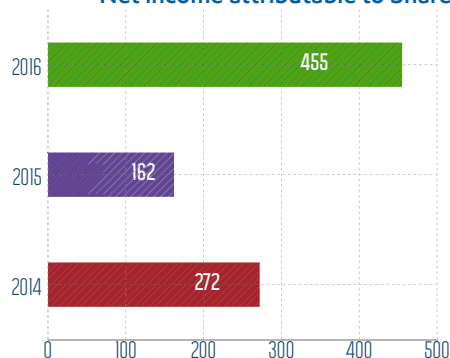


* $EBITDA\ Oper. = (Sales\ Revenues - Cost\ of\ sales - GAE * - TSE *) + (Depreciation\ of\ fixed\ and\ intangible\ assets\ in\ COGSS,\ GAE\ and\ TSE)$.
When calculating the operating EBITDA for 2015 and 2014, it was assumed that KMG International N.V. had left the Group, therefore the Group's income from the sale of crude oil to KMG International N.V. were recovered in operating income (refer Note 5 to the consolidated financial statements).

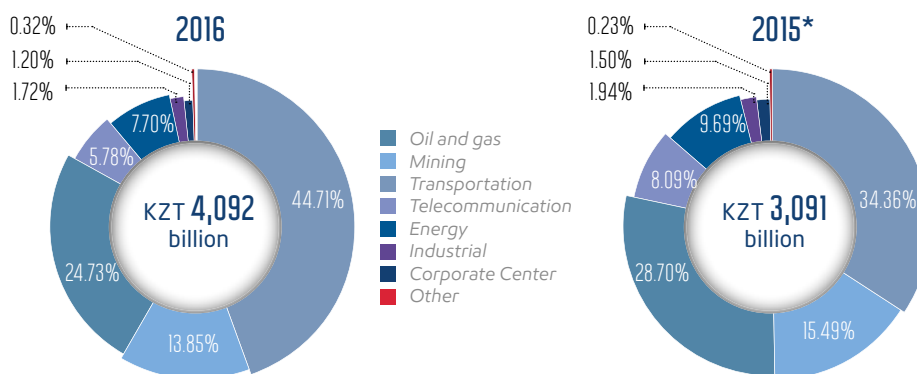
Net income, KZT billion



Net income attributable to Shareholder, KZT billion

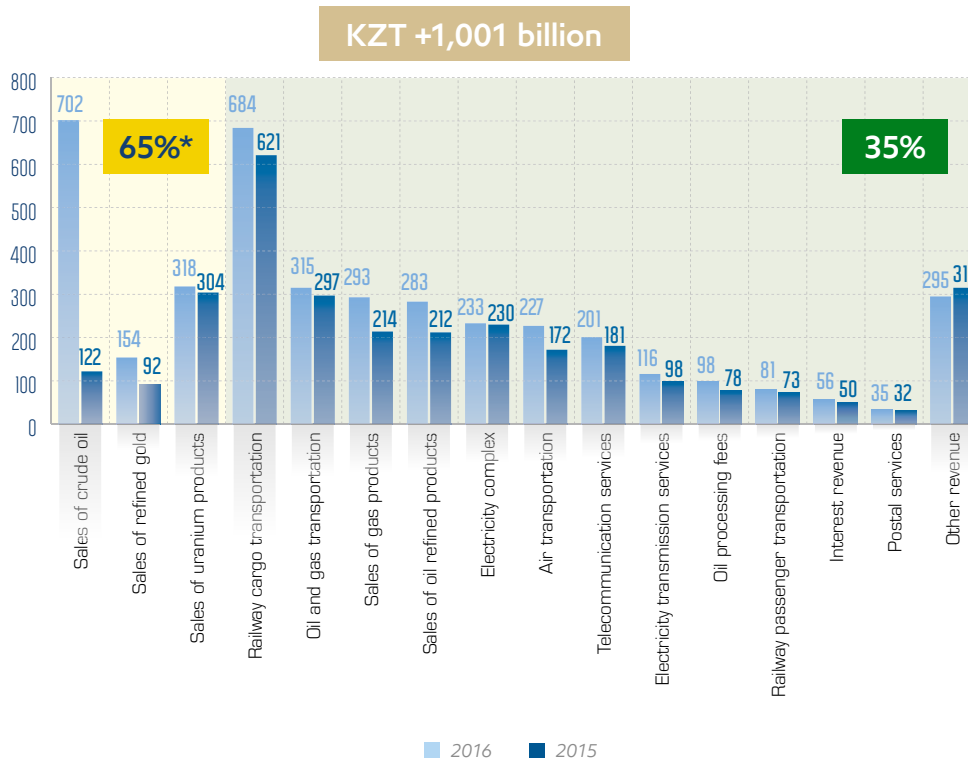


Revenue from segments



* For management purposes, in 2016, changes were made to the division of the Group into operating segments in accordance with the type of products and services provided. See Note 40 of the Group's Consolidated Financial Statements for the year ended December 31, 2016.

Consolidated revenue, KZT billion



Factors that provided more than 65% of growth, KZT billion*

Products	Volume factor	Price factor	FOREX factor
Crude oil	+386*	+72	+105
Gold	+16	+10	+35
Uranium oxide	-21	-70	+100

Main factors that provided more than **35%** growth, KZT billion



Revenues from:

Sales of gas processing products

+37%

mainly due to increased volumes of gas sales for export and domestic market of the Republic of Kazakhstan, as well as due to the growth of the US dollar exchange rate in the reporting period.



Revenues from:

Sales of petroleum products

64%

due to a change in the selling price (an increase by 20%), 36% due to changes in volumes (since April KMG EP independently performs processing with the subsequent sale of petroleum products).



Revenues from:

Air transportation and related services

Mainly due to an increase in the average tariff by

38%

due to the relation of the international tariffs to the USD from 01.10.2015.



Revenues from:

Cargo transportation

+70.5 billion

FOREX, +5 billion growth of tariffs for the services of the train-interstation communication and LT services, -10.6 billion Decrease in traffic volumes, -13 billion decrease in revenues on additional fees.



Revenues from:

Telecommunication services

Mainly on KTK due to growth in revenues from operator segment by

13.5 billion

as a result of an increase in incoming / transit traffic from telecommunications operators' networks, and from data transmission network services by 4.5 billion as a result of active promotion of fixed broadband and pay TV services.



Revenues from:

Oil transportation services

The revenue growth in the reporting period by

24%

is due to the increase in tariffs of Intergas Central Asia JSC for gas exports and the growth of the USD rate.



Revenues from:

Electricity transmission services and related support

Mainly, due to the growth of tariffs for services rendered and the volume of electricity transmission, as a result of the increased production by the producers of electricity in the Republic of Kazakhstan.



Revenues from:

Passenger transportation

+6.9 billion

due to the increase in passenger turnover,

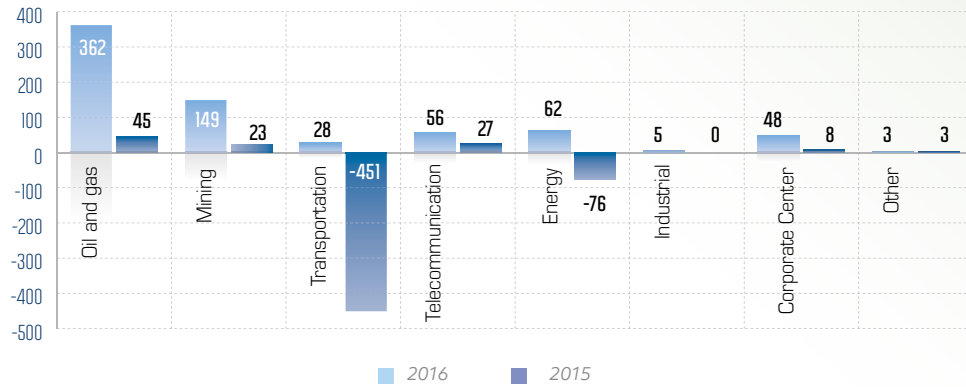
+1.4 billion

due to the growth of the average income rate

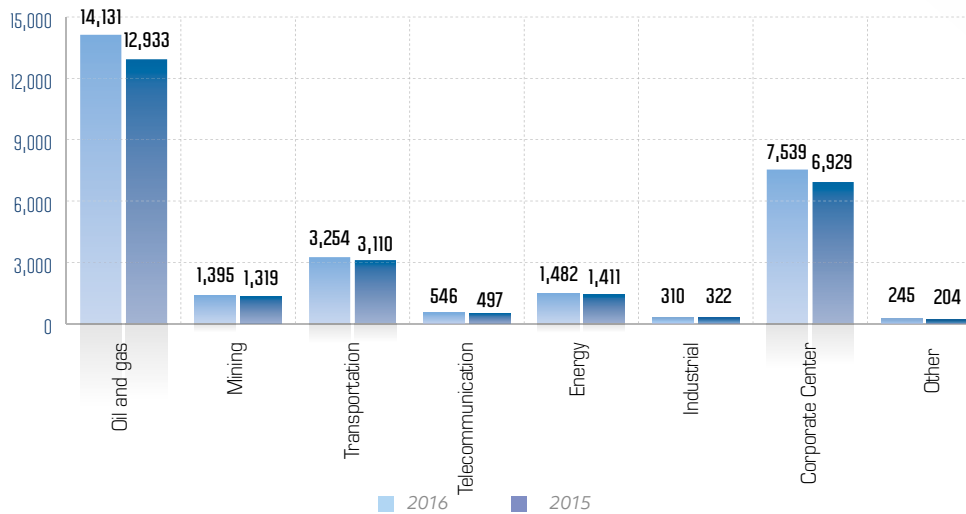
* During 2016 the NC KMG Group entered into a long-term crude oil and liquefied petroleum gas ("LPG") supply agreement. The total minimum delivery volume approximates 30 million tons of crude oil and 1 million tons of LPG in the period from the date of the contract to March 2020 from Tengizchevroil LLP ("Tengizchevroil"), Mangistaumunaigaz JSC and Karazhanbasmunai JSC oil production.

PC performance indicators are available in annual reports on official PC sites. Information about the profits and losses, assets and liabilities of the operating segments of the Group for 2016 and 2015 is presented without any elimination.

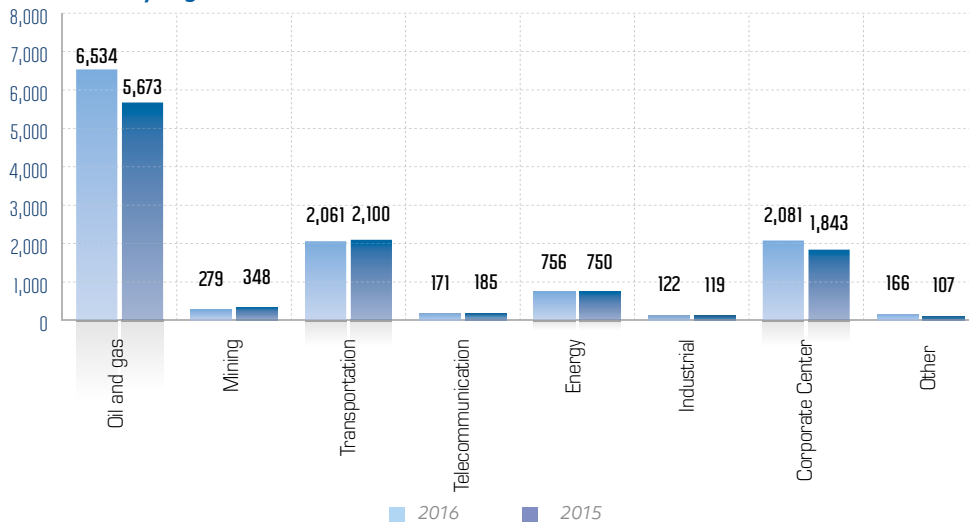
Net profit (loss) for the period by segments, KZT billion



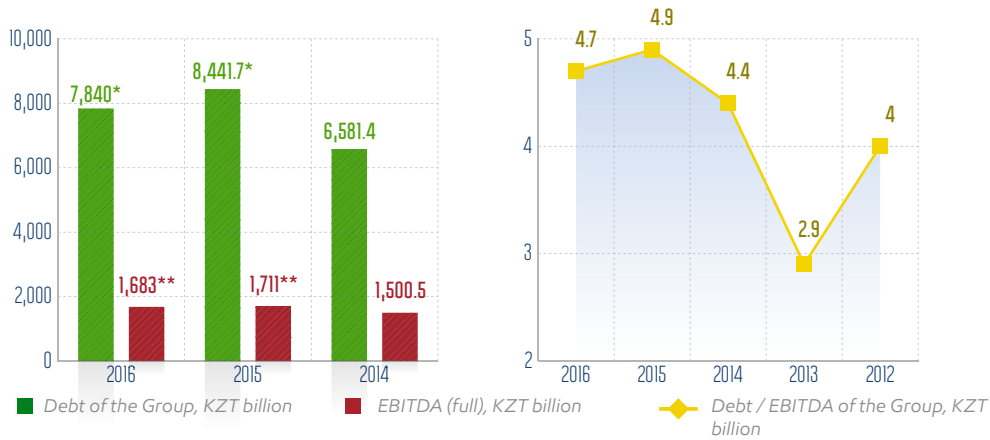
Assets by segments, KZT billion



Liabilities by segment, KZT billion



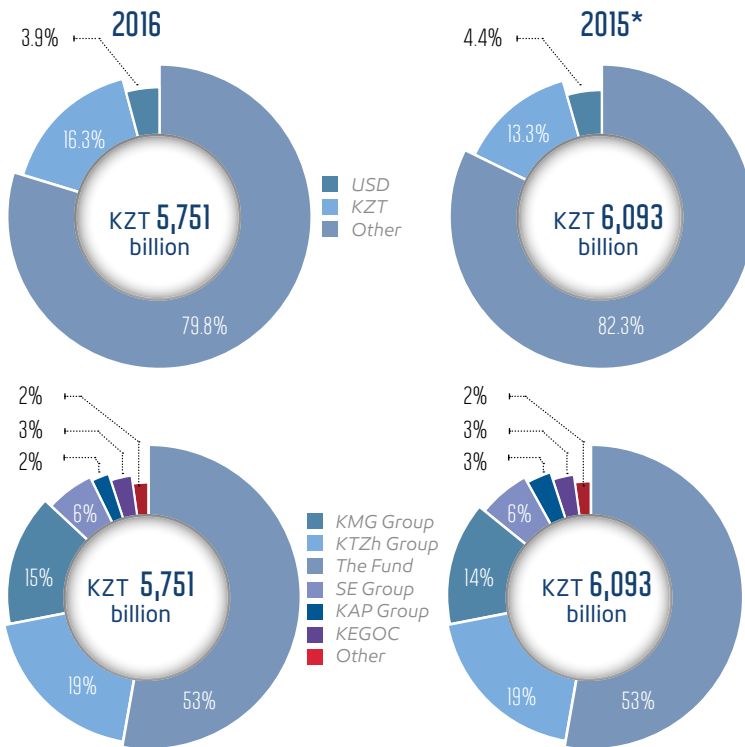
Financial sustainability of the Group of Fund



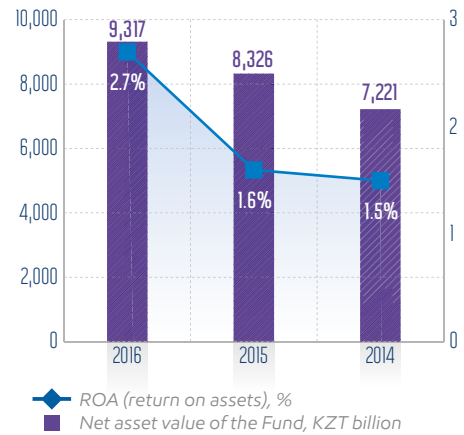
* Including loans / bonds received from financial institutions in the amount of KZT 6,093 billion, but not including loans from discontinued operations.

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

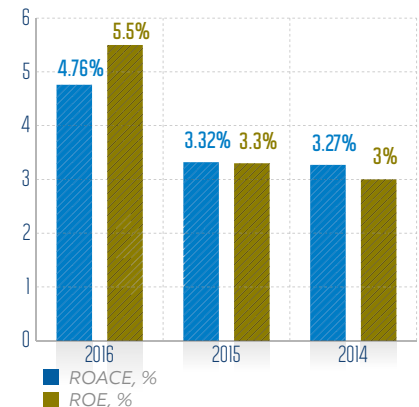
The structure of loans received from financial institutions in 2016



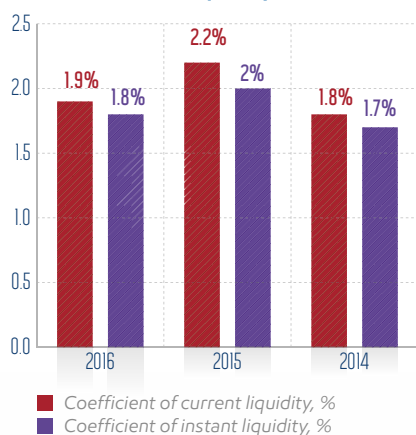
The effectiveness of the use of assets in the Group of Fund



Effectiveness of capital structure in the Group of the Fund



Coefficients of liquidity



The indicators of assets and equity profitability demonstrated an increase compared to last year, mainly due to the growth of the Fund's net profit by more than KZT 270 billion in comparison with 2015. Despite more restrained expectations in 2017 the planned indicators are above the average for the last 3 years.

The decrease in current liquidity indicators is due to an increase in other current obligations under the Oil Supply Agreement concluded by KMG in 2016, as well as the debt to purchase an additional stake in the undivided share of participation in the North Caspian project.

2017 projections

Despite the high results, the Fund sets relatively cautious forecasts for 2017, 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 at least on 8% in 2017. The return on assets and equity showed an increase compared to last year, mainly due to the growth of net profit of the Fund (for more than KZT 270 billion in comparison with 2015). Despite more restrained expectations in 2017, the planned indicators are above the average for the last 3 years.



LARISA ZYAMZINA

Manager of the Transformation Project of the Fund



We all know the World is changing rapidly. Today, the largest international corporations face challenges, employees no longer want to work in hierarchical structures, or wait long for promotion, innovations and technologies also break into our lives. And Kazakhstan led by the Head of Government responded positively to all these changes and put forward a number of reforms – Kazakhstan 2050, 100 steps, 3 modernization.

How to achieve these goals? We, Samruk-Kazyna, answered by launching of Transformation program. On the one hand, this is our response to challenges, on the other hand, our participation in the implementation of these reforms in Kazakhstan.

For Samruk-Kazyna everything begins, in my opinion, with our role in realizing the ambitious strategic tasks of the Government, in the ambitious goal to become an International Sovereign Fund. Moreover, **partnership** is the tool that will help us achieve this goal.

We achieve these goals through the Partnership, through the interaction between the Fund and Sole Shareholder Government, between the Fund and Portfolio Companies. We all operate as one team, Strategic goals are cascaded and distributed between Portfolio Companies and its units, and each employee is involved and knows how to achieve these strategic goals, all of us are aimed at the united result. Only by this, we can achieve aimed goals.

Partnership is a multi-faceted concept that manifests itself almost everywhere. Based on my 20-year work experience I can say with confidence that any task of a company is achieved only through partnership.

For 2.5 years we worked in the Partnership to achieve the task of creating a Strategic Holding. 2000 business processes were rebuilt, a new organization was formed, a commercial block was built. Partnership between the manager and subordinates brings our culture to a new level.

1. A new style of leadership: we move away from a hierarchical style that sets short-term goals.
2. We turn to the Partnership format, where the manager is a long-term strategy and he helps the employee to achieve the set results.

Successful leaders invest more than 50–60% of their time in their employees, the Leader conveys knowledge, experience and provides feedback to the employee. And, of course, within the framework of the new format of work we avoid rudeness – this is absolutely unacceptable in accordance with the new principles of ethics. Our Partnership involves Respect for every member of the team.

TRANSFORMATION PROGRAM

The corporate center of the Fund completed the reengineering of business processes and formed the base of the strategic holding / active investor

In October 2014, the Fund set a task to move from the model of administrator of state assets to the model of a commercial holding company that effectively manages the portfolio of asset and develops new industries.

In May 2017, the Fund successfully completed the reengineering of business processes and formed the base of the strategic holding / active investor. We re-create interaction with companies with a focus on creating value and achieving sustainable results. The next key step is to improve competitiveness at the global level.

Today, the Fund is already effectively using strategic portfolio management tools, such as:

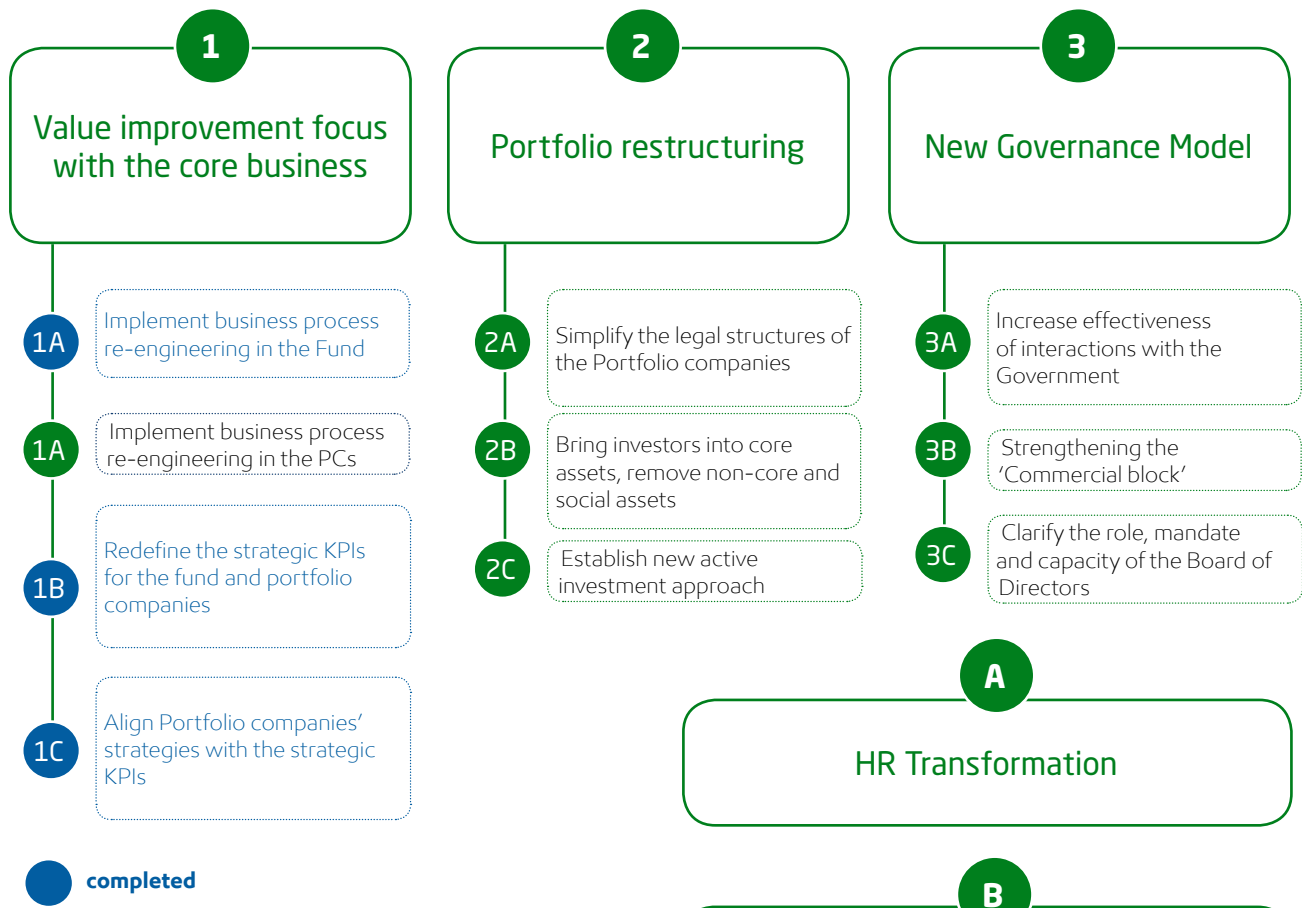
- ▶ A new 5-year development plan that defines the strategic direction;
- ▶ A new KPI tree with a focus on value creation, with revised and updated indicators;
- ▶ DCF models, for assessment of the value of portfolio companies and for determining the possibility of potential growth;
- ▶ Enhanced Boards of Directors of Portfolio Companies in accordance with the principles of OECD countries;
- ▶ An enhanced top management team of the Fund and portfolio companies (New organizational structure).

3 investment concepts for co-investing are approved and under development, 7 more concepts shall be approved by 2017.

Within the framework of forming the base of the target operating model, 18 projects and 12 quick wins have been implemented, **the following results are achieved:**

- ▶ A new operational business model of the Strategic Holding / Active Investor was approved, with a focus on commercial activity and value creation;
- ▶ The Fund completely filled the new structure through a transparent competitive selection process; both internal and external candidates were assessed. As a result, the Fund's team significantly strengthened and renewed by 40%;
- ▶ New functions, such as Strategy management, Portfolio investment management, Research and knowledge management, New industry development, Government Relations were created;
- ▶ Compliance functionality was created. A new code of business ethics was approved and has been implemented;
- ▶ New values of the Fund were approved: Partnership, Respect, Integrity, Meritocracy, Excellence.

Initiatives

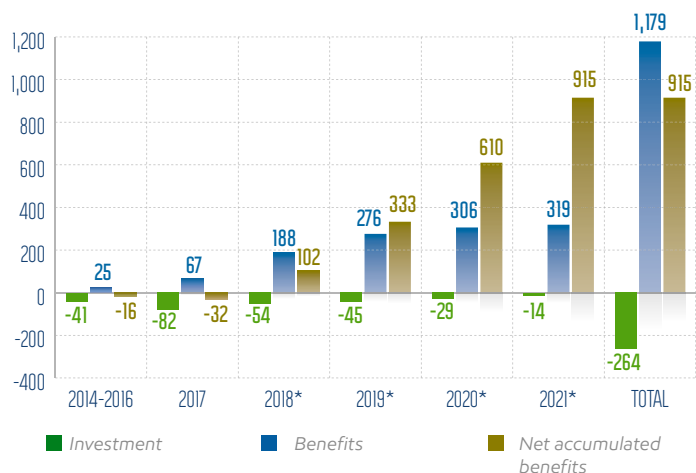


In general, the Transformation continues and the Fund needs to continue implementing the initiatives of the Transformation Program.

Now the focus of the Transformation shifts to portfolio companies, in which the following results are achieved:

- ▶ The Strategies and KPIs of the Fund and 6 largest portfolio companies were approved;
- ▶ As of June 2017, Board of Directors of five companies were updated and strengthened;
- ▶ The renewal of the companies' composition was on average 20% as per results of job matching CEO-1 in KazMunaiGas NC JSC, Samruk-Energy JSC, KEGOC JSC, Kazpost JSC, Kazakhtelecom JSC;
- ▶ Design of target operating models of 6 portfolio companies approved;
- ▶ Transformation road maps are approved and actively implemented;
- ▶ The projected economic benefits from the implementation of the Transformation Program exceed KZT 1 trillion in the horizon until 2021;
- ▶ Realized gains at 2016 were KZT 24.5 billion.

Forecast of investment and benefits of Transformation



Meritocracy

Aim:

Compliance with meritocracy principle is aimed at ensuring the selection of the most worthy personnel, their professional and career move based on recognition of personal merit. Introduction of this principle allows objectively evaluating performance of employees, promoting the most worthy and competent personnel along the career ladder in the Fund and its companies, increasing employee involvement, their confidence in HR decisions.

Results achieved:

Taking into consideration the best world practice in human resources management, the Fund Group actively implements HR policy with the following the key directions:

- ▶ *Transparent competitive selection.* We introduced 8-stage competitive selection of candidates applying for jobs in the Fund and its companies. As part of the Fund's transition to the new organizational structure, the Fund announces 83 vacant positions published on the website, as a result, over 15,000 CVs received through different sources.
- ▶ *Position grading.* Position grading was introduced on the basis of position mandate. This model gives an accurate and objective definition of the importance of each position for the result of the company, measures the complexity, responsibility, as well as the necessary knowledge and skills of each position.
- ▶ *Performance appraisal, promotion and remuneration of employees based on the performance appraisal;*
- ▶ *Development of the personnel reserve and succession planning for top management positions;*
- ▶ *Training of employees, implementation of 70% – 20% – 10% principle (training and development in the workplace);*
- ▶ *Development of corporate culture;*
- ▶ *Conducting an annual study of staff involvement, taking measures to improve the situation.*

HR-function in the Fund is transformed into a strategic partner for the successful achievement of business tasks.

As a result of transformations of HR management function, a flexible, business-oriented and integrated system will be built providing key solutions in the following directions:

- ▶ Preparing leaders of a new generation for Portfolio Companies and the economy of Kazakhstan;
- ▶ Developing the leadership potential of employees, building succession and rotation of staff in the Fund Group;
- ▶ Increasing efficiency and productivity of staff, as well as overall organizational development;
- ▶ Motivating and involving employees, including improving the system of remuneration and bonuses;
- ▶ Providing high-quality service in personnel administration.

Simplify the ownership structure and legal form of portfolio companies

Aim:

The Fund's aim is to simplify the legal structure of the Group to 300 legal entities, 5 ownership levels by YE2017. The purpose of this initiative is to increase the manageability of the Fund's assets and accelerate decision-making. The main mechanisms for simplifying the structure are the sale, liquidation and reorganization of companies.

Results achieved:

In May, the Fund's Management Board approved a new methodology for accounting of the Fund Group composition, according to which subsidiaries (ownership over 50%), joint ventures (joint control) and associates (ownership over 20%) shall be taken into account.

Introduction of active investment approach

Aim:

Development and diversification of the Fund's portfolio.

Results achieved:

- ▶ Investment ideas pool consisting of over 20 investment ideas was created.
- ▶ New Industry Building (NIB) Team is actively looking for strategic partners and MNE that could become partners with the Fund and help with further implementation of the proposed investment concept.

Improving interaction with state authorities

Aim:

Adjusting the Fund's relations with the Shareholder, represented by the Government, in accordance with the requirements of the Corporate Governance Code and the best practices of the OECD.

Results achieved:

- ▶ GR function was created in the Fund, GR reference model for portfolio companies was designed
- ▶ The volume of incoming inquiries from the Government decreased by 12%, and the Fund's labor costs for processing such requests reduced by one third compared to 2014
- ▶ In the short period of time amendments to the legislation were made in order to speed up privatization.

Further plans:

- ▶ Create GR Function in all major portfolio companies of the Fund Group by YE2017
- ▶ Make amendments to legislation to ensure centralization of accounting and tax accounting functions in common service centers
- ▶ Increase gradually the maturity level of GR function to global level by YE2018.



Reengineering

As part of transition of 6 largest portfolio companies to target operating models, five key projects are implemented:

01

Job matching

In accordance with the Fund’s Code of Corporate Governance, as well as within the framework of transition to a model of strategic holding company, the Fund is implementing a job matching with the strengthened 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 with participation of independent directors of the Fund and Companies, representatives of HR Fund, and Companies’ CEOs.

In 2016, the job matching was assessed at the level of CEO-1 in 4 companies of the Fund with an average staffing update of 20% (taking into account internal and external candidates).

02

Introduction of integrated planning system

Within the framework of the special project Integrated Planning System (hereinafter – IPS), the Fund shall build an integrated planning system for the five largest portfolio companies in the group: KTZh NC JSC, KazMunaiGas NC JSC, Kazpost JSC, Kazatomprom NAC JSC, Samruk-Energy JSC. IPS is a production and financial model of an enterprise, detailed to the level of production assets, designed to predict performance indicators based on modeling scenarios of the company’s operating activities.

In all the 5 PCs, IPS prototypes were completed in order to involve top management of the companies, train PC working groups and evaluate in detail potential benefits.

Pursuant to benchmarks of Aberdeen Research and Oliver Wight, on average, the companies implementing the processes and tools of integrated planning increase revenues by 3–4%, reduce costs by 10% or more, and reduce frozen capital by 30%.

03

Introduction of a new procurement model and of categorial management

The main goal of the project: to introduce an integrated approach to the management of procurement processes in the companies, to keep records of local (industry) features that allow managing procurement in the most effective way.

A new procurement policy was drafted, which presupposes the development of 7 procurement management standards at the level of Fund based on existing procurement rules, including:

- ▶ Procurement planning;
- ▶ Categorial management;
- ▶ Conducting procurement;
- ▶ Contract and delivery management;
- ▶ Inventory Management;

- ▶ Preliminary supplier qualification;
- ▶ Control and monitoring.

According to the assessment of McKinsey, PwC, based on existing benchmarks, the expected effect from the introduction of categorial management and a new procurement model in the companies will amount to KZT 300 billion within 2017–2021. The effect from achieving the goals is adjusted at each stage of the strategy development and is fixed when signing contracts in accordance with the strategy agreed with suppliers. The experience of pilot strategies showed that the actual savings under the developed strategies exceeded the target by 57% from KZT 305 million to KZT 482 million.

04

Unified Capital Project Management System

The goal of UCPMS project is to effectively manage investments in our portfolio companies.

The unified capital project management system will allow:

- ▶ formulating unified approaches and requirements for the management and implementation of projects;
- ▶ ensuring effective organization and control over capital project management processes;
- ▶ creating prerequisites for implementing effective project management methods based on the best world practices;
- ▶ ensuring the formation and collection of historical data (creation of project database) for future projects.

Methodological documentation was developed:

- ▶ Corporate standard for managing capital projects of Samruk-Kazyna JSC;
- ▶ Methodological recommendations on the classification of investment projects of Samruk-Kazyna Group;
- ▶ Methodological recommendations on the evaluation and selection of capital projects of Samruk-Kazyna Group;
- ▶ Forms of reporting on capital projects (recommended).

Pilot testing and training for employees of portfolio companies were conducted.

05

Introduction of reference models

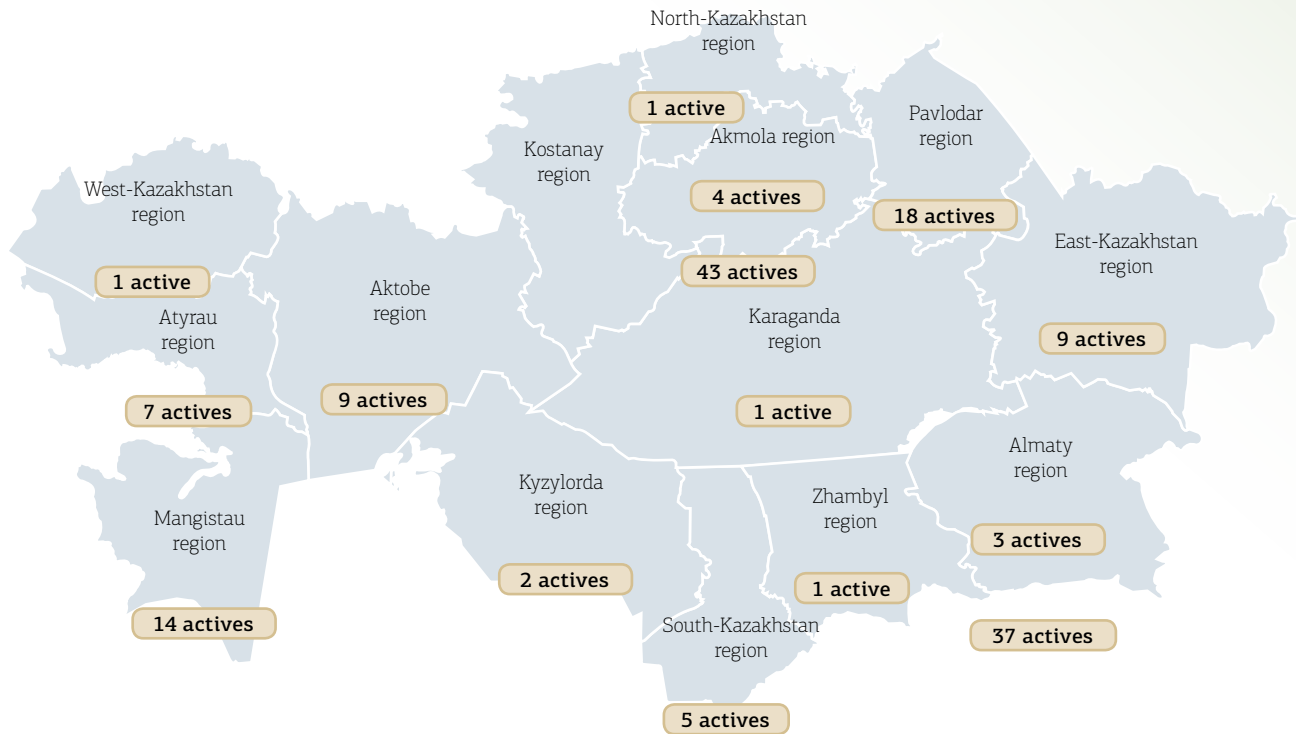
Within the framework of projects for the implementation of Reference Models (hereinafter referred to as the RM), tasks were set for the implementation of reference processes in six of the largest portfolio companies in the group: KTZ NC JSC, KazMunayGas NC JSC, Kazpost JSC, Kazatomprom NAC JSC, Samruk-Energy JSC, KEGOC JSC. The project is the implementation of the following reference processes developed and approved in the Fund:

- ▶ Human resources management
- ▶ Accounting
- ▶ Procurement management
- ▶ Treasury and corporate finance
- ▶ Tax accounting
- ▶ Operational planning
- ▶ Management of the portfolio of business initiatives and projects
- ▶ Management of industrial safety
- ▶ Management of maintenance and repair of production assets
- ▶ Strategic planning and performance management
- ▶ Information technology management
- ▶ Information security management system (ISMS)
- ▶ Data management
- ▶ GR-activity
- ▶ Management of risks.

PRIVATIZATION RPROGRAM

Privatization of large portfolio companies is one of the priority tasks for nearest years, which will encourage the achievement of the maximum economic effect for the national economy, introduction of an effective system of corporate governance and adoption of the best practices by portfolio companies, with a decrease of the government’s share and increase in minority shareholders.

Map of Samruk-Kazyna JSC privatized assets



Within the framework of Comprehensive Privatization Plan for 2016–2020, in accordance with Decree No. 1141 of the Government of the Republic of Kazakhstan dated 30.12.2015 “On Some Issues of Privatization for 2016–2020”, the Fund established a Project Office for Privatization and defined the top level tasks for privatization of the Fund Group assets.

In compliance with the tasks, in 2016 the Fund’s the Project Office, in conjunction with portfolio companies, focused efforts to transfer medium and small assets of the Fund Group, listed in Annex 4 to the Comprehensive Plan for Privatization for 2016–2020 (List No.2), into a competitive environment.

The main results of the process of the Fund Group privatization as at year end 2016 are the following:

1. The Fund Group sold 48 assets, raising as a result KZT 17.1 billion;
2. The Fund Group liquidated 18 assets;
3. The Fund Group reorganized 6 assets.

At the same time, the Fund’s Project Office drafted a preliminary schedule for sale of the Fund’s 9 largest assets and agreed thereof with the State Commission for Modernization of the Economy of the Republic of Kazakhstan. This preliminary schedule was approved by the Board of Directors of the Fund in October 2016.

№	Company name	Method of sale	Anticipated deadline
1.	National Atomic Company Kazatomprom JSC	IPO	2018
2.	Air Astana JSC	IPO	2018
3.	National Company KazMunaiGas JSC	IPO	2019
4.	National Company Kazakhstan Temir Zholy JSC	IPO	2020
5.	Samruk-Energy JSC	IPO	2019
6.	Kazpost JSC	IPO	2019–2020
7.	Kazakhtelecom JSC	Dual Track (SPO/ Sale to strategic investor)	2018
8.	Tau-Ken Samruk National Mining Company JSC	Sale to strategic investor	After 2020
9.	Qazaq Air JSC	Sale to strategic investor	2020

* Timing can be reviewed in accordance with changes in market conditions.

Assets of Samruk-Kazyna Group sold within the Comprehensive Privatization Plan in 2016

№	Name
List 2	
1	Rompetrol France SAS (KMG)
2	Rompetrol Ukraine Ltd. (KMG)
3	Dyneff SAS (KMG)
4	Depot Fos (DP FOS SA) (KMG)
5	Depot Rhone (SPR SA) (KMG)
6	DPPLN SAS (KMG)
7	Dyneff Espagne SL (KMG)
8	Dyneff Gas Station Network SL (former Dyneff Catalogne SLU) (KMG)
9	TMP SAS (KMG)
10	EPPLN SAS (KMG)
11	BIONEFF SL (KMG)
12	Agat Ltd. (Ukraine) (KMG)
13	Commercial TV channel JSC (KMG)
14	Astanaenergосervice JSC (KMG)
15	Trade and manufacture company LLP (KMG)
16	KazElectroPrivod LLP JV (KTZh)
17	Nurzholbarys LLP (KTZh)
18	Rauan Burabai LLP (KTZh)
19	Transport service centre JSC (KTZh)
20	Bas-Balhash 2004 LLP (KTZh)
21	Mak-Ekibastuz LLP (KTZh)
22	Regional forward logistics LLC (KTZh)
23	Magistral-Kyzmeti LLP (KTZh)
24	Kazakhstan Carraige-building company LLP (KTZh)
25	Temir Zhol Electrification LLP (KTZh)
26	Astyk Trans JSC (KTZh)
27	Polychimprom LLP (KAP)
28	Stroychimmontazh-PV LLP (KAP)

№	Name
29	Technochimprom-PV LLP (KAP)
30	Tiaohos LLP (KAP)
31	Tiolan LLP (KAP)
32	Photoreagent LLP (KAP)
33	Phosphoran LLP (KAP)
34	Chemical Technologies and Innovations LLP (KAP)
35	Chloren LLP (KAP)
36	Belizna-PV LLP (KAP)
37	Polycremnyi LLP (KAP)
38	Kazperoxide LLP (KAP)
39	Ulba Recreation facility LLP (KAP)
40	Shelek-28 LLP (SE)
41	Karagandagiproshaht LLP (SE)
42	KazenergoProvod LLP (KEGOC)
43	MBM Kirovets LLP (KI)
44	SMP Group LLP (KI)
45	Aircraft repair plant №406 GA JSC (KI)
46	Aircraft repair plant №405 JSC (KI)
47	Tau Gold Copper LLP (TKS)
48	Nursat LLC (Moscow) (KTK)

Comprehensive Privatization Plan for 2016–2020

Assets to be transferred to a competitive environment from the public and quasi-public sectors

783
companies

Assets of Samruk-Kazyna Group

215
companies

 Our Leaders about our Values

**YERZHAN TUTKUSHEV**

***Co-Managing Director
for New Industries Development***



In everyday life, each person is guided by different values that are formed by social, family or individual characteristics: such as the joy of family, constant career growth, spiritual wealth and etc. For us these are benchmarks which guide us in life and help to measure right decisions and actions. Values can change throughout life, but without them, we will not exist.

So, what are the values for the organization and why are they needed?

Common values for group of individuals we see in the families and society. They are understandable, generally accepted, may not always be clearly, but the most important of them, such as respect for the older generation, honor the traditions, take care of your children, and help your loved ones in difficult times, do exist for a long time. They are needed in order to let people live by certain rules.

What are the values of the Fund's employees? It is the unifying platform of our team, elements of which state the importance of coherence, trust and qualitative contribution of each of us. The personal values of each of us are different, so common corporate values will help us to get closer and work effectively as a team.

How will these common corporate values help us to become successful organization?

Our internal documents regulate what decisions should be made and in what order, however there is not guidelines on interact within this process. Corporate values establish with guidelines, which help us every day to make decisions or take actions. By having uniting corporate values and following them, we will become a truly unified team that can achieve main strategic goal – become a world-class strategic holding.

INVESTMENT ACTIVITIES

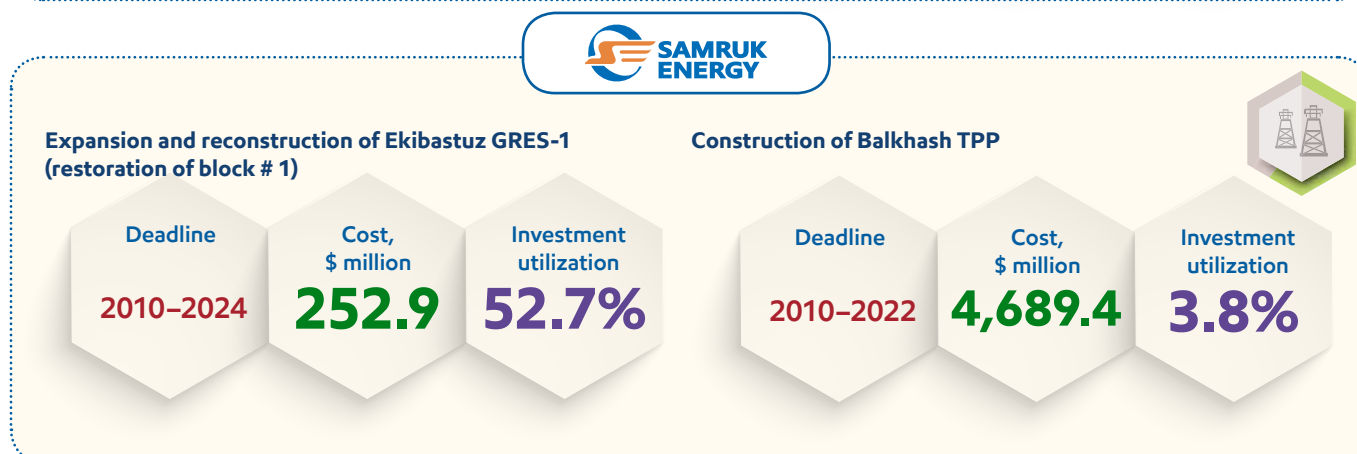
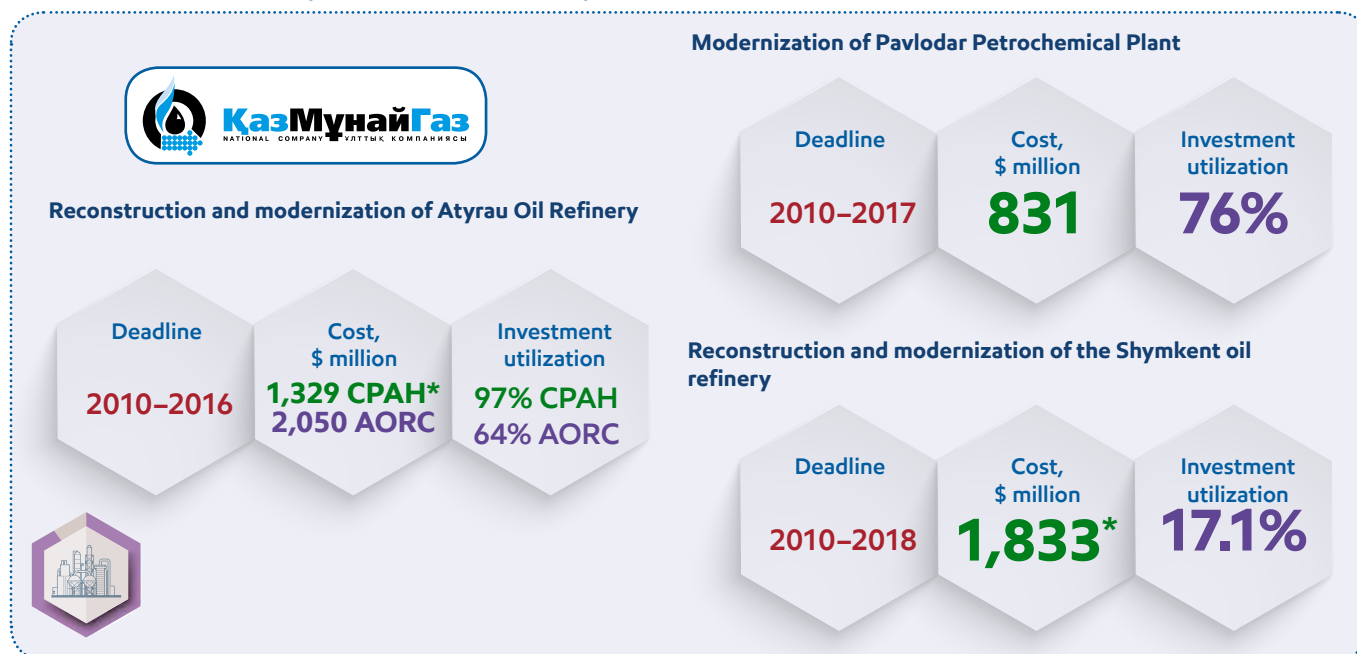
The Fund's investment portfolio is divided into two large blocks.

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 Kazakhstan Temir Zholy 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 deadlines and cost of projects.

List of major investment projects of the Fund Group (as at 01.07.2017)



ҚАЗАҚСТАН ТЕМІР ЖОЛЫ



Creation and comprehensive development of a special economic zone “Khorghos – Eastern Gate” (including Infrastructure and Dry Port)

Deadline	Cost, \$ million	Investment utilization
2012–2017	252	98.3%



Construction of a new railway line “Zhezkazgan – Beyneu”

Deadline	Cost, \$ million	Investment utilization
2012–2017	1,165	98.5%

Construction of a new railway line “Arkalyk – Shubarkol”

Deadline	Cost, \$ million	Investment utilization
2012–2017	252	98.3%



Production of caustic soda, phosphorus trichloride and glyphosate

Deadline	Cost, \$ million	Investment utilization
2012–2018	375.5	7.2%

Construction of FEZ infrastructure facilities “National Industrial Petrochemical Technopark”

Deadline	Cost, \$ million	Investment utilization
2014–2022	794	24%

Creation of special economic zone “Taraz Chemical Park” in Zhambyl region

Deadline	Cost, \$ million	Investment utilization
2013–2018	139.7	65%

Construction of an integrated gas chemical complex

Deadline	Cost, \$ million	Investment utilization
2010–2020	2,630**	8.5%**

TOTAL
16,592.5
\$ million

* Adjustment of project cost approved by the decision of the Investment Committee of KMG on 21.09.16.

** These projects are conditionally divided into two queues, this table represents only for the first queue.

RISK MANAGEMENT AND INTERNAL CONTROL

Risk management is an integral part of activities of the Fund and its PCs and is aimed at identifying potential events that may have an impact on the organization in order to maintain this impact within acceptable limits for the organization. The risk management 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
- ▶ improving continuously the risk management and internal control system of the Fund, including updating the regulatory documents 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, monitoring, 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.

Based on experience gained and taking into account changes in global environment, internal environment changes, growth of risk culture in organizations, the concept of risk management was revised. The need for successful and sustained implementation of the Fund's goals and objectives, especially those related to investment activities, sudden and unexpected changes in political and economic nature are prerequisites for changing the concept of risk management.

The new risk management concept envisages a more proactive approach to risk management. Identification of not only risks, but also opportunities, with the introduction of capacity management processes at all levels of the Fund and companies that first of all 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.

The concept provides the need for risk analysis in terms of impact on the Strategy, which will allow process owners through the prism of a risk analysis to see threats on the other hand as an opportunity for improvement or as an alternative opportunity.

In 2016, work was actively carried out to integrate the risk management system with the main processes of the Fund. As part of investment activity, a portfolio approach project was initiated to project analysis and ranking of projects. In this regard, taking into account the Fund's new role as an "Active investor", the approach to risk appetite estimation was revised.

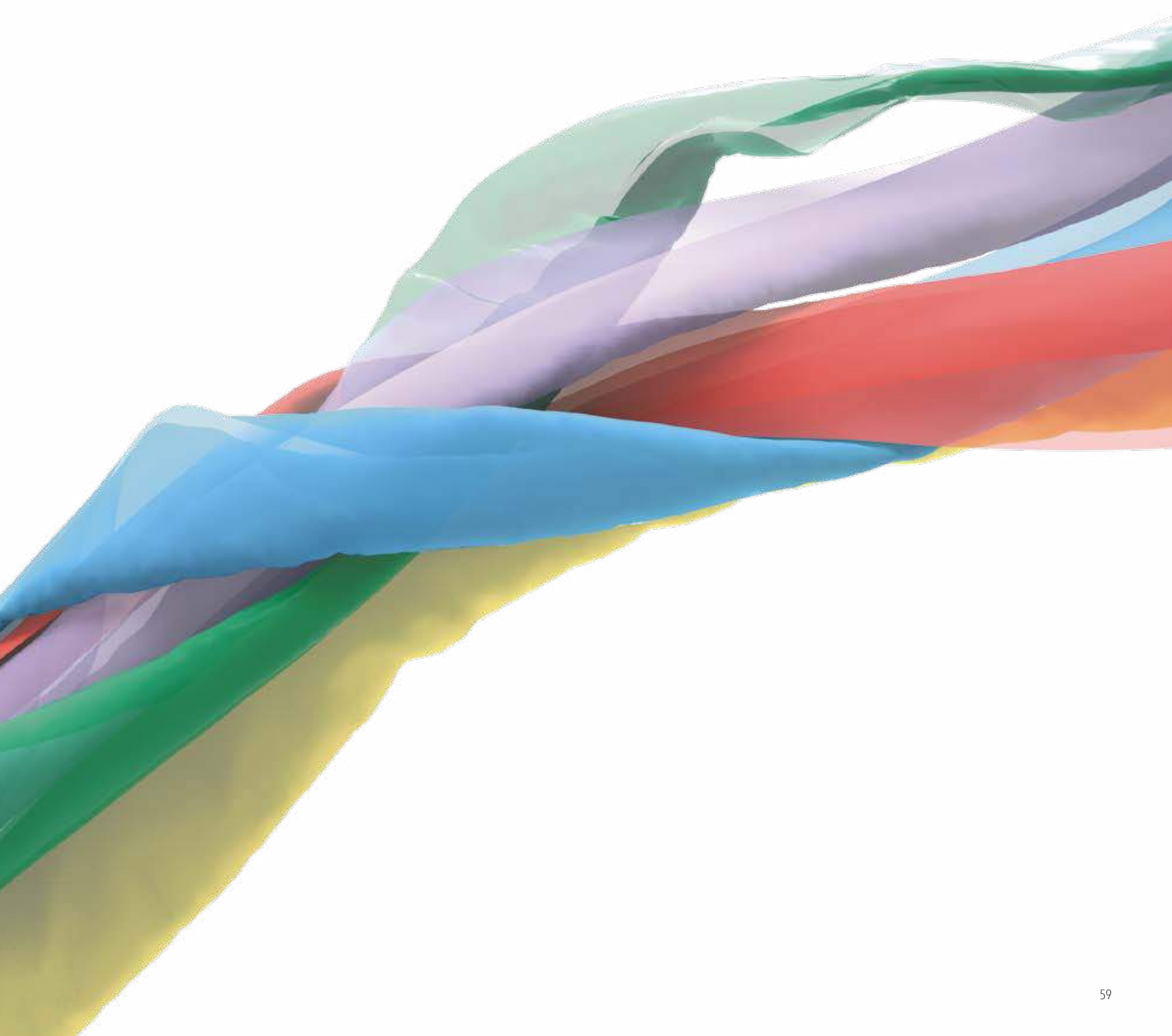
In 2016, the Fund continued working on implementation of corporate risk reinsurance program. The Fund held a tender to select a reinsurance broker of the Fund's captive and the captive manager. The corporate reinsurance program, placed under the administration of the Fund's captive, allows to save the Fund's

costs, and also raises the shareholder's confidence as a reinsurance protection of the operational risks of the Fund Group.

In order to implement the initiative of the Fund's transformation program for business process reengineering, the Fund, in 2016, implemented a project to create an effective internal control system, through which introduced a process of documenting and monitoring of business process control procedures of the Fund. In addition, the Fund designed and implemented Business Control Incident procedure.

In 2017, work will continue to harmonize internal regulations and a library-guidebook on processes with the introduction of certification of employees.

The Fund will continue to develop the RMICCS on an ongoing basis to ensure reasonable assurance that the Fund will achieve its objectives.





МЕРИТОКРАТИЯ

МЕРИТОКРАТИЯ

МЕРИТОКРАТИЯ



We select worthy professionals

We give everyone opportunity to speak up regardless of his/her role

We reward results



CORPORATE GOVERNANCE REPORT

Basic principles and structure of corporate
governance

Key achievements of 2016 and plans for 2017

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 includes management, control and responsibility of management bodies for the whole group of companies of the Fund, from the first to the last level. In accordance with the Law on the Fund, the implementation of the best corporate governance practices within the Group of Fund is one of the priority objectives of the Fund, which is also specified in the Development Strategy of the Fund.

The Board of Directors and the Management Board of the Fund are vested with relevant powers and responsibilities to fulfil their mandates. In turn, a high level of corporate governance and quality of the corporate reporting with 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.

Our Leaders about our Values



GANI BITENOV

**Managing Director for Legal Support and Risks –
Member Management Board**



PRIME – in English means “dawn, the best time”. The process of the Funds transformation has come to the end, and now we are really at the start of our journey in a new quality – as a technological, highly profitable and efficient business structure. I am confident that our corporate values will help lead to sustainable development and implementation of the strategic goals not only of the Fund, but of the whole country, because, first of all, we ourselves must become those changes that we want to see in the future.

For me, as for every member of Samruk-Kazyna team, adherence to corporate principles is the indispensable condition of work on which the trust of partners, people, reputation of the Fund depends, and hence its successful long-term development as well. At the same time, it is my duty and duty for all the executives of the Fund to set an example of impeccable behavior and to maintain the atmosphere of open communication in the team, where adherence to principles is a priority in any situation.

Partnership

In the Fund, I had the opportunity to work with like-minded people, people close to me in spirit. Our corporate values unite the team and charge employees for the overall effective work. I feel to be a part of the team and connected emotionally with it. It's important for me to be involved, it's important to share with the team both the dizzying success and consequences of mistakes. My team supports me; every employee understands his role in the team and is ready to perform it in the best possible way.

Respect

We recognize the value of every employee of the Fund, respect his work, time, freedom and own opinion and expect respect from the employees for the Fund. The main manifestations of respect – involvement in the solution of corporate tasks, long-term dedicated work. And respect for our partners gives us the opportunity to successfully cooperate, maintaining confidence and openness.

Honesty and Reliability

Any person working at the Fund represents the company and is responsible to millions of Kazakhstani and Fund partners. And this means that he must be ready for professional hard work. And here we are not talking about the responsibility for a tick, which makes many lazy people come to work first, but about a fundamental inability to perform their work worse than a certain professional level.

Willingness to solve complex problems, setting ambitious goals is not so common. Many people are simply uncomfortable to work when they are constantly required

to make a decision, improve their knowledge, master new directions. However, many people like it, it does not let them get bored and gives a sense of satisfaction with themselves and their work. I myself do not like routine and sincerely admire people who can set monumental challenges. When I joined the Fund, I started by outlining one of such big goals: to introduce new principles of corporate governance and sustainable development that are in line with the OECD standards. And today we are making much headway to its achievement, which evidences the interest of many foreign countries to the experience of the Fund in corporate governance.

Meritocracy

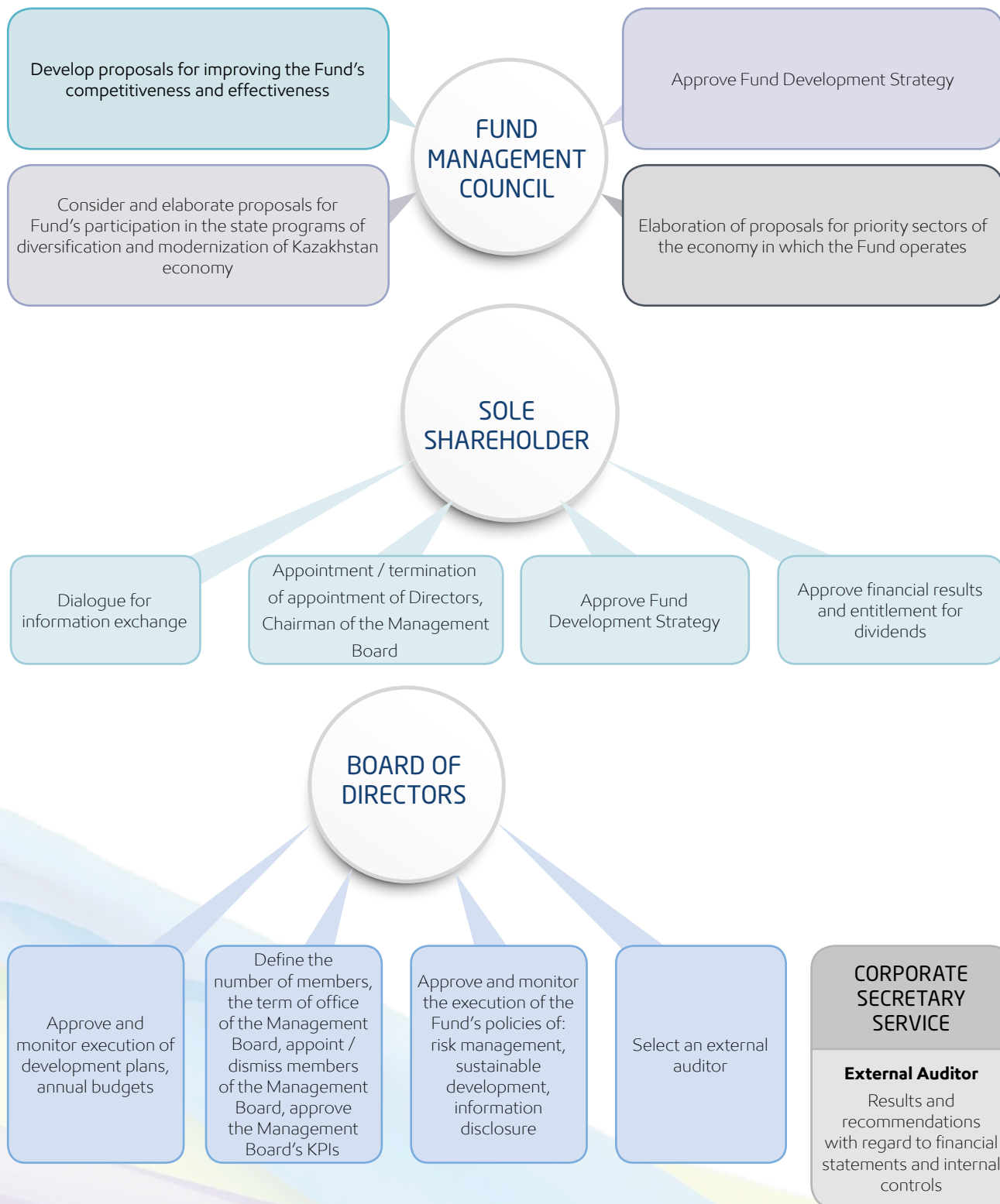
We adhere to the principle of meritocracy and, thereby, ensure the confidence of our employees in the objective evaluation of their labor and merit. Our new selection and recruitment procedures provide equal opportunities for all candidates.

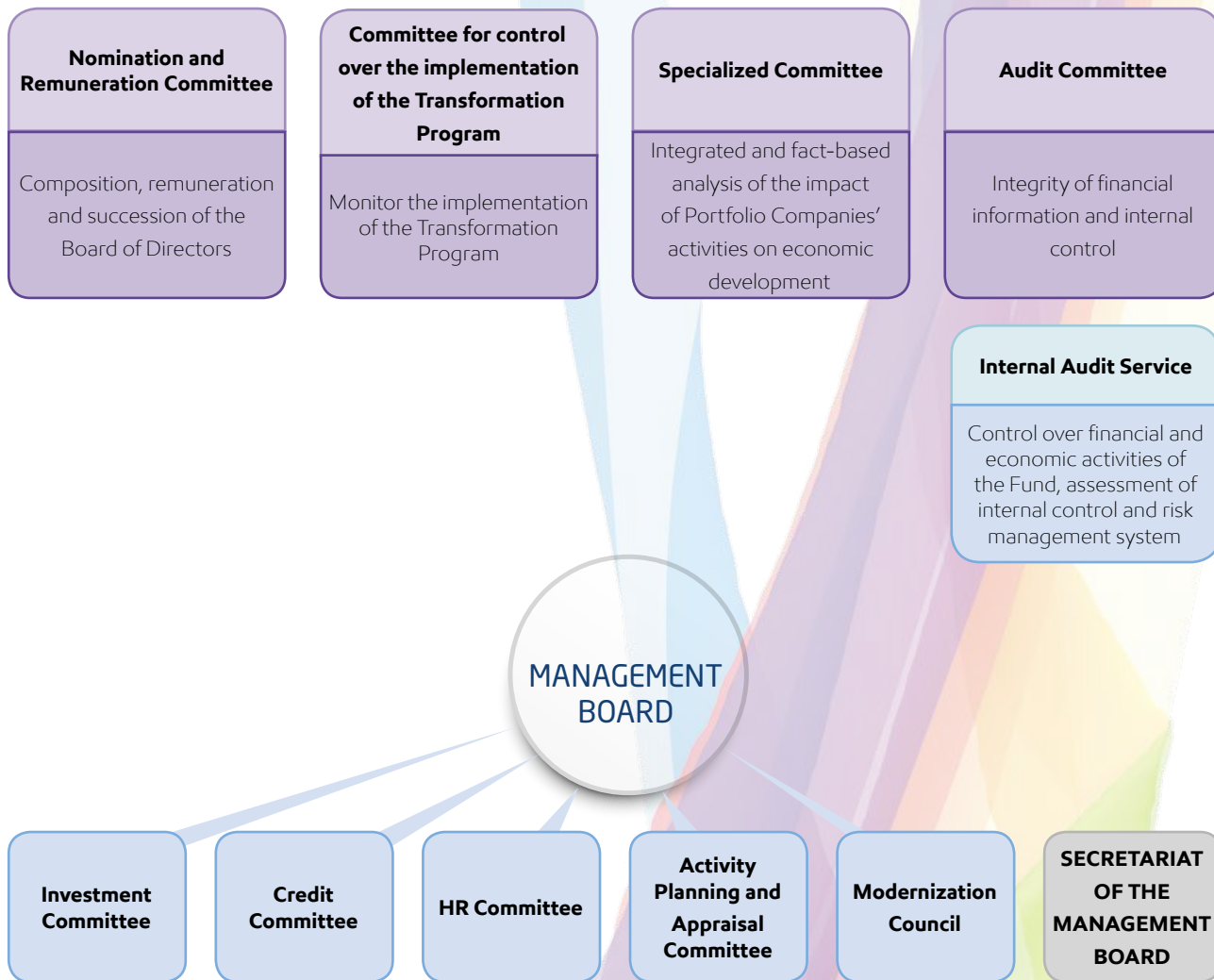
Excellence

We are committed to making our country better by participating in the life of our community. New world-class production facilities and jobs will be created; allocations to the state budget will allow developing social infrastructure. The quality of services provided by the Group of Companies of the Fund will significantly improve. The state will receive more competitive – in terms of operating profitability, capital efficiency and profitability of invested capital – enterprises.

Our constant pursuit of excellence is the key to our success.

CORPORATE GOVERNANCE STRUCTURE





BOARD OF DIRECTORS / SUPERVISORY BOARD of 1 LEVEL PCs

EXECUTIVE BODY of 1 LEVEL PCs

2 LEVEL PCs of THE FUND

KEY ACHIEVEMENTS OF 2016 AND PLANS FOR 2017

KEY ACHIEVEMENTS IN 2016



We approved a new Methodology of corporate governance diagnostics

The analysis made in accordance with the new methodology takes into consideration the quality, adequacy and sustainability of corporate governance mechanisms

Methodology is aimed at introducing higher standards of corporate governance than required by the Code, in order to make the Companies being compliant with best practices of corporate governance



We set the Boards of Directors in 3 PCs in accordance with the requirements of the Code

In 2016, following recommendations of independent consultants, we renewed and strengthened the Boards of Directors of the following Potfolio companies: NC Kazakhstan Temir Zholy JSC, KEGOC JSC, thus ensuring the balance of the Boards of Directors in terms of experience, gender and number



We adopted Policy and on Information Disclosure and Protection

Being compliant with the Corporate Governance Code and the Laws on information disclosure, we adopted the Policy and Regulations defining corporate events, maturities and units responsible for the information disclosure in the Fund



We designed a Reference Model for Sustainable Development for PCs of the Fund

Reference model is designed for managers of Fund and PCs, aimed at integrating the principles of sustainable development into PCs processes, and represents a number of key recommendations, approaches and tools for implementing a sustainable development management system

KEY INITIATIVES FOR 2017



Perform independent evaluation of corporate governance system in 6 PCs participating in Transformation Program

In 2017 we schedule to perform diagnostics of corporate governance in KazMunayGas NC JSC, Kazakhstan Temir Zholy NC JSC, Samruk-Energo JSC, Kazatomprom NAC JSC, Kazpost JSC, KEGOC JSC in line with to new Corporate Governance Diagnostics Methodology



Increase efficiency of PCs Boards of Directors

Make the composition of PC's Boards of Directors compliant with the Code of Corporate Governance in order to ensure the optimal number of directors, sufficient experience, as well as gender diversity of the Boards of Directors in PCs



Increase information transparency and disclosure in Fund and PCs

In order to ensure the necessary level of transparency in PCs, as well as to respect the interests of parties concerned, we have started developing internal regulations on information disclosure, defining principles and approaches to disclosure and protection of information, including the list of information disclosed to parties concerned.

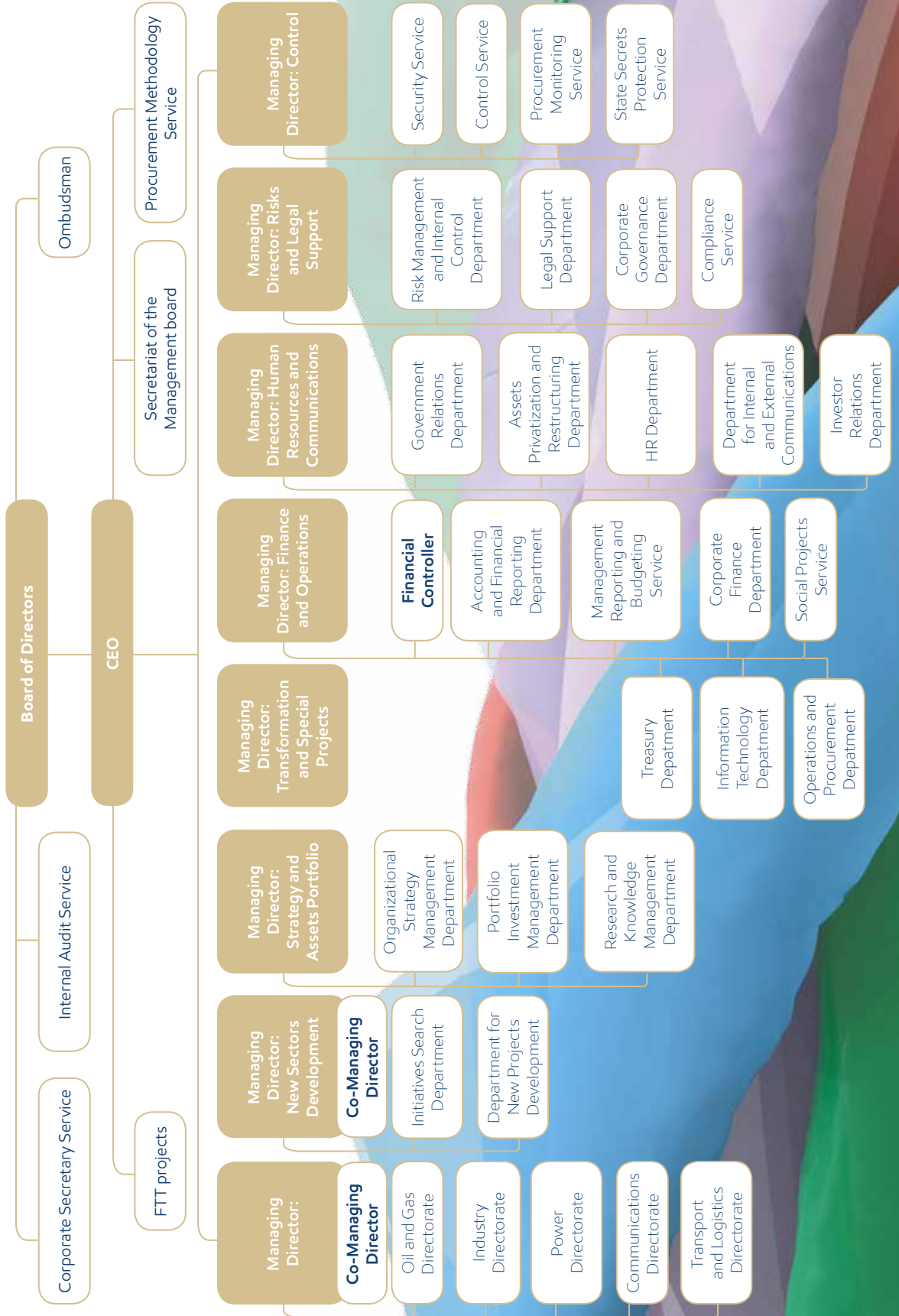


Implement Reference Model for Sustainable Development in Fund's PCs

Methodological assistance to the PC in the implementation of the Reference Model for the Sustainable Development, as well as the implementation of Initiatives in the field of sustainable development of the Fund

ORGANIZATIONAL STRUCTURE OF SAMRUK-KAZZYNA JSC

as of August 8th 2017



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 the Agreement on 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

EQUITY CAPITAL

- ▶ The number of authorized shares of the Fund is 3,500,000,000.
- ▶ The number of outstanding shares of the Fund is 3,481,670,758.
- ▶ The number of unplaced shares of the Fund is 18,329,242.

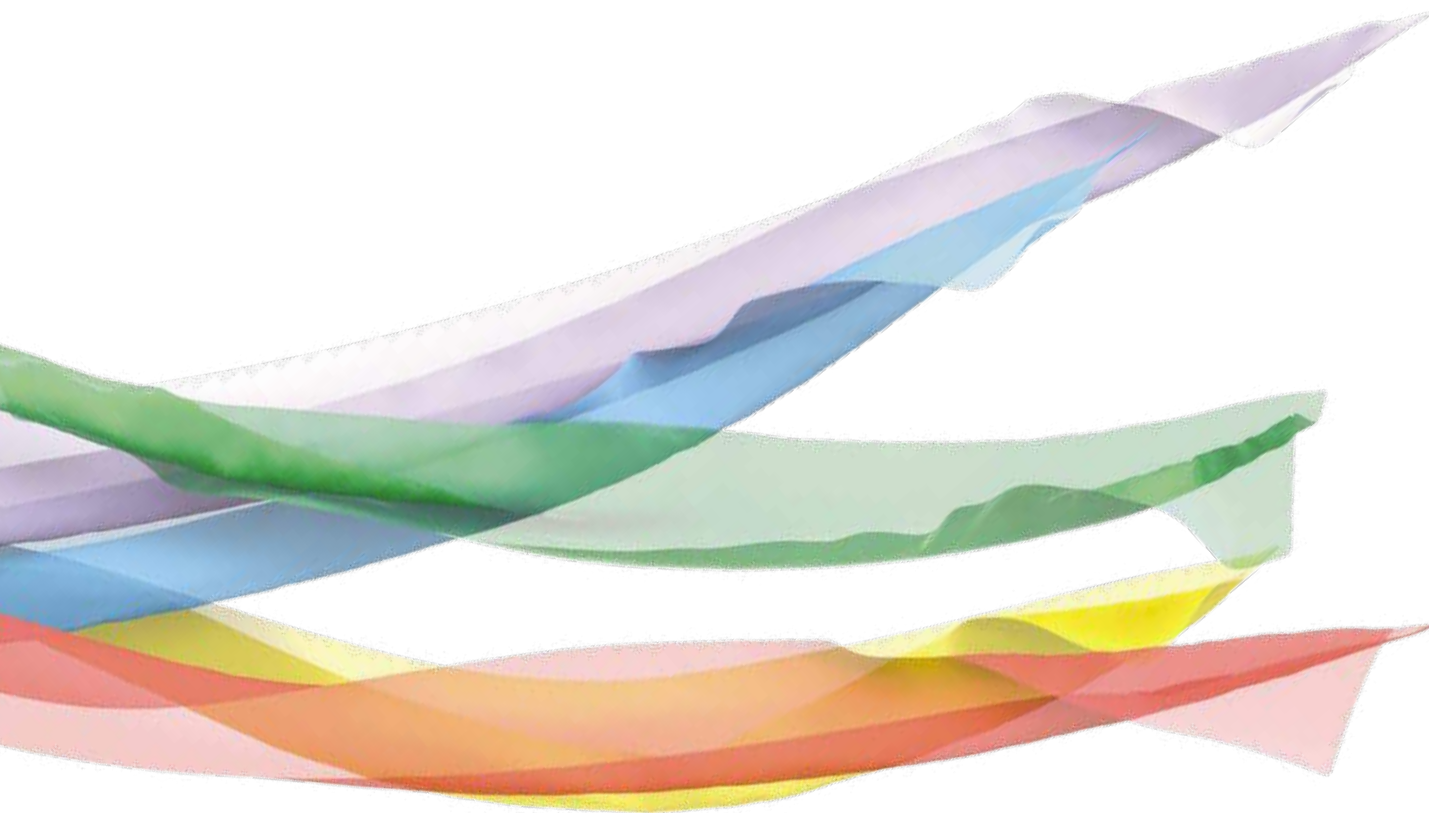
In the reporting period, the Fund's shares were placed in the number of **3,250 shares**, including:

- ▶ In the form of cash in the amount of 3,000 shares totalling KZT 137,923 million.
- ▶ In May 2016, the State Property and Privatization Committee made a contribution to the authorized capital of the Fund in the amount of 250 shares totalling KZT 4,466 million by way of a property contribution in the form of design estimates for a gas turbine power plant that arose under the implementation of the strategic investment project "Construction of the infrastructure of the first integrated gas-complex in the Atyrau region". This property was transferred to the charter capital of the subsidiary organization of the UCC. Accordingly, the Fund classified the asset as part of an investment in a subsidiary.

DIVIDENDS

On November 10, 2016, the Fund paid dividends to the Shareholder in the amount of KZT 10,393 million following the performance results of 2015 in accordance with the Decree of the Government dated November 1, 2016 (in 2015 the amount of dividends following the performance results of 2014: KZT 34,713 million).

The Fund's Dividend Policy is available at 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;
- ▶ Operations 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 on www.sk.kz

Board of Directors as at 31 December 2016



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 – Mr. 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 – Minister of Regional Development of Kazakhstan.

Under Presidential Decree of November 2013, he was appointed First Deputy Prime Minister of Kazakhstan.

Under Presidential Decree of September 2016, he was appointed Prime Minister 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 from January 2017

Born on April 5, 1978

Mr. Suleimenov is a graduate of 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 "KazMunaiGas 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. 2010–2012 – Vice-Minister of Economic Development and Trade of the Republic of Kazakhstan. 2012–2016 – Member of the Board (Minister) in charge of Economy and Financial Policy, Eurasian Economic Commission. Since December 2016 – 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

Citizen of the Republic of Kazakhstan

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

He was born on November 29, 1971

In 1994 he graduated from the Kazakh National Technical University, Faculty of Automatics and Management System and in 1995 – from Kazakh State Academy of Management.

2002–2003 – Director of the Budgetary Policy and Planning Department of the Ministry of Economic and Budget Planning of the Republic of Kazakhstan. 2003–2006 – Vice-Minister of Economic and Budget Planning of the Republic of Kazakhstan. 2006–2007 – Chairman of the Agency of the Republic of Kazakhstan on Statistics. 2007 – Vice-Minister of Finance of the Republic of Kazakhstan. 2007–2010 – Minister of Economy and Budget Planning of the Republic of Kazakhstan. 2012–2014 – Deputy Head of the Administration of the President of the Republic of Kazakhstan. 2014 – Minister of Finance of the Republic of Kazakhstan.

Membership in Committees of the Board of Directors:

Chairman of the Specialized Committee.



ALEXANDER MIRTCHEV

Member of the Board of Directors, Independent Director

Citizenship: USA

Dr. Mirtchev is a Member of the Board of Directors since October 2008

Born on April 28, 1957

Dr. Mirtchev obtained an LL.M. degree in International and Comparative Law from George Washington University (Washington, D.C.), a Ph.D. in Philosophy from St. Kliment Ohridski University and additionally studied economics and finance at London School of Economics and Harvard Business School. He also received an Honorary Doctorate from Ukrainian Academy of Foreign Trade and an Honorary Doctorate of Political Science from Russian Academy of Sciences.

Dr. Mirtchev is also the President of Krull Corp. USA – a macroeconomic consultancy with a focus on new economic trends and emerging policy challenges. He serves and has served as a chairman and director of multi-billion dollar international industrial enterprises, chairman of a NASDAQ-listed joint venture corporation with a high-end risk-mitigation services, an independent director and chairman of the board of directors of Sustainable development fund Kazyna, a director of Stewart & Stewart – a top-rated Washington, D.C. law firm. During the course of his career, Mirtchev has participated in the accession to World Trade Organization and the EU of several transitional economies.

Dr. Alexander Mirtchev is the Executive Chairman of the Royal United Services Institute for Defense and Security Studies (RUSI) International, and Vice-president of RUSI, UK. He is a Fellow and an American Founding Council Member of the Kissinger Institute on China and the U.S., as well as a Member of the Wilson National Cabinet at the Woodrow Wilson International Center for Scholars. Mirtchev is an Affiliate Professor and Distinguished Senior Fellow at the School of Policy, Government and International Affairs at George Mason University. He also serves as a Board Director and Member of the Executive Committee at the Atlantic Council of the United States, as well as the Executive Editor of the Atlantic Council Strategy Papers.

Dr. Mirtchev published a number of monographs and political articles, served as an editor and publisher of academic and professional journals, and appeared as an analyst on major international media. He also serves as a member of the 'Wall Street Week' Advisory Board at Fox Business.

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

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

Born on July 9, 1942

Graduated from Royal Masonic School in Bushey (Hertfordshire) 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.

1969–1981 – Commercial Manager of the British Aircraft Corporation (BAC) Military Aircraft Division, 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 National Westminster Bank.

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:

Member of Audit Committee;

Member of Nomination and Remuneration Committee;

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



BARON OLIVIER DESCAMPS

Member of the Board of Directors, Independent Director

Citizenship: Belgium

Baron Olivier Descamps is a Member of the Board of Directors since December 2015

Born on July 3, 1950

He graduated Catholic University of Leuven (Belgium) in 1971.

1974–1993 – Chase Manhattan Bank, global career in corporate finance and banking on three continents.

1993–2014 – EBRD, London.

Member of Executive Authority at EBRD. Since November 2013, appointed as a Managing Director of countries of operations, supervising 5 Country Managing Directors and Managing Director on small business, Banking Department:

- Managed key relations at the level of the President, Prime Minister, Ministers and the Director General, focusing on public and private sector policies and investment issues in all major business sectors (infrastructure, local SMEs and FDI and sustainable energy);
- Created and managed EBRD's country strategies and was responsible for their successful implementation in accordance with EBRD's mandate, including consulting on policy and dialogue issues;
- Actively participated in the improvement and mobilization of cooperation with other international financial organizations (IMF, WB, EIB, ADB, EU) by the main donors and representatives of the Council shareholders;
- Supervised annual budget of £37 million and 400 employees.

Membership in Committees of the Board of Directors:

Member of Audit Committee;

Member of Nomination and Remuneration Committee.



UMIRZAK SHUKEYEV

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

Citizenship: Republic of Kazakhstan

Mr. Shukeyev is a Member of the Board of Directors since December 2011

Born on 12 March 1964

In 1986, he graduated from Moscow Institute of Economics and Statistics.

1986–1988 – worked as a research assistant at Research Institute for automation of management and planning systems (RI for AMPS) under the State Planning Committee (Gosplan) of Kazakh SSR.

1988–1991 – MESI student.

1991–1992 – Leading Research Fellow at RI for AMPS under the Gosplan.

1992–1993 – Consultant of the Supreme Economic Council under the President of Kazakhstan.

1993–Deputy Head of the Department of Finance and Labour at the Executive Office of the President and the Cabinet of Ministers of Kazakhstan.

1993–1995 – Deputy Chief of Administration, Deputy Akim of South Kazakhstan region.

1995–1997 – Minister of Economic Affairs of Kazakhstan.

1997 – Minister of Economy and Trade of Kazakhstan; Deputy Prime Minister;

1997–1998 – Chairman of the Board at Bank Turan-Alem BTA Bank, JSC;

1998 – Deputy Head of Presidential Administration.

1998–2004 – Akim of Kostanay region.

1997–1998 – Member of the National Council for Sustainable Development of Kazakhstan.

1997 – Chairman of the Supervisory Board at NOC Kazakhoil C.JSC.

2004–2006 – Akim of Astana.

2006–2007 – Akim of South Kazakhstan region.

2007–2009 – Deputy Prime Minister of the Republic of Kazakhstan.

2009–2011 – First Deputy Prime Minister 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.

Changes in the composition of the Board of Directors in 2016

Date	Member of the Board of Directors	Event
17 May 2016	Mr. Yerbolat Dossayev	Dismissed as a member of the Board of Directors
17 May 2016	Mr. Kuandyk Bishimbayev	Appointed as a member of the Board of Directors
29 September 2016	Mr. Karim Masimov	Dismissed as a Chairman of the Board of Directors
29 September 2016	Mr. Bakytzhan Sagintayev	Appointed as a Chairman of the Board of Directors
25 January 2016	Mr. Kuandyk Bishimbayev	Dismissed as a member of the Board of Directors
25 January 2016	Mr. Timur Suleimenov	Appointed as a member of the Board of Directors

Board of Directors Performance Report

The Board of Directors held 11 ordinary meetings, out of which 8 meetings in-person and 3 meetings in absentia. In total, the Board reviewed 106 issues, against which the Board approved 171 decisions, and issued 55 instructions.

Participation of members of the Board of Directors at meetings of BoD and Committees in 2016

BoD / Committee Member	Independent	BoD	Audit Committee	Nomination and Remuneration Committee	Committee for Control over Transformation Program	Special Committee
Mr. Karim Masimov	No	7/7		5/5	3/3	
Mr. Bakytzhan Sagintayev	No	4/4		3/3	1/1	
Mr. Alikhan Smailov	No	11/11			2/2	
Mr. Bakhyt Sultanov	No	11/11				3/3
Mr. Yerbolat Dossayev	No	4/4				
Mr. Kuandyk Bishimbayev	No	6/7				
Mr. Timur Suleimenov	No	-				
Sir Richard Evans	Yes	11/11	18/18	8/8	4/4	
Dr. Alexander Mirtchev	Yes	9/11	4/18	7/8		
Baron Olivier Descamps	Yes	10/11	17/18	6/8		
Mr. Umirzak Shukejev	No	11/11			4/4	

The Board of Directors approved:

- ▶ Development plan of Samruk-Kazyna JSC for 2016–2020;
- ▶ Annual report of Samruk-Kazyna JSC for 2015;
- ▶ Uniform rules for sale of assets by Sovereign Wealth Fund Samruk-Kazyna Joint Stock Company and by organizations, where Samruk-Kazyna JSC holds beneficial title for more than fifty percent of voting shares directly or indirectly;
- ▶ Rules for procurement of goods, works and services by Sovereign Wealth Fund Samruk-Kazyna Joint Stock Company and by organizations, where Samruk-Kazyna JSC holds beneficial title for or holds upon trust more than fifty percent of voting shares directly or indirectly in a new edition;
- ▶ Charity Policy of Samruk-Kazyna JSC (amended after comments given at the meeting of the Board of Directors);
- ▶ Charity program of Samruk-Kazyna JSC (amended after comments given at the meeting of the Board of Directors);
- ▶ Staff number of Samruk-Kazyna JSC of 193 (one hundred and ninety-three) people;
- ▶ Information disclosure policy of Samruk-Kazyna JSC;
- ▶ Instruction on organizing and performing procurement of goods, works, and services by Representative Offices of Samruk-Kazyna JSC;
- ▶ Annual budget of Samruk-Kazyna JSC for 2017.

Implementation of the Transformation program

- ▶ In order to ensure the implementation of Transformation Program approved by the decision of the Board of Directors of Fund on 17 September 2014, the Fund designed a new model of Fund's organizational structure, taking into consideration the best practices of leading national wealth funds and large direct investment funds, as well as the outcomes of Fund's business process efficiency analysis. Due to transition to the new organizational structure of the Fund:
 - Termination of powers of the following members of the Management Board of the Fund:
 - ▶ **Dauren Yerdebay**, Deputy Chairman of the Management Board, according to the submitted application;
 - ▶ **Nurlan Rakhmetov**, financial director, due to the transfer to another position;
 - ▶ **Talgat Sarsenbayev**, Chief Legal Officer, due to the transition to another job.
 - The following people were elected as members of the Management Board of Samruk-Kazyna JSC:
 - ▶ **Baljeet Kaur Grewal** – Managing Director for Strategy and Portfolio Management;
 - ▶ **Gani Bitenov** – Managing Director for Legal Support and Risks;
 - ▶ **Ulan Tazhibaev** – Managing Director for Human Resource Management.

Strategic and medium-term planning

- ▶ In order to appraise performance and create objective grounds for remuneration of executive officers for their contributions to achieving the strategic goals of the Fund, the executive officers were paid the remuneration following the results of 2015, in view of actual hours worked in 2015;
- ▶ Key performance indicator (KPI) cards with performance goals of the Chairman and members of the Fund's Management Board and the head of Internal Audit Service for 2016, as well as long-term KPIs of executive officers of Samruk-Kazyna JSC for 2016–2018 were approved.

Internal audit

- ▶ Each quarter, the Board of Directors reviewed reports of Internal Audit Service of Samruk-Kazyna JSC; information on the main risk factors is given within the Audit Committee performance report;
- ▶ The Board of Directors approved an annual Audit Plan for 2017 of Internal Audit Service of Samruk-Kazyna JSC.

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

Committee Chairman – SIR RICHARD EVANS

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 audit committee meetings		
	Total	In-person	In absentia
Sir Richard Evans	18/18	14/14	4/4
Dr. Alexander Mirtchev	4/18	0/14	4/4
Baron Olivier Descamps	17/18	14/14	3/4

Activities of Audit Committee

In 2016, the Audit Committee held only 18 meetings, out of which 14 meetings in-person and 4 meetings in absentia.

At the meetings, the Audit Committee reviewed 57 issues in various areas within its competence.

Internal audit:

- ▶ Audit Committee studied audit reports of inspections performed in accordance with the Annual Audit Plan for 2016 in relation to:
 - information security audit;
 - audit of key performance indicators of the Fund’s management;
 - assessment of effective application of financial resources within the framework of Transformation Program in the Fund;
 - project of Transformation of internal audit function;
 - review of implementation of Transformation program within the Fund.
- ▶ 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 information technology of KazMunayGas NC JSC;
 - audit of general IT controls of KazMunaiGas Onimderi LLP;
 - testing and evaluation of IT controls during formalization of financial statements in Samruk-Energy JSC;
 - review of implementation of Transformation Program in KazMunayGas NC JSC, Samruk-Energy JSC, Kazpost JSC, Kazatomprom NAC JSC, KEGOC JSC, Kazakhstan Temir Zholy NC 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.
- ▶ Preliminarily approved the interim position of the Head of Internal Audit Service of the Fund, and made decisions on early termination of powers of the Head 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.
- ▶ Analyzed quarterly internal audit reports prepared for the Board of Directors of the Fund.
- ▶ Reviewed and quarterly approved the project of Internal Audit Function Transformation.

External audit

- ▶ Reviewed the audit results of consolidated and separate financial statements of the Fund for the year ended 31 December 2015, and received confirmation of 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 30 June 2016.
- ▶ Considered and approved the plan for audit of consolidated and separate financial statements of the Fund for the year ended 31 December 2016.
- ▶ Reviewed the report of external auditor in a new format.
- ▶ 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 31 December 2015.

Risk management and internal control system

- ▶ Reviewed the outcomes of "Implementation of internal control system and systematization of Policies and Procedures in the Fund" project for 2016.
- ▶ 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.

Corporate Governance

- ▶ Reviewed the issue of the status of implementation of Corporate Governance Code in the Fund.

Nomination and Remuneration committee

Committee Chairman – BAKYTZHAN SAGINTAYEV

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

Member of Nomination and Remuneration Committee	Participation in the meetings of Nomination and Remuneration Committee
	Total meetings in-person
Mr. Karim Masimov	5/5
Mr. Bakytzhan Sagintayev	3/3
Sir Richard Evans	8/8
Dr. Alexander Mirtchev	7/8
Baron Olivier Descamps	6/8

Activities of Nomination and Remuneration Committee

In accordance with Performance Plan of Nomination and Remuneration Committee for 2016, the Committee held 8 meetings in-person, where reviewed 18 issues within the competence. On all the issues, the Board of Directors approved relevant protocol decisions; none of the Committee's proposals and/or recommendations was rejected.

The following issues were reviewed at the Committee meetings:

- ▶ On performance report of Nomination and Remuneration Committee of the Board of Directors of Samruk-Kazyna JSC for the year 2015;
- ▶ On setting up the amount of remuneration to independent director of Samruk-Kazyna JSC and on the composition of committees of the Board of Directors of Samruk-Kazyna JSC;
- ▶ On approval of amounts of official salaries and terms of payment for labor and bonuses to the Chairman and members of the Management Board of Samruk-Kazyna JSC;
- ▶ On the Management Board of Samruk-Kazyna JSC;
- ▶ On approval of key performance indicators (KPIs) with target values for the Chairman and members of the Management Board of Samruk-Kazyna JSC for 2016;
- ▶ On changes in the terms of remuneration and bonuses paid to the Chairman and members of the Management Board of Samruk-Kazyna JSC;
- ▶ On approval of key performance indicators of the Chairman and members of the Management Board of Samruk-Kazyna JSC for 2016;
- ▶ On setting up the amount of salaries of the Chairman and members of the Management Board of Samruk-Kazyna JSC and amendments and supplements to the Terms of remuneration and bonuses of the Chairman and members of the Management Board of Samruk-Kazyna JSC;
- ▶ On approval of cards of key performance indicators of executives of Samruk-Kazyna JSC with actual values for 2015 and payment of remuneration to the executives of Samruk-Kazyna JSC following performance results of 2015, in view of actually hours worked in 2015;
- ▶ On approval of results of assessment of long-term KPI achievement of the Chairman and members of the Management Board of Samruk-Kazyna JSC for 2013–2015 and payment of long-term remuneration for the period 2013–2015;
- ▶ On approval of long-term key performance indicators of the Chairman and members of the Management Board of Samruk-Kazyna JSC for 2016–2018;
- ▶ On preliminary approval of payment of remuneration to the head of Internal Audit Service of Samruk-Kazyna JSC following the performance results for 2015 in accordance with the approved key performance indicators (KPI) with actual values;

- ▶ On approval of Performance Plan for 2016 of Nomination and Remuneration Committee of the Board of Directors of Samruk-Kazyna JSC;
- ▶ On some issues of “Kazakhstan Temir Zholy” National company” Joint-stock company (in absentia);
- ▶ On bringing the issue “On composition of Nomination and Remuneration Committee of the Board of Directors of Samruk-Kazyna JSC” for consideration by the Board of Directors of Samruk-Kazyna JSC;
- ▶ On setting up amount of salaries of the Chairman and members of the Management Board of Samruk-Kazyna JSC;
- ▶ On approval of results of assessment of long-term KPI achievement of the Chairman and members of the Management Board of Samruk-Kazyna JSC for 2013–2015 and payment of long-term remuneration for the period 2013–2015;
- ▶ On approval of cards of key performance indicators of executives of Samruk-Kazyna JSC with actual values for 2015 and payment of remuneration to the executives of Samruk-Kazyna JSC following performance results of 2015, in view of actually hours worked in 2015.

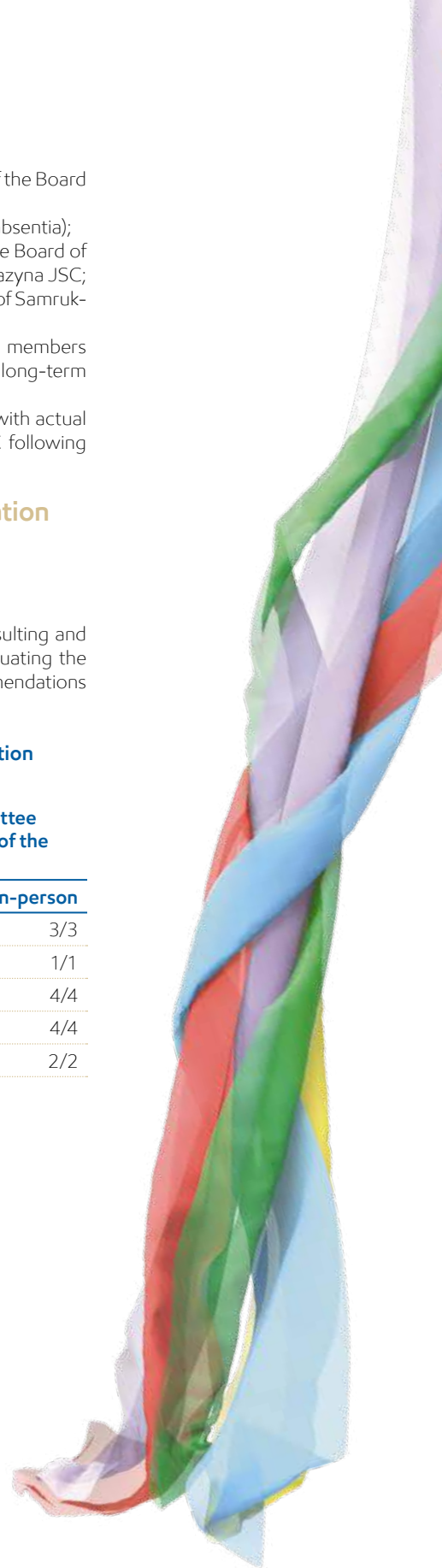
Committee for control over the implementation of the Transformation Program

Committee Chairman – BAKY TZHAN SAGINTAYEV

Committee for control over the implementation of the Transformation Program is a consulting and advisory authority of the Funds 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 the implementation of the Transformation Program Transformation and participation in the meetings of Committee

Members of Committee for control over the implementation of the Transformation Program	Participation in meetings of Committee for control over the implementation of the Transformation Program	
	Total meetings in-person	
Mr. Karim Masimov	3/3	
Mr. Bakytzhan Sagintayev	1/1	
Sir Richard Evans	4/4	
Mr. Umirzak Shukeyev	4/4	
Mr. Alikhan Smailov	2/2	



Activities of the Committee for control over the implementation of the Transformation Program

In accordance with Work Plan of the Committee for control over the implementation of the Transformation Program for 2016, only four in-person meetings were held, where the Committee reviewed six issues, among which the issue of progress of implementation of Transformation Program was reviewed several times. Committee for control over the implementation of the Transformation Program reviewed the following issues:

- ▶ On progress report of implementation of Transformation Program within Samruk-Kazyna Group;
- ▶ On amendments and supplements to Transformation Program of Samruk-Kazyna JSC;
- ▶ On outsourcing external consultants within the framework of independent quality control of Transformation Program implementation by Samruk-Kazyna JSC.

Members of the Committee made suggestions on the content of the Progress Reports on Transformation Program implementation, as well as comments on amendments and supplements to Transformation Program of Samruk-Kazyna JSC.

The invitees at the meetings of the Committee were the first executives of the Fund's PCs involved in the implementation of Transformation Program.

Specialized Committee

Committee Chairman – BAKHYT SULTANOV

Specialized Committee performs a comprehensive and objective analysis of activity impact of Organizations belonging to Samruk-Kazyna 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 Committee

Specialized Committee Member	Position, voting right	Participation in meetings of Specialized Committee
Mr. Bakhyt Sultanov	Minister of Finance of Kazakhstan, member of the Board of Directors of Samruk-Kazyna JSC Committee Chairman	3/3
Ms. Aigul Mukhametkarim	Member of Accounts Committee for Control over Execution of the Republican Budget Expert with the voting right	3/3
Mr. Nurlan Rakhmetov	Managing Director for interaction with the Government of Samruk-Kazyna JSC Expert with the voting right	1/3
Ms. Yelena Bakhmutova	Managing Director for finance and operations of Samruk-Kazyna JSC Expert with the voting right	1/3
Mr. Yernar Zhanadil	Financial Controller of Samruk-Kazyna JSC Expert with the voting right	2/3
Ms. Marziya Burangaliyeva	Economics and Finance Department Director of Samruk-Kazyna JSC Expert with the voting right	1/3
Ms. Kalima Aitpayeva	Audit and Control Department Director of Samruk-Kazyna JSC Expert with the voting right	3/3

Specialized Committee Member	Position, voting right	Participation in meetings of Specialized Committee
Mr. Amangelgy Issenov	Director of Budget Planning Department, National Fund of the Republic of Kazakhstan and interaction with the financial sector of the Ministry of Finance of the Republic of Kazakhstan Expert with the voting right	2/3
Ms. Ardak Kiyakbayeva	Acting Head of Office for Monitoring the Effectiveness of State Property Objects Management of the State Property and Privatization Committee of the Ministry of Finance of the Republic of Kazakhstan Expert with the voting right	3/3
Mr. Gabdulkamit Tuleshov	Head of Republican Budget Execution Control Department of Financial Control Committee of the Ministry of Finance of Kazakhstan Expert with the voting right	1/3

Activities of Specialized Committee

Specialized Committee under the Board of Directors of Samruk-Kazyna JSC held 3 meetings in-person in 2016, where reviewed the following issues:

- ▶ On consideration of audit team reports following the outcomes of a comprehensive performance analysis of Samruk-Kazyna Group for the year 2015;
- ▶ On consideration of performance report of Specialized Committee under the Board of Directors of Samruk-Kazyna JSC for the year 2015;
- ▶ On consideration of outcomes of a comprehensive performance analysis and assessment of impact on the development of the national economy and its individual sectors Kazatomprom NAC JSC and Samruk-Kazyna Contract LLP;
- ▶ On consideration of monitoring outcomes of execution of recommendations of Specialized Committee under the Board of Directors of Samruk-Kazyna JSC for the period 2013–2015;
- ▶ On consideration of the complex analysis of activities and assessment of the impact on development of the national economy and its certain segments of Kazakhtelecom JSC and Kazpost JSC;
- ▶ On work plan for 2017 of Special Committee under the Board of Directors of Samruk-Kazyna JSC.

Relevant decisions were made on all issues.

According to Work Plan for 2016 of Specialized Committee, and “List of Organizations Subject to Comprehensive Analysis in 2016”, Specialized Committee conducted a comprehensive performance analysis of 4 companies of Group of Samruk-Kazyna JSC, including:

1. Samruk-Kazyna Contract LLP
2. Kazatomprom NAC JSC
3. Kazakhtelecom JSC
4. Kazpost JSC

The Fund established an audit team composed of staff members of Audit and Control Department of the Fund, the chief expert of the Department for Controlling the Execution of the Republican Budget of the Financial Control Committee of the Ministry of Finance of the Republic Kazakhstan and employees of NURTEAM AUDIT LLP, which had become a winner of an open tender for procurement of consulting services for comprehensive analysis.

At the meeting of Specialized Committee dated 13 October 2016 (Minutes No. 9), the monitoring results of implementation of recommendations given in 2013–2015 were reviewed, following the outcomes, the supervision over recommendations fulfilled was discontinued.

In 2016 the Board of Directors of Samruk-Kazyna JSC made changes to the composition of Specialized Committee:

- ▶ By decision of the Fund’s Board of Directors dated 11 March 2016 (Minutes No. 127), authorities of the following members of Specialized Committee were terminated prematurely: Mr. Rakhmetova and Mrs. Burangaliyeva.
- ▶ By decision of the Fund’s Board of Directors dated 11 March 2016 (Minutes No. 127), the following members of Specialized Committee were elected: Ms. Yelena Bakhmutova – Managing Director for finance and operations of Samruk-Kazyna JSC and Mr. Yernar Zhanadil – Financial controller of Samruk-Kazyna JSC.



Management Board composition as at 31 december 2016



UMIRZAK SHUKEYEV
Chairman of the Management Board

In December 2011 he was appointed as Chairman of the Management Board.

He exercises general management of the Fund's activities and performs functions determined by the legislation, the Charter of the Fund and internal regulations of the Fund.



BERIK BEISENGALIYEV
Managing Director for Asset Optimization

Previously, he held a position of Chief Director of Business Development of the Fund. At various times, he held the following positions: Managing Director – First Deputy Chairman of the Management Board of ATF Bank JSC, General Director of the investment company Astana Capital Investment Group and Chairman of the Management Board of KazAgro holding.

He is in charge for arranging activities aimed at implementing investment policy, effective management of investment projects of the Fund and PCs.



GANI BITENOV
Managing Director for Legal Support and Risks

In different years, he held senior positions in the Ministry of Justice of the Republic of Kazakhstan, the Eurasian Development Bank and law firms of Kazakhstan. He worked at Bracewell & Giuliani LLP international law firm, where he represented the interests of the EBRD, Merrill Lynch International, JPMorgan Chase Bank N.A. and other world's major investment banks, as well as NAC Kazatomprom JSC, EP KazMunaiGas JSC, Development Bank of Kazakhstan and the largest STBs of Kazakhstan. He is a Master of Economics and Doctor of Law; he completed advance training at Harvard University. He is an arbitrator of the Shanghai International Arbitration Centre.

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



BALJEET KAUR GREWAL
Managing Director for Strategy and Assets Portfolio Management

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.



ULAN TAZHIBAYEV
Managing Director of Human Resources and Communications

Previously, he held the position of Chief of Staff in the Fund. He graduated from KazNU named after Al-Farabi (International Relations and Law) and has a degree of Executive MBA from Instituto de Empresa (Spain).

He is in charge for coordinating the Fund’s activities in human resources management and communications, for creation of expertise/competences in different areas of personnel management aimed at achieving maximum synergy and promoting long-term development of portfolio companies.

MANAGEMENT BOARD PROFILE AND PERFORMANCE REPORT

A 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 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 of 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.

In order to ensure the implementation of the Fund's transformation program approved by the decision of the Board of Directors of the Fund on September 17, 2014 (Minutes No. 113), a new model of the Fund's organizational structure was developed. In 2016 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. Yerdebay**, Deputy Chairman of the Management Board, as per the application received;
 - **Mr. Rakhmetov**, CFO, due to transfer to another position;
 - **Mr. Sarsenbayev**, Chief Legal Officer, due to job change.
2. The following members of the Fund's Management Board were elected:
 - **Ms. Grewal** – Managing Director for Strategy and Portfolio Management;
 - **Mr. Bitenov** – Managing Director for Legal Support and Risks;
 - **Mr. Tazhibayev** – Managing director for human resources management.

Due to termination of employment relationship with Ms. Bakhmutova, Managing Director for finance and operations of the Fund, pursuant to her request dated 21 November 2016 (Order No. 256-ж), and the Fund's Board of Directors decided to terminate authority of Ms. Bakhmutova as a member of the Fund's Management Board.

Management Board performance report

The Management Board of Samruk-Kazyna JSC (hereinafter referred to as the Fund) held 47 meetings in 2016, of which 23 meetings in-person and 24 meetings in absentia. Thus, compared to the same period in 2015, the number of in-person meetings increased from 6 to 23.

In total, during the reporting period, the Fund's Management Board reviewed 356 issues, which actually was more than scheduled. The main source of over-performance of the Management Board's Plan for 2016 (Minutes No. 01/15 of 20 January 2015) was the consideration of issues related to various aspects of the Fund's activities and its portfolio companies, as well as issues requiring immediate resolutions of the Management Board on current activities of the Fund.

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

1. Corporate governance:

- ▶ Regarding transition to the new organizational structure of Samruk-Kazyna JSC;
- ▶ Regarding compositions of Boards of Directors of Portfolio Companies;
- ▶ Regarding approval of the Corporate Governance Diagnostics Methodology in legal entities, where Samruk-Kazyna JSC holds more than fifty percent of voting shares directly or indirectly;
- ▶ Regarding approval of Rules of Formation of the Boards of Directors of Companies of Samruk-Kazyna JSC

2. Asset management:

- ▶ Regarding approval of Single Rules for asset implementation and restructuring by Samruk-Kazyna JSC and organizations, where Samruk-Kazyna JSC beneficially holds more than fifty percent of voting shares, directly or indirectly, under the right of ownership;
- ▶ Regarding transfer of assets to a competitive environment;
- ▶ Regarding approval of method of sales of Kyzyltu LLP;
- ▶ Regarding preliminary approval of disposal of 97.8% share belonging to "KazMunaiGas – refining and marketing" JSC in the authorized capital of AZPM LLP by direct targeted sale in favor of "Kaspi SEC" NC JSC;
- ▶ Regarding preliminary approval of the method of sales of 51% of shares of KMG International N.V.
- ▶ Regarding preliminary approval of the method of sales of 100% stake in Euro-Asia Air Airline JSC.

3. Investment activity:

- ▶ Regarding loans to Portfolio Companies and ratification of borrowings for Portfolio Companies;
- ▶ Regarding preliminary approval of investment projects;
- ▶ Regarding preliminary approval of investment project for creation of "Isatai Operating Company" Limited liability company;
- ▶ Regarding increase of liabilities of Samruk-Kazyna JSC, through a guarantee issued by Samruk-Kazyna JSC for Chem-Plus LLP to China Development Bank Corporation;
- ▶ Regarding preliminary approval of investment project for acquisition of 49% of shares of KS EP Investments B.V. by Cooperatieve KMG EP U.A.;
- ▶ Regarding conclusion of a Memorandum of Understanding among Samruk-Kazyna JSC, Kazpost JSC, Kazakhtelecom JSC, Alibaba.Com Singapore E-Commerce Private Limited, Alipay (Hong Kong) Holding Limited and Cainiao Smart Logistics Network (Hong Kong) Limited.

4. Medium-term and short-term planning:

- ▶ Regarding expectations for 2017–2021 of Samruk-Kazyna JSC with regard to the boards of directors, supervisory boards of organizations, where Samruk-Kazyna JSC holds 50 and more percent of voting shares on the right of ownership;
- ▶ Regarding submission of Samruk-Kazyna Development Plan for 2017–2021 for consideration by the Board of Directors of Samruk-Kazyna JSC.

5. Performance results

- ▶ Regarding approval of cards of key performance indicators of top managers with actual values for 2015 and payment of remuneration following performance results for 2015;

- ▶ Regarding major key performance indicators of Samruk-Kazyna Group following preliminary performance results of 2015;
- ▶ Regarding consolidated performance results of Samruk-Kazyna JSC with organizations, where Samruk-Kazyna JSC holds over fifty percent of voting shares under ownership right or trust management, and regarding Progress report on Agreement on cooperation between the Government of the Republic of Kazakhstan and Samruk-Kazyna JSC.

6. Creation regulatory and legal framework of the Fund:

- ▶ Regarding approval of a new edition of Procurement Regulations of Samruk-Kazyna JSC;
- ▶ Regarding approval of Secondment Regulations of Samruk-Kazyna JSC;
- ▶ Regarding approval of Labor Routine Regulations of Samruk-Kazyna JSC;
- ▶ Regarding approval of a new edition of Employee remuneration policy of Samruk-Kazyna JSC.

LIST OF TRANSACTIONS OF SAMRUK-KAZYNA JSC WITH AFFILIATED PARTIES

№	Transaction	Decision of Samruk-Kazyna JSC
1	Conclusion of a bond purchase and sale contract between Samruk-Kazyna JSC and National Bank of the Republic of Kazakhstan within the framework of the fifteenth, sixteenth and seventeenth bond issues within the limit of the first bond program of Samruk-Kazyna JSC.	Decision № 127 of meeting in absentia of the Board of Directors of Samruk-Kazyna JSC dated March 11, 2016.
2	Giving: 1) unconditional and irrevocable consent of Samruk-Kazyna JSC to replace the borrower, under the Loan Agreement entered into by Eurasian Natural Resources Corporation Limited (hereinafter referred to as ENRC Limited) as a borrower, TNK Kazchrome JSC as a guarantor and Samruk Kazyna JSC as a lender, with ENRC Limited, by Eurasian Resources Group BV, by means of signing the Deed of Novation between ENRC Limited, a New Borrower, Kazchrome TNK JSC and Samruk-Kazyna JSC; 2) unconditional and irrevocable consent of Samruk-Kazyna JSC to provide collateral against certain inter-group loan agreement, entered into between ENRC Limited as a creditor and other subsidiaries of Eurasian Resources Group S.a.r.l. as borrowers, by means of signing a letter of consent on amendments to certain terms and conditions of the Loan Agreement.	Decision № 135 of meeting in-person of the Board of Directors of Samruk-Kazyna JSC dated October 26, 2016.
3	Conclusion of a Loan Agreement between Samruk-Kazyna JSC and Samruk-Kazyna Real Estate Fund JSC at the expense of repayable funds of the National Fund of the Republic of Kazakhstan.	Decision № 07/16 of meeting in absentia of the Management Board of Samruk-Kazyna JSC dated February 29, 2016.

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 27 April 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 (short-term and long-term) 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.

The long-term remuneration for a 3-year performance is intended to stimulate the goal achievement by executives that influence on the sustainable development of business in the long run, associated with the growth of the long-term value of the Fund companies, and is aimed at retaining highly qualified employees.

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% 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 2016 was KZT 293 million (2015: KZT 309 million). Remuneration paid to members of the Management Board consisted of wage costs, including taxes and pension contributions, and other payments following on the performance results for the year.

The Fund's Board of Directors approved motivational KPIs for 2017 and long-term KPIs for 2017–2019 for top executives.



СОВЕРШЕНСТВО

EXCELLENCE

КЕМЕЛДІК



We work smart at the high quality bar using best practices and technologies

We take responsibility and act to create value

We are curious, we learn constantly and develop the Fund



ANNEXES

Glossary

Contact information

Glossary

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

Fund, Samruk-Kazyna JSC	Sovereign Wealth Fund Samruk-Kazyna Joint Stock Company
%	Per cent
BAC	British Aircraft Corporation
CFaR	Constant false alarm rate
CIMA	Chartered Institute of Management Accountants
CNCEC	China National Chemical Engineering Co., Ltd
EMBA	Executive MBA
EVA	Economic value added
GAP-анализ	Gap analysis – a strategic analysis method used for searching for steps to achieve a specified goal
GR	Government Relations
GRI	Global Reporting Initiative
HR	Human Resources
IFSWF	International Forum of Sovereign Wealth Funds
IoD	Institute of Directors of Great Britain
IPO	Initial Public Offering
KZT	Kazakhstan tenge
LLM	Master of Laws
MBA	Master of Business Administration
MD&A	Management discussions and analysis
PhD	Doctor of Philosophy
Qazaq Air	QAZAQ AIR Joint Stock Company
ROIC	Return on invested capital
USD, \$, US Dollar	United States Dollar
ADB	Asian Development Bank
ACCA	The Association Of Chartered Certified Accountants
AMS	Administrative and managerial staff
AEF	Astana Economic Forum
STB RoK	Second-tier banks of the Republic of Kazakhstan
WB	World Bank
GDP	Gross domestic product
All-Russian Research Institute	Federal State-Owned Enterprise All-Russian Research Institute of the Ministry of Internal Affairs of the Russian Federation
FOCL	Fiber optic communication line
SACSA	State Architectural and Construction Supervision Authority
SCDB	State China Development Bank
Companies of the Fund's group, Fund Group	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

SDPS	State district power station
CDIA	Chief Directorate of Internal Affairs
SA	Subsidiaries and affiliates
EBRD	European Bank for Reconstruction and Development
Ea.	Unit
EIB	European Investment Bank
USIIGGTS	Uniform Stock Item Identification Guide of Goods, Work and Services
EPC-contract	Engineering, procurement and construction, a contracting method used in construction
EU	European Union
ECB	European Central Bank
UES RoK	Unified Energy System of the Republic of Kazakhstan
HPU	Housing and public utilities
IS	Information system
EPIS	Electronic procurement information system of Samruk-Kazyna JSC
KEGOC	Kazakhstan Electricity Grid Operating Company KEGOC
Kazpost	Kazpost Joint Stock Company
KazSSR	Kazakh Soviet Socialist Republic
KAP, NAC Kazatomprom JSC	National Atomic Company Kazatomprom Joint Stock Company
kWh	Kilowatt-hour
KHS	Karaganda Higher School of the Ministry of Internal Affairs of the Republic of Kazakhstan
Construction Committee	Committee for Construction, Housing and Utilities Infrastructure and Land Resources Management of the Ministry of the National Economy of the Republic of Kazakhstan
KE, KE JSC	National Company Kazakhstan Engineering Joint Stock Company
KIMEP	Kazakhstan Institute of Management, Economics and Strategic Research
CGC	Corporate Governance Code
km	Kilometer
KMG, NC KMG JSC	National Company KazMunayGas Joint Stock Company
PRC	People's Republic of China
Companies, Portfolio Companies of the Fund	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
CPAH	Complex for Production of Aromatic Hydrocarbons
AORC	Advanced oil refinery complex
KPI	Key performance indicator
KEI	Key efficiency indicator
RMICCS	Risk Management and Internal control corporate system
KT	Kazakhtelecom Joint Stock Company
KTZh, NC KZTh JSC	National Company Kazakhstan Temir Zholy Joint Stock Company
CC SK	Corporate Centre of Samruk-Kazyna JSC
m³	Cubic meter
MIA	Ministry of Internal Affairs of the Republic of Kazakhstan

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

TKS, Tau-Ken Samruk JSC	Tau-Ken Samruk Joint Stock Company
UCC, United Chemical Company LLP	United Chemical Company Limited Liability Partnership
trln	Trillion
Thous., 000	Thousand
FS	Feasibility study
TPS	Thermal power station
SWF	Sovereign (National) Wealth Fund(s)
Centre	Stewardship Asia Centre
pc.	Piece
EBG	Electronic bank guarantee
Air Astana, Air Astana JSC	Air Astana Joint Stock Company





Contact information

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Legal Address: Block B, 8 Kunayev Str.
Actual address: Block B, 8 Kunayev Str.

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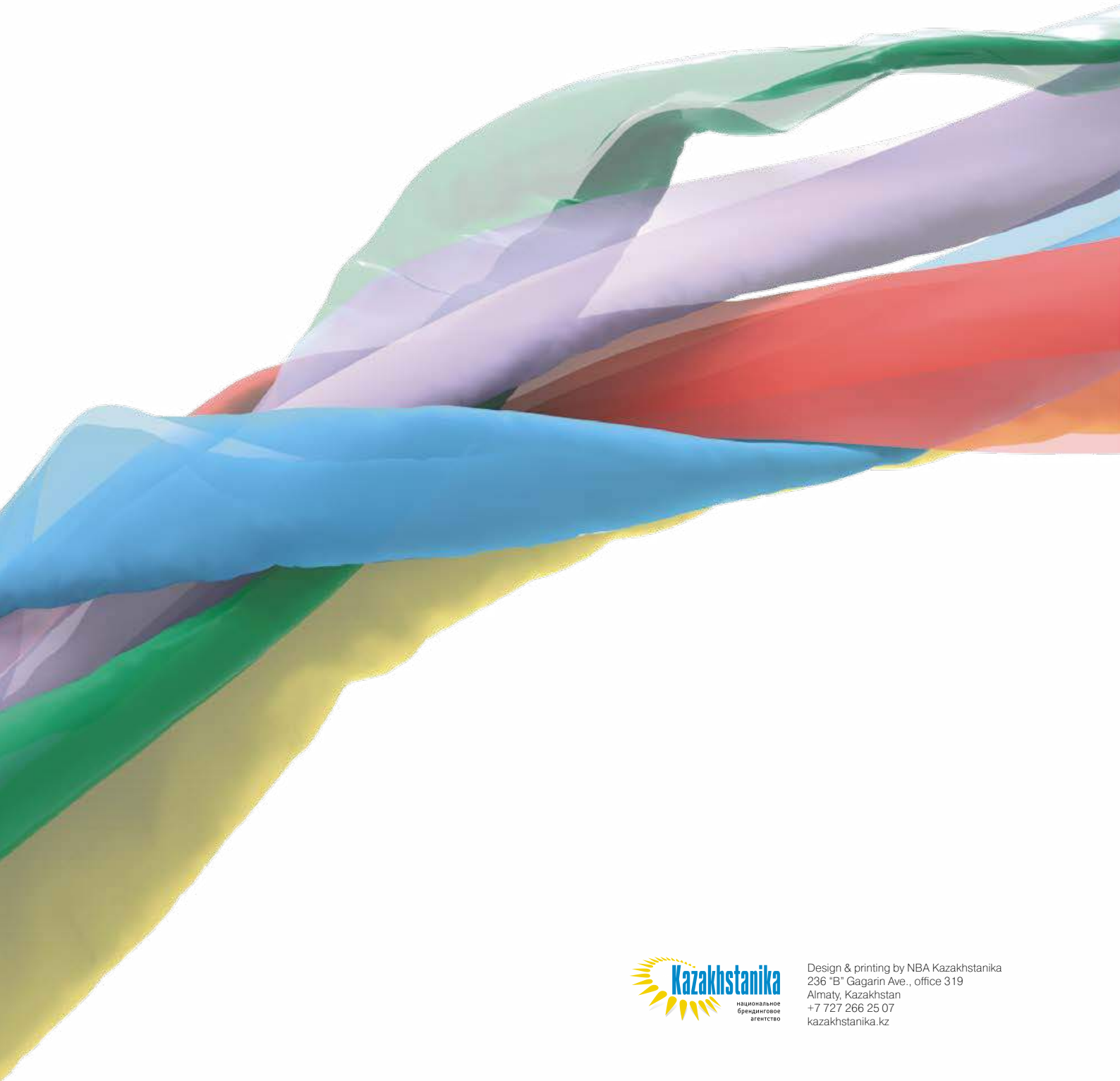
Hotline for notifications of supposed violations
Samruk Kazyna JSC: +7(7172) 554-055
Trust mail – sk.hotline@deloitte.kz

Regarding the consideration of complaints about unlawful actions of customers in the person of subsidiaries of Samruk-Kazyna JSC when purchasing goods, works and services, please send formal requests to Samruk-Kazyna JSC at the address: Kunaev 8, block "B", telephone Call Center 8(7172) 554-002.

Phone number for issues relating to privatization of the Fund's assets:
+ 7 (7172) 552-266.

Questions can be sent to the Investor Relations Department at: ir@sk.kz

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



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