

Samruk-Kazyna Development Strategy for 2018-2028



SAMRUK
KAZZYNA

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Introduction

The Development Strategy of SWF “Samruk-Kazyna” JSC (the “Fund”) is a long-term strategic document that outlines the mission of the Fund to deliver its objectives set out by the Sole Shareholder. The Strategy fundamentally aligns with the national development goals, key economic agendas and underlines the importance of the Fund as a sovereign fund in achieving goals of development of the Republic of Kazakhstan.

In 2012, the Fund has developed its first Development Strategy for 2012-2022, which was designed to deal with the after effects of the global financial crisis, implementation of state initiatives and national programs, and to render assistance in the implementation of social initiatives of the Government of the Republic of Kazakhstan. By virtue of effective management of its portfolio of assets, the Fund contributed to economic growth and development of the economy of the state.

Today the Fund is at an important stage of its development. Over the past six years, from the date of endorsement of the first development strategy of the Fund, the external macroeconomic environment went through certain changes that significantly affected the implementation of strategic objectives of the Fund. For this reason, the further direction of the development of the Fund should be determined with due consideration of strategic lines of development of the Republic of Kazakhstan, global and regional trends of economic development, and peer sovereign funds’ performance and development indicators.

Three factors that have a significant impact on the development of the Fund’s strategic goals:

- 1. New national initiatives for economic growth in Kazakhstan.** The Head of State set an ambitious goal for the nation to become the top 30 developed countries of the world within the framework of Strategy “Kazakhstan-2050”, the elaborated Strategic Development Plan of the Republic of Kazakhstan until 2025, approved state program “Digital Kazakhstan”, and the message of the Head of State on “Third Modernization of Kazakhstan: Global Competitiveness”. The country’s strategic documents define main criteria for economic transformation of Kazakhstan, among which economic feasibility of decisions made, proceeds from investments, diversification of the economy and life quality improvement of Kazakhstan nationals.
- 2. Global trends in the development of sovereign funds as it pertains to portfolio diversification.** Global sovereign wealth funds (SWFs) are established to implement various strategic objectives to ensure stability in the economy, preserve a capital and create wealth for future generations, optimize national assets, ensure economic diversification and sustainable development.

SWFs like Temasek, Khazanah, Mubadala, ADIA (Abu Dhabi Investment Authority), and KIA (Kuwait Investment Authority), whose operations and strategic objectives are comparable to the Fund’s and have shown high performance on long-term returns on their portfolios to the shareholder, are used as peer

benchmarks. On top of that, the roles of the SWFs are focused on diversification of sectors of the economy, as well as on a geographic diversification of assets to minimize concentration risks of portfolio of investments and to ensure augmentation of the capital for future generations.

3. Strategic pivot in the role of the Fund both in Kazakhstan and internationally.

Strategic goal of Kazakhstan to enter the top 30 most developed countries of the world sets ambitious goals for the Fund and requires significant transformation to ensure its global competitiveness. There is a need for effective measures to be taken to resolve problematic issues existing in the investment portfolio, to improve efficiency of operations and promote financial sustainability of national companies. This is further to identifying new initiatives for growth, portfolio diversification, increase in returns to the shareholder, and strengthening the presence of the Republic of Kazakhstan and the Fund in international arena.

The above factors fundamentally underline the strategic vision and goals of the Fund for the next 10 years. The Fund’s Development Strategy for 2018-2028 proposes changes to the current portfolio of investment projects and assets, revision of approaches for reinvestment of funds, diversification of incomes to avoid concentration risks, as well as preservation and augmentation of wealth for future generations.

The Fund’s Development Strategy also defines strategic phases for its implementation. In the short-term, the Fund will focus its efforts on addressing current issues on strengthening financial sustainability, increasing profitability and promoting competitiveness of portfolio companies. In the medium-term, the Fund will focus on putting together a diversified (by sectors of economy and geography) high-yield portfolio of investments and assets, both in Kazakhstan and abroad. In the long-term, the Fund plans to fully transit to an active and efficient management of a diversified portfolio of assets by increasing share of international investments to improve its portfolio returns.

1. Analysis and Diagnostics of the Current Strategic Parameters

1.1. Environmental Analysis

The Fund in its operations follows key strategic economic documents such as Strategy “Kazakhstan-2050”, Strategic Development Plan of the Republic of Kazakhstan until 2025, as well as other national development programs and aims at supporting the economy of the Republic of Kazakhstan through efficient management of its portfolio of assets. The Fund prioritizes operational efficiency, competitiveness and investment attractiveness, strengthening financial stability of portfolio companies and establishing efficient and diversified portfolio of Fund’s assets.

In December of 2012, the Strategy “Kazakhstan-2050” was introduced. The key objective of the Strategy is for Kazakhstan to enter the top 30 most developed countries in the world and to join the ranks of members of the Organization for Economic Cooperation and Development (OECD). Making decisions based on exclusively economic expediency and long-term interests, as well as considering returns on investments as top priority are fundamental when taking managerial decisions.

In May of 2015, the Plan of Nation “100 Concrete Steps on Implementation of Five Institutional Reforms of the Head of State Nursultan Nazarbayev” was introduced. In January of 2017 a goal to ensure implementation of the message of the Head of State on “Third Modernization of Kazakhstan: Global Competitiveness” was set, within the framework of which the Head of State instructed to create a new model of economic growth that will promote competitive ability of the country in the world arena, create a favorable investment climate for the development of economic potential and efficiency of investments.

In December of 2017, the Government of the Republic of Kazakhstan approved the State Program “Digital Kazakhstan”, the main objective of which is to improve the life quality of nationals and promote competitive ability of the state’s economy through the usage and development of digital technologies.

In February of 2018, the Strategic Development Plan of the Republic of Kazakhstan until 2025 was approved, which notes the change in the role of the Fund. The Fund should transform from it’s role of an implementer of state initiatives and programs to a role of a highly efficient company with commercial objectives. The Fund should ensure contribution to long-term development of the state in consistence with the development of the private sector of Kazakhstan’s economy. The economic diversification, digital and technological modernization, achievement of high standards of corporate governance, transfer of assets to a competitive environment and improvement of approaches to investment activities should become a framework for further development of the Fund.

In March of 2018, the Head of State addressed to the nation of the Republic of Kazakhstan his speech dubbed “Five Social Initiatives of the President”, within the framework of which large-scale social projects were defined aimed at strengthening

social cohesion of the people of Kazakhstan.

Kazakhstan’s priority objective to become one of the top 30 developed country of the world sets ambitious goals for the Fund to achieve its commercial objectives, diversify its investment portfolio and support the development of the economy of Kazakhstan.

The Development Strategy of the Fund for 2018-2028 is aimed at implementation of strategic goals and lines of development of the Republic of Kazakhstan (Appendix 1 to the Fund’s Development Strategy for 2018-2028, Figure 1).

1.2. Domestic Analysis

Since its inception in 2008 through the merger of JSC “Sustainable Development Fund “Kazyna” and JSC “Kazakhstan Holding for Management of State Assets “Samruk”, the Fund has achieved significant results in contributing to the development of the national economy.

The Fund has successfully tackled the tasks imposed by the Government of the Republic of Kazakhstan to support and stabilize the financial sector during the financial global crisis of 2008, against the backdrop of a significant weakening in financial indicators of the Fund largely due to a decline in commodity prices and weakening of the national currency.

Throughout the years of 2012-2017, the Fund and its portfolio companies have ensured start of a number of production facilities and completed large-scale social projects. In 2012, the Corporate Governance Code was approved, within the framework of which the Fund and its portfolio companies reinforced the role of a new code of corporate governance, increased the number of independent directors and raised efficiency of decision-making process at the Boards of Directors (BoD) level.

In November of 2014, the Head of State has approved the Transformation Program, within the framework of which he noted that welfare of the state is concentrated in the Fund and it is a source of a wealth for the people of Kazakhstan today and in the future. The development of the country will depend on how successfully the Fund completes the transformation process, thereby assigning a pivotal role to the Kazakhstan’s Transformation Programme.

Recessions of 2008, a decline in economic growth of key business partners, namely, Russia and China, followed by a slump in oil price in 2015, led to a weakening of the national currency. Financial performance of the Fund historically depend on oil prices and companies are not ready to respond quickly to external factors or rapidly optimize the business. That said, a great part of portfolio companies’ income is still regulated by antimonopoly authority, which limits the ability of the companies to ensure growth of economy sectors.

As it pertains to corporate governance, despite the positive trend in improving the overall level of corporate governance in the Fund and portfolio companies, there is still a

need to increase efficiency of work, accountability and liability of the Board of Directors of portfolio companies to the Fund and further enhance the role of independent directors.

The results of diagnostics of operations of investment companies revealed certain factors that held back its effectiveness in project implementation, such as the need for greater expertise in managing large-scale industrial projects, lack of strategic partners, and complications in project financing.

This Strategy reflects current challenges and areas requiring reinforcement by the Fund and its portfolio companies. Strategic goals and objectives aimed at resolving current problematic issues, enhancing efficiency and financial stability of portfolio companies, as well as fortification of active management of assets portfolio of the Fund. The Fund also faces tasks on promoting human capital in part of effective management of assets, investments and projects, as well as in seeking and attracting strategic partners and peer sovereign funds for further knowledge sharing and cooperation.

Currently the Fund performs the role of a holding for management and promotion of efficiency of national companies, diversification and development of the economy. That said, the Fund’s investment portfolio is concentrated only within the economy of Kazakhstan and is not sufficiently diversified, which promotes concentration risks for the Fund and the economy of the state on the whole, which is confirmed by consequences of financial turmoil that led to instability in the group of Fund’s companies in 2008.

In respect thereof, the Fund needs through the example of other sovereign funds such as Temasek and others to develop and protect the investment portfolio from concentration risk and reduce dependence on the economy and commodity markets only by diversifying the portfolio to preserve and augment returns for the shareholder.

1.3. SWOT Analysis

The environmental and domestic analysis performed has revealed strengths and weaknesses of the Fund, as well as existing opportunities and threats, which are shown in the table below.

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> ▪ Sustainable portfolio of assets that plays significant role in the national economy; ▪ Experienced management and team with professional capabilities ▪ An important contribution to the economic development of Kazakhstan while attracting potential investors; ▪ Impact on portfolio efficiency through divestments and reinvestments; ▪ Adopted Code of Corporate Governance based on the United Kingdom Combined Code; ▪ Strong desire and readiness of the Fund for changes. 	<ul style="list-style-type: none"> ▪ Untimely response to external factors; ▪ Operational inefficiency of portfolio companies; need for greater experience in implementing large investment projects; ▪ High debt burden of portfolio companies, aggravated by currency devaluation; ▪ Conflict of social and commercial requirements of the Fund’s shareholder; ▪ Passive management of assets portfolio, underdeveloped “commercial” mindset; ▪ Relationship with the Government is still not clearly differentiated.
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> ▪ An active support from the Government of the Republic of Kazakhstan in the Fund’s development; ▪ Legislation that gives the Fund broad powers; ▪ Potential for growth opportunities within and outside of the Republic of Kazakhstan; ▪ Optimization of processes, and opportunities for digitalization of industrial processes; ▪ Further improvement of corporate governance, the Government support. 	<ul style="list-style-type: none"> ▪ Decline and continuing volatility, portfolio dependence on commodity prices, insufficient diversification, and portfolio concentration risk until portfolio of the Fund is diversified; ▪ Global uncertainty due to political events such as sanctions against Russia, decline in growth of economies of major trading partners as Russia and China; ▪ Slowdown in domestic demand and business growth;

2. Mission, Vision and Strategic Goals

Mission of the Fund is to increase the national welfare of the Republic of Kazakhstan and to ensure long-term sustainability for future generations.

The mission is a shared vision for the shareholder and stakeholders of the Fund on the Fund’s contribution to implementation of strategic lines of development of the Republic of Kazakhstan.

Vision by 2028 positions the Fund to be an investment holding that ensures strong financial indicators, returns on investments and portfolio developing on a par with

the leading sovereign wealth funds.

The Mission and the Vision of the Fund will be achieved through implementation of **three strategic objectives** (Appendix 1 to the Fund’s Development Strategy for 2018-2028, figure 2):

1) Efficiency of Companies

One of the key objectives and mandates of the Fund is efficient management of portfolio companies through leveling its performance indicators with the indicators of the world’s leading peer companies specifically in part of operational, production and financial efficiency, commercial activity and increase of returns from invested capital. Strengthening of financial sustainability, increase of operational efficiency, promotion of efficiency of usage of industrial assets, and implementation of the Transformation Programme will become priority tasks while execution of this strategic goal. The Fund being focused on this strategic task in the short-term will allow enhancing financial sustainability, profitability and operational performance of its national companies to create foundation for further growth and transfer of the Fund to the next development phase.

2) Portfolio Management

In order to ensure efficient portfolio management the Fund plans to optimize and restructure the current portfolio of assets and investment projects, ensure diversification through reinvestment of funds within the territory of the Republic of Kazakhstan and, in the longer term, in global markets.

Active participation in the Privatization Programme initiated by the Government of the Republic of Kazakhstan will allow the portfolio companies to reduce the share of the public sector in Kazakhstan’s economy, stimulate development of the country’s stock markets, enhance corporate governance and develop private capital.

Reduction in the number of legal entities in the structure of the Fund’s assets, revision of the current investment portfolio of the Fund and portfolio companies, redistribution of funds for renewed portfolio, and exit from non-strategic assets of the Fund will ensure further rebalancing and diversification of portfolio.

Reinvestment of funds in new projects and assets of the Fund including on international markets will allow the Fund to preserve and augment wealth for future generations and promote returns to the shareholder.

This strategic goal through the example of development of the world’s top sovereign funds will allow the Fund to move to the next development phase, to an active portfolio management, diversification, preservation and augmentation of wealth for future generations. The Fund plans to accomplish the execution of this strategic goal over the mid-term and long-term timeframes.

3) Sustainable Development.

One of the key objectives of the Fund is to ensure compliance of its operations

and operations of its portfolio companies with principles of sustainable development, coherence of its economic, environmental and social goals for sustainable development and creation of economic value in the longer term.

The Fund within the framework of this strategic goal plans to continue achieving a high level of corporate governance and sustainable development, improve corporate governance in the Fund and its portfolio companies, upgrade its talent pool, ensure introduction of fundamental principles of meritocracy while implementing new models of behavior for “commercial” mindset and readiness to change. The new Strategy also defines a redirection of sponsorship resources of the Fund to community needs and implementation of sustainable development initiatives.

The Fund understands that sustainable creation of the value and achievement of strategic goals in the area of corporate governance and sustainable development are possible thanks to proper and responsible conduct of all stakeholders. In order to keep the balance between the interests of the Fund and community the relationships of the Fund with stakeholders will be built based on principles of mutual respect of interests and expectations of the wide range of stakeholders, including entities and organizations that influence operations of the Fund.

Goals within the framework of implementation of socially important projects should not be achieved because of decrease in efficiency of portfolio companies or effective management of portfolio, but, on the contrary, should facilitate those. Following the experience of peer sovereign funds, the Fund will reduce its presence in social and welfare projects and lines of activity that do not bring a positive and long-term economic effect.

Strategic goals on sustainable development will be accomplished throughout the entire strategy implementation period beginning 2018.

It is planned to ensure **strategic results** as follows that will be achieved as part of implementation of three strategic goals:

- Increase of return of portfolio companies;
- Business transformation in portfolio companies;
- Efficient debt management;
- Placement of shares of portfolio companies in stock markets;
- Diversification, effective and active management of investments portfolio through exit from non-strategic assets and reinvestment of funds in new projects/shares in the Republic of Kazakhstan and on foreign markets;
- Development of human potential and pool of talents;
- Introduction of best corporate governance practices;
- Delivery of results while execution of sustainable development initiatives.

Investment decisions of the Fund should be based exclusively on the principles of commercial feasibility, long-term interests and main criterion of efficiency, which is maximization of returns and profitability of investments in the longer term perspective.

The ultimate outcome of implementation of the Fund’s Strategy will be **increase in dividends** to the shareholder and **development of the economy of the Republic of Kazakhstan**. Thus, the outcomes of implementation of the Development Strategy of the Fund will also correspond to the key results of activities of other comparable sovereign funds.

In order to achieve the vision of the Fund and fulfill its strategic goals, the Fund will focus on implementation of four strategic initiatives (Appendix 1 to the Fund’s Development Strategy for 2018-2028, figure 3):

- 1) promotion of companies’ profitability;
- 2) optimization of portfolio structure;
- 3) diversification of revenues;
- 4) corporate governance and sustainable development.

Strategic initiatives above will allow the Fund to achieve a target model of strategic investment holding by means of gradual transfer from the current development phase to the target model through achievement of short-, medium- and long-term goals on efficient and active assets portfolio management.

3. Strategic Initiatives for Achieving the Vision and Goals of the Fund

The Fund’s transition to a model of strategic investment holding that ensures creation and preservation of wealth for future generations stipulates consideration of assets of portfolio - portfolio companies of the Fund - as investment instruments. An actively and effectively managed and diversified portfolio will allow the Fund to achieve the highest possible level of return on portfolio over the long-term.

The Fund’s assets portfolio life cycle (except for strategic assets) consists of four rounds:

1. search for new initiatives/assets for portfolio diversification and/or investments in commercially attractive projects;
2. development of new projects/assets for creation of operational activities and/or increase in value thereof;
3. optimization of asset and asset preparation for sale;
4. sale of the asset/divestment in order to exit from the investment in whole or in part with a positive rate of return on invested capital to reinvest funds in new initiatives/projects/assets.

The selected Fund’s strategic initiatives are directly aligned to the life cycle of the portfolio of assets and will allow focusing resources on achievement of the Vision and goals of the Fund.

The Fund will ensure coherence of state initiatives reflected in national strategies, strategic development plans, and government programs related to the activities of

portfolio companies, with portfolio companies' development strategies by sending letters of shareholder expectations to portfolio companies.

3.1. Increasing the Profitability of the Companies

Increasing the profitability of portfolio companies is one of the main objectives, within the framework of which measures will be taken to strengthen financial sustainability, improve operational efficiency, optimize and re-engineer business processes, provide synergy between portfolio companies of the Fund and promote investment attractiveness of portfolio companies.

This initiative is a priority for the current portfolio of assets in the short-term and is aimed at creating the foundation for implementation of initiative on Fund's portfolio restructuring. In the future, this initiative may also be applied to a new portfolio of assets that the Fund will be actively managing through exercise of shareholder rights.

3.1.1. Strengthening Financial Stability

Measures on preservation and strengthening of financial stability will be enhanced in portfolio companies, where ability of the company to keep developing is primarily ensured through the borrowed funds.

The Fund will stimulate portfolio companies to:

- increase free cash flows by improving operating efficiency indicators, EBITDA and through efficient allocation of resources on capital investments and further development of the company;
- rationally manage own and borrowed funds, carefully analyze economic feasibility and risks of insolvency when getting into new loans obligations;
- create an optimal portfolio of investment projects, including those financed by means of borrowed funds taking into consideration limited financial resources and financial sustainability risks;
- ensure systematic work on improvement of credit rating of portfolio companies in order to reduce the cost of raised borrowed funds.

This objective will allow the Fund and its portfolio companies to efficiently manage debt levels and capital structure, strengthen financial sustainability and ensure flexibility in making managerial decisions when structuring the Fund's portfolio of assets and at further growth of portfolio companies.

3.1.2. Promoting Operational Efficiency

The Fund will stimulate portfolio companies to strive to achieve performance indicators of leading global peer companies in terms of operational, production and financial efficiency, which in turn impacts the rate of investment returns and efficient use of invested capital.

Measures which will be carried out include:

- Formulation of measures on control and optimization of operational expenditures, increase rate of return on investments through synergy between portfolio companies, increase of export content in revenues, work with government authorities on deregulation of tariffs, search of new sources for growth, analysis and improvement of production value creation chain;
- Efficient assets management, including post-monitoring of investment projects and ensuring production facilities reaching their designed capacity;
- Upgrade of equipment required for modernization of production processes, introduction of new technologies, innovations and initiatives on digitization of production and corporate processes upon availability of positive economic effect;
- Optimization and reengineering of inefficient corporate and production business processes;
- Optimization of organizational structures and levels of organizational management in portfolio companies and subsidiaries.

3.1.3. Implementing Transformation Programme

The Fund’s Transformation Programme is included into the Strategic Development Plan of the Republic of Kazakhstan until 2025, where it is identified as a key factor of success of the Fund’s strategic role in efficient completion of processes of transformation from quasi-public to high-tech efficient companies.

The Transformation Programme is one of the major programs undertaken by the Fund to optimize the transformation of operations of portfolio companies, increase their operational efficiency thereof and build effective infrastructures for lasting changes.

The Programme is implemented by means of a number of concrete initiatives. In addition to the initiatives on improving business processes and simplifying corporate structure, the Programme also requires changes in the mindset and standards of behavior of employees of portfolio companies and all stakeholders involved in the Transformation process.

In particular, the process of reengineering and digitization of business processes, simplification of legislative structure, the IPO of portfolio companies, introduction of change management and project-oriented approach in portfolio companies will continue within the framework of the Transformation Programme.

Digitalization or digital transformation will be one of the major initiatives of the Programme that will ensure reorganization and improvement of key business lines of companies through change in approaches to resolution of business tasks in commercial, production operations and managerial activity via use of new technologies, new generation approaches, and development of new digital services and products.

Among other things, one of the primary objectives of the Transformation Programme is the development of human capital in the companies through introduction

of new standards of corporate culture and values incidental to worldclass companies.

Implementation of principal lines of the Transformation Programme will accelerate achievement of strategic goals to increase efficiency and profitability of companies. The outcome of the Transformation Programme will be laying the groundwork for continuous improvement of operations of portfolio companies, which should eventually become a corporate principle for the companies.

3.2. Portfolio Structure Optimization

Optimization of portfolio structure is an important step in the transfer of the Fund to an active investment portfolio management. Objectives on restructuring the current portfolio of assets of the Fund, revision of investment projects, reduction in the number of legal entities and levels of asset management, and exit from non-strategic assets will enable the Fund to efficiently reallocate its resources in order to increase the portfolio value and return.

3.2.1. Implementation of Privatization Programme

The Head of State set an objective to reduce the presence of the state in the economy down to 15%, which implies the need of placement of assets of the state and quasi-public sectors in a competitive environment.

The Fund participates in improvement of the efficiency of Kazakhstan’s economy, reduction of the share of quasi-public sector in the economy of Kazakhstan through active participation in the Comprehensive Privatization Plan for 2016-2020 (the “Plan”) by placing its assets included in the Plan in a competitive environment. Successful implementation of the program will stimulate corporate governance, development of healthy competition in a private sector, reduction of state’s presence in competitive sectors of the economy, improvement of the investment climate in the Republic of Kazakhstan, as well as attraction of new technologies to the economy of the state and reduction of government regulation tools in business sector.

The Fund plans to participate in the implementation of the Plan through public placement of shares on Kazakhstani and foreign stock markets of at least 7 major portfolio companies, sale of remaining assets included in the Plan, and liquidation or reorganization of assets that are not in demand among private investors.

The Fund and portfolio companies carry out privatization process with due consideration of basic principles of corporate governance and transparency such as:

- sale of a majority stakes in non-resource sector companies and a blocking stakes in resource/infrastructure sectors;
- variety of options of sale of assets or equity interests in assets;
- readiness of assets for privatization;
- strict adherence to corporate governance standards;

- professional management.

The implementation of the Plan will enable the Fund to optimize the structure of its assets, ensure attraction of capital and technology transfer for development of companies, stimulate development of Kazakhstan’s stock market, whilst to improve quality of corporate governance, transparency and competitiveness of portfolio companies.

3.2.2. Reduction of Legal Entities in the Structure

Objectives on reduction of the number of legal entities apply to the current portfolio of Fund’s assets and should be done prior to the launch by the Fund of investments in shares/assets/projects for active management of investment portfolio. When the Fund transitions to a model of an active management of the investment portfolio, the methodology for calculating the number of legal entities in the Fund should change and be applied only to portfolio companies, where the majority stakes is owned by the Fund.

In order to optimize the structure of Fund’s and portfolio companies’ assets, the Fund plans to:

- develop a comprehensive approach on optimization of legal entities, which will allow to recurrently analyze and optimize the structure of legal entities at the Fund’s and its portfolio companies’ level;
- determine criteria, under which creation of new legal entities will be limited.

The Fund’s goal is to keep no more than 5 levels in the structure of the Fund’s assets and no more than 300 legal entities.

Maintaining the optimal structure of assets at the Fund and portfolio companies’ level will allow compliance with the best practices of global peers and enhance competitiveness, flexibility when making managerial business decisions and quick reaction to internal and external market changes.

3.2.3. Revision of Investment Project Portfolio

The Fund within the framework of this objective plans to revise the current portfolio of investment projects existing at the Fund’s and portfolio companies’ level.

Investment projects of the Fund and its portfolio companies should be exclusively based on the principles of commercial viability, long-term interests, and recoverability of capital.

Revision of investment project portfolio, a critical evaluation of financial models thereof, including financial structure, availability of financing, and reassessment of assumptions will enable the Fund and its portfolio companies subsequent to the results of analysis to:

- exclude unpromising and unprofitable projects from the portfolio;
- reallocate the company’s resources to a renewed portfolio of investment projects

with due consideration of scarcity of resources used for financing, risks of financial stability, and the level of positive impact of projects on economic parameters of investment projects portfolio.

Introduction of a portfolio-oriented approach to investments will enable the Fund and portfolio companies to effectively manage the portfolio and ensure creation of a long-term value in a competitive and rapidly changing environment and market opportunities. Portfolio-oriented approach implies:

- formation of a holistic approach to portfolio of assets and/or investment projects to implement strategic goals provided limitation of resources;
- making decisions on investments in assets and/or projects based on a stage-gate process;
- careful selection, prioritization, redistribution of available resources for selection of investments most suitable for portfolio needs, and exit from investment in compliance with strategic goals and priorities of the Fund and market opportunities;
- formation of an optimal portfolio of priority-based assets/projects consistent with availability of financing and level of profitability.

3.2.4. Exit from Nonstrategic Assets

In order to actively and efficiently manage the investment portfolio and redistribute resources within the portfolio, the Fund considers the possibility of exiting assets that are not strategic¹ for the portfolio of the Fund, including through attraction of strategic partners. The Fund will retain its marginal share in assets that are significant in terms of national security and/or have resource-related strategic facilities on its balance sheet.

Attraction of strategic partners for portfolio companies of the Fund and investment projects of portfolio companies provide an access to new technologies, expertise and competencies, possibilities of aggregation of resources or partnership members and inclusion into the new service markets. Attraction of strategic partners is necessary for participation in projects and industries where expertise, knowledge and competences are limited and/or there is a lack of practical experience in implementing similar projects.

The Fund in line with the life cycle of assets portfolio will regularly carry out transactions on sale of nonstrategic assets/divestments in order to exit from investments in whole or in part with a positive rate of return on invested capital to release the capital for further development of portfolio and reinvestment of funds in new initiatives/projects/assets.

The Fund when making a decision on exit from the asset will take into account the industry's development rate, asset maturity, market conditions and potential for maximizing returns on investment.

¹ The strategic asset of the Fund is a company defined in accordance with the Resolution of the Government of the Republic of Kazakhstan dated June 30, 2008 No. 651.

3.3. *Diversification of Proceeds*

Active asset management will allow the Fund to increase the return of portfolio, ensure its diversification in various industries giving priority to assets/projects that will have a high profitability rate and potential multiplicative effect for the economy of Kazakhstan.

3.3.1 *Rebalancing of Investment Portfolio*

Optimal and diversified portfolio structure will allow the Fund in the long-term perspective to reduce portfolio volatility, increase income sustainability, ensure new investment opportunities, and avoid concentration risks.

In order to develop a diversified portfolio, the Fund plans to define a 10-year strategic target portfolio of Fund’s assets with expected parameters of asset distribution by geography, economy sectors and types of assets. The target portfolio defines a conditional risk profile of the Fund (return risk), availability of financing for investing in long-term assets, priority industries and countries for investments. At the same time, the Fund will not set investment limits by industries, classes of assets or geography of investments. As the owner of assets, the Fund reserves the right to balance the portfolio and have a full flexibility in changing it based on the market situation and/or availability of opportunities for portfolio growth.

Tactical distribution of assets will be carried out on a regular basis, perhaps annually, taking into consideration significant changes in market, macro conditions and parameters of portfolio returns. Parameters on the risk level and return on investments will be determined by authorized bodies of the Fund. Taking into consideration tactical decisions on portfolio reallocation taken on an annual basis, the Fund, as prescribed by law, will decide on partial or full sale of shares in portfolio companies to redirect the funds to alternative investment assets. The exception is strategic assets determined as such in accordance with the Resolution of the Government of the Republic of Kazakhstan dated 30 June 2008, No. 651, in respect of which decisions on the sale of shares may be taken in the prescribed manner.

In order to build-up a strategic target portfolio and to carry out tactical distribution of assets, it is necessary to develop a strategy of financing, which will also include proceeds from recurrent purchase/sale of assets, redirection of dividends from operations of existing portfolio companies to new investments, and borrowed funds.

3.3.2 *Investments in the Republic of Kazakhstan*

The Fund makes investments within in the Republic of Kazakhstan with due consideration of restrictions established by legislative acts of the Republic of Kazakhstan, that do not impede the development of private sector.

The Fund independently makes investment decisions on approval of certain

investments within the Republic of Kazakhstan, however, provided that they meet the following criteria:

- commitment to “yellow pages” principle;
- return on equity capital of no lower than the cost of equity ($IRR > CoE$) to gain financial benefits and maximize proceeds for shareholders;
- development of various sectors of Kazakhstan’s economy, provision of multiplicative effect on domestic economy, stimulation of activities of private business and development of related sectors;
- development of projects of strategic importance for Kazakhstan’s economy aimed at development of priority sectors of the economy in accordance with the key state programs;
- development of projects and industries attractive and promising from a commercial standpoint (including megatrends);
- co-investments with strategic partners such as transnational corporations, leading financial institutions and development institutions, etc., which, among others, are capable to ensure transfer of technologies, innovations and knowledge to the Republic of Kazakhstan;
- adherence to principles of sustainable development;
- creation of sustainable long-term value;

The Fund when making decisions to invest will plan an exit strategy, including in case of restrictions on participation of quasi-public sector in projects within the framework of “yellow pages” principles. The industry’s development rate, maturity of the asset, market conditions and potential for increase in return on investments will be taken into consideration while making final decision on the exit from investments, project or an asset.

The Fund and its portfolio companies will not implement low-profit projects. In exceptional cases, in fulfillment of the decision of the Sole Shareholder - the Government of the Republic of Kazakhstan, taken under the authority of the President of the Republic of Kazakhstan, the Fund may finance implementation of such projects with due consideration of financial stability of the Fund and its portfolio companies by recognizing expenses as other distributions to the shareholder in accordance with the international accounting standards. That said, the cost of such projects will be previously determined by the Fund jointly with the Government of the Republic of Kazakhstan.

3.3.3 Investments Outside of the Republic of Kazakhstan

In the medium-term and long-term, the 10-year Development Strategy of the Fund provides for allocation of investments outside of the Republic of Kazakhstan not related to the national economy and industry aimed at increase of returns and preservation of wealth through diversification.

These investments will be aimed at:

1. Ensuring diversification of oil revenues for long-term financial stability;
2. Avoidance of the risk of concentration of investments in one economy and in one sector of economy to enhance return on portfolio in general, which still primarily will prioritize domestic investments in Kazakhstan;
3. Increase of financial returns from investments;
4. Avoidance of crowding out of private investors from domestic market of Kazakhstan;
5. Accumulation of reserves – “pile of resources” for future generations through preservation and increase of proceeds from international investments;
6. Integration/synergy of international investments with the development of Kazakhstan’s sectors of economy, attraction of technologies and transfer of knowledge;
7. Strengthening the presence and image of the Republic of Kazakhstan and the Fund in the international investment arena.

High return on investments is the priority while making international investments, which may potentially be adjusted to comply with measurable socio-economic benefits.

The Fund plans to gradually move towards these investments through:

- investments of funds via external managed funds;
- co-investments with private companies, corporations, including within the framework of G2G intergovernmental agreements, as well as with other sovereign funds;
- direct investments in various industries and countries with strategic tie backs to the local economy.

The Fund will manage international investments through creation of a separate pool of investments and operation of funds in accordance with the rules on withdrawal of funds and international investments dividend policy determined by the Fund Management Council². The level of risks acceptable for international investments, priority sectors and economies, classes of assets, and required levels of liquidity of investments will be determined and approved by the Board of Directors and updated on a regular basis by authorized divisions of the Fund, including within the framework of creation of a strategic target portfolio of assets of the Fund.

For successful execution of international investments, the Fund will establish partnerships with leading sovereign funds and other investment companies and funds to make joint direct investments, which will ultimately be strategically aligned with the industries of Kazakhstan.

3.4 Corporate Governance and Sustainable Development

² The Fund Management Council of the SWF “Samruk-Kazyna” JSC, established in accordance with the Decree of the President of the Republic of Kazakhstan on 06 December 2010 No. 1116.

Initiatives on sustainable development, corporate governance and corporate culture make up the basis of sustainable development and stand for critical factors affecting the value of portfolio.

3.4.1 Corporate Governance

In order to ensure efficient management of assets, promotion of investment attractiveness and successful performance of the function of an active investor, the Fund needs to continue implementing best practices of corporate governance within the Fund and its portfolio companies in accordance with recommendations on corporate governance of Organization for Economic Cooperation and Development (OECD).

Relations between the Government, the Fund and portfolio companies should be regulated in accordance with the norms of legislation of the Republic of Kazakhstan, the charters of the Fund and portfolio companies, and the Fund’s Corporate Governance Code. The Government differentiates its powers as a sole shareholder of the Fund and powers related to state regulation.

The Sole Shareholder of the Fund in relation to the Fund and the Fund in relation to its portfolio companies shall participate in management of the Fund and portfolio companies through exercise of functions and rights of the shareholder (participant) through the BoD/Supervisory Boards and through establishment of target performance indicators without intervention in operations. The Fund participates in operations of portfolio companies only in cases of continuous non-fulfillment of strategic goals and objectives by portfolio companies.

Continuous efforts should be taken to strengthen the composition of the BoD/Supervisory Boards of portfolio companies, and a balance of skills, experience and knowledge should be observed that ensure improvement in the quality of expertise, adoption of independent, objective and efficient decisions in the interests of the company and with due consideration of fair treatment of shareholders. The representatives of the state bodies as members of the BoD of portfolio companies should gradually be removed from the composition of the BoD of portfolio companies in line with OECD standards.

Liability and accountability of the BoD/Supervisory Boards for achievement of strategic goals and objectives, as well as effectiveness of meetings of the BoD/Supervisory Boards should be strengthened. The Fund will hold annual hearings of the BoD/Supervisory Boards of portfolio companies, within the framework of which the results will be evaluated on achievement of strategic goals, objectives and expectations of the shareholder.

The right to appoint portfolio company senior managers through the BoDs in accordance with the OECD principles is one of the key tools available to the Fund to manage portfolio companies.

3.4.2 Human Capital Development

In fulfillment of strategic goals and objectives, the Fund will ensure application of best practices for staff development in the Fund and portfolio companies through formation of a strong corporate culture, introduction of fundamental principles of meritocracy, transformation of people and introduction of new behaviors for “commercial” mindset and readiness for change.

The management of the Fund and portfolio companies should set the tone and maintain corporate culture of high productivity, liability and performance, where employees of companies think and act as owners of assets by sharing profits and losses together with shareholders in order to ensure implementation of the mission and the vision of the companies.

It is necessary to create a culture where remuneration is based on productivity and performance indicators, and long-term employee motivation plans. In order to share experience and develop competences it is necessary to involve experts with an international experience, but with a mandatory transfer of knowledge for development of local staff and preparation of successors.

In order to attract and retain talents and highly competent specialists, the Fund needs to increase its attractiveness as an employer of choice by forming a unified integrated offer for existing and potential employees, such as competitive compensation package linked to achievement of goals, personal development plans and increased employee involvement.

In order to implement a strategic initiative “Diversification of revenues” in terms of investments in the Republic of Kazakhstan and outside the country, it is necessary to strengthen competencies on active management of investment portfolio, relationships with investment banks, due diligence, management of international transactions, direct investment transactions, management of investment projects and project-based approach. It is necessary to promote commercial skills of employees, including, but not limited to, learning experience of efficient management of investments portfolio of leading sovereign funds. Strengthening of investment competencies should be gradual beginning 2018 to ensure a full-fledged transition to an active portfolio management in the medium-term, but no later than 2021.

3.4.3 Sponsorship and Social Responsiveness

For participation of the Fund in social and economic life of the population and ensuring prosperity of the Republic of Kazakhstan, the Fund will continue its activities related to sponsorship and charities.

The current distribution of narrowly focused sponsor and charitable support should be reviewed and prioritized based on needs of the society. Relying upon best practices, the Fund will finance social projects aimed at healthcare, education, professional development of youth, development of community, environment, art and heritage of

culture and knowledge, research, innovation, science and technology, and at support of disadvantaged groups and families.

Social Development Fund “Samruk-Kazyna Trust” is a trustee of the Fund in the area of social responsiveness, which will act as an agent in implementation of charitable projects and programs aimed at resolution of important matters of population on behalf of the Fund, in particular helping people and public in social and medical sectors, developing cultural community and human potential, strengthening links among social groups.

3.4.4 Sustainable Development Initiatives

The Fund and its portfolio companies recognize the importance of their influence on the economy, environment and society and, in an effort to increase long-term value, ensure their sustainable development in the long-term observing balance of stakeholders’ interests. Responsible, thoughtful and rational approach to interaction with stakeholders will contribute to sustainable development of the Fund and its portfolio companies.

Global factors that influence sustainable development will inevitably lead to limitations, challenges and risks while business conduct in general. The Fund’s main objective is to ensure survival in high-risk conditions by means of good forecasting and planning, to turn risks into opportunities and prepare for an unforeseeable future.

Based on external and internal assessments, in order to effectively and successfully manage economic, environmental and social aspects, the Fund will implement initiatives in the field of sustainable development as follows:

- Introduction of high ethical standards and building a corporate culture based on trust;
- Investments in human capital and acquisition of competitive knowledge;
- Raising reputation, brand and increase of transparency;
- Introduction of advanced standards and further improvement of corporate governance;
- Promotion of financial stability;
- Promotion of responsible procurements and integration of ESG principles in the investment activities;
- Creation and maintenance of health and safety culture;
- Provision of environmental sustainability.

In order to ensure clarity and transparency of its activities for all stakeholders, the Fund and portfolio companies will annually publish a report on sustainable development in accordance with the GRI Sustainability Reporting Guidelines.

3.5 Sources of Financing

In accordance with its operational principles, the Fund is aimed at application of its own funds and traditional market mechanisms for attraction of capital and credit financing of projects that create portfolio value. Regardless of the volume of investments, the structure of project financing will be driven by the Fund’s objective to maintain portfolio financial stability and low cost of borrowed funds through increase of a credit rating determined by international rating agencies.

In order to implement investment plans and achieve portfolio objectives the Fund will use all available sources of money funds, including:

1. own funds;
2. dividends from portfolio companies;
3. funds from future public offerings of companies (IPO/SPO) under the Privatization Programme;
4. funds from divestments – sale of companies (shares in companies) if decisions on exit from investments are taken;
5. loans raised through domestic and international capital markets;
6. intragroup financing;
7. funds of the National Fund of the Republic of Kazakhstan in accordance with the Concept of Formation and Application of Funds of the National Fund of the Republic of Kazakhstan, approved by the Decree of the President of the Republic of Kazakhstan dated 08.12.2018 No. 385;
8. additional capital from the shareholder of the Fund.

Debt financing should be carried out with due consideration of the Fund’s “risk-appetite” and provided that the financial stability of the Fund is preserved.

3.6 Strategic Goals and Initiatives Implementation Phases

In the short-term until 2021, the Fund will focus its efforts on improvement of efficiency and profitability of companies. This will allow the Fund to create a foundation for further growth and transition to the next phase.

In the medium-term until 2024, the Fund will focus on completing optimization of portfolio structure with certain initiatives to be launched as early as in 2018. Divestments from the current portfolio and reinvestments of these funds (on the territory of the Republic of Kazakhstan beginning 2018 and outside of the Republic of Kazakhstan beginning 2019-2020) will start in the short-term, and by 2024 it will be necessary to ensure complete transfer to an active management of Fund’s investment portfolio.

In the long-term until 2028, the Fund will ensure a full-fledged transition to diversification of revenues and portfolio through active investments within Kazakhstan and outside of the country on foreign investment markets.

Corporate governance and sustainable development are one of the key components of implementation of the Strategy and long-term sustainable development

of the Fund, which will be executed throughout the entire Strategy implementation period from 2018 to 2028.

4. Development Strategy Success Criteria

The Fund will consistently monitor achievement of goals through application of the following strategic key performance indicators (KPI):

Strategic goal	Strategic initiatives	#	KPI	2017 estimate	Target Value		
					2020	2024	2028

Strategic goal	Strategic initiatives	#	KPI	2017 estimate	Target Value		
					2020	2024	2028
Company efficiency	1. Increase in profitability of companies	1	Net income, bln ³ . Tenge	530	>900	Not applicable	Not applicable
		3	ROACE,%	6,1	>7,0	Not applicable	Not applicable
		2	Debt/EBITDA	5.0	4.0x	3.0x	Not applicable
Portfolio management	2. Optimization of portfolio structure 3. Diversification of proceeds	4	NAV, growth in %	5% compound annual growth rate for 2015-2017	8% compound annual growth rate for 2015-2020	8% compound annual growth rate for 2015-202	Not applicable
		5	ROI ⁴ , %	Not applicable	> CoE as of 31.12.2019	> CoE as of 31.12.2023	> CoE as of 31.12.2027
		6	TSR ⁵ , %	Not applicable	Not applicable	Not applicable	Average weighted inflation + 4% for 2025-2028
		7	Dividends to shareholders ⁶ , %	13.6	Not applicable	Not applicable	20
Sustainable development	4. Corporate governance & Sustainable development	8	Corporate governance score	B	BB	A	AA

Appendix 1

to SWF “Samruk-Kazyna” JSC Development Strategy for 2018-2028

³ The index is calculated based on current economical parameters (oil prices 2018-2019 - \$ 55/barrel, 2020 - \$55-60/barrel, uranium 2018-19,85 USD/pound U3O8, 2019 - 22,77 USD/pound U3O8; 2020 - 24,26 USD/pound U3O8; the exchange rate of 340 Tenge/US Dollars), approved parameters of the Privatization Programme (assumptions on IPO JSC “NAC “Kazatomprom”, Air Astana JSC), excl. new divestments.

⁴ This KPI is calculated only in case of Fund's exit from portfolio companies or investments projects.

⁵ This KPI is applied since 2025

⁶ The KPI is applied since 2025. According to the estimate of 2017 - dividends paid by the Fund based on separate financial statements of the Fund. In 2028 the estimation of dividends to be paid will be calculated based on actually received aggregate dividends from portfolio companies and investments portfolio of the Fund over the reporting period.

Figures and Diagrams supporting Implications and Suggestions of SWF “Samruk-Kazyna” JSC Development Strategy for 2018 – 2028

Figure 1. Role of the Fund in execution of national programs and strategic plans

Fund plays key role in execution of the National programs and Strategic plans

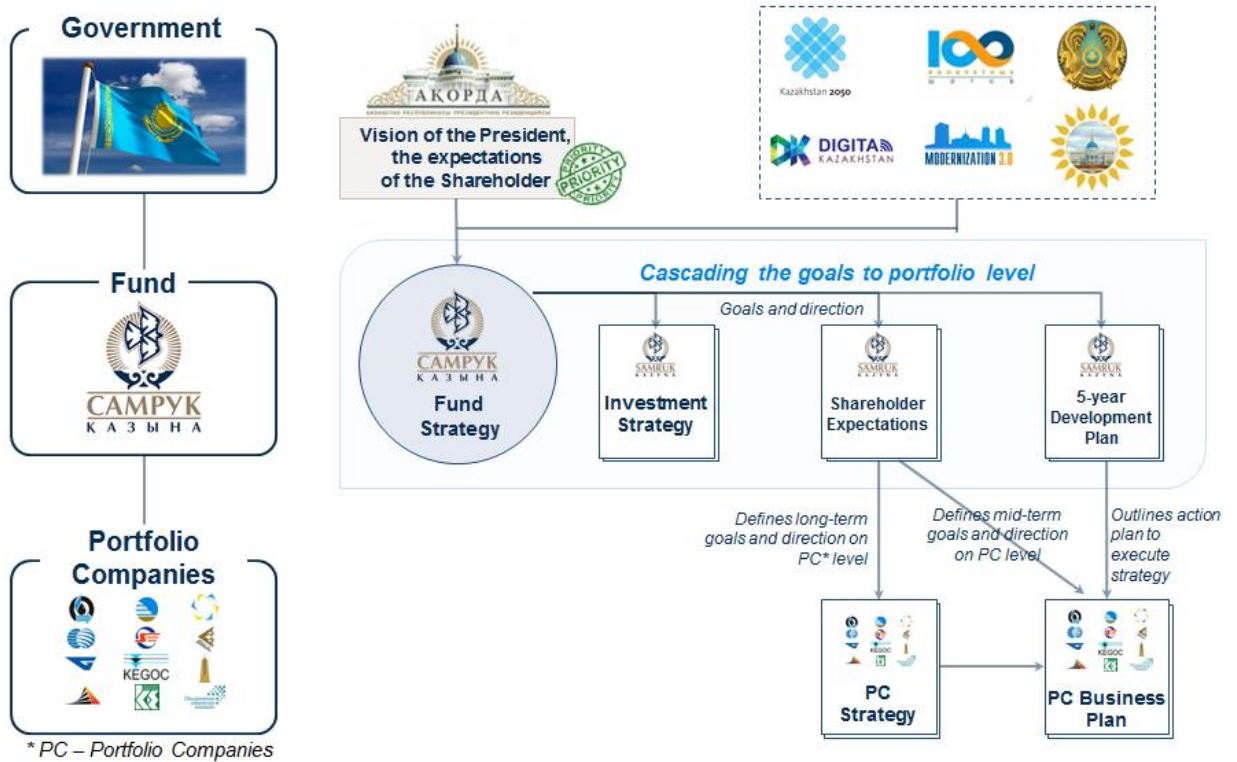
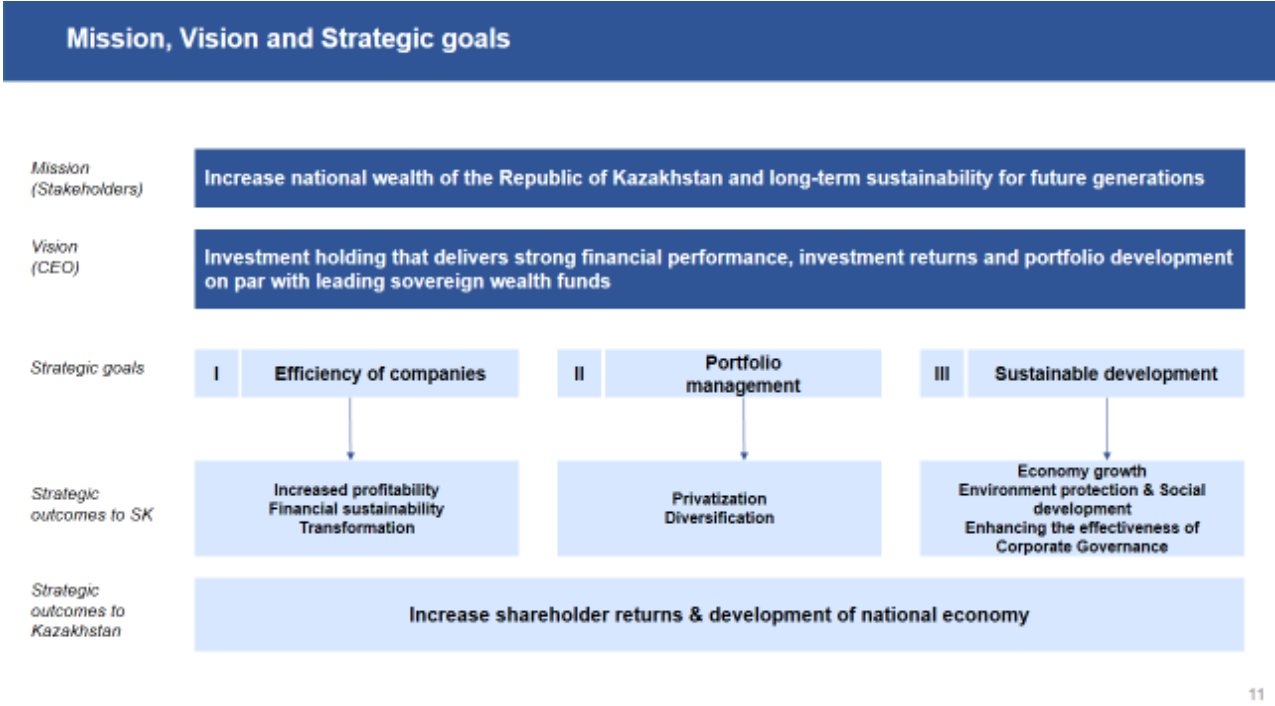


Figure 2. Mission, Vision and Strategic Goals



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Figure 3. Strategic Initiatives



Appendix 2
to SWF “Samruk-Kazyna” JSC Development Strategy for 2018-2028

Strategic KPI for 2018-2020 calculation method

#	KPI	UOM	Calculation Method
1	Net Income	Bln. Tenge	Consolidated net income of the Fund attributable to Shareholder based on audited financial statements for reporting period
2	ROACE	%	Profitability of employed capital = (Net profit + (expenses for remuneration * (1-tax rate))) / average capital employed (<i>debt + equity</i>)
3	Debt/EBITDA	Coefficient	Calculation procedure as per the Fund’s Financial Sustainability Policy
4	NAV	Bln. tenge	<p>CAGR NAV Fund for X yrs = $= \left(\frac{NAV\ Fund\ 20XX}{NAV\ Fund\ 2015} \right)^{1/X} - 1$</p> <p>NAV Fund 2015 = Σ(Market value of the company * ownership share) + Σ (company book value * ownership share) + Total assets of the Corporate Center (excluding investments in portfolio and associated companies) – Corporate center liabilities + Dividends to Shareholder + Other allocations to Shareholder - Contributions to share capital from Shareholder</p> <p>[[NAV Fund]]_20XX = Σ (Market value of the company * ownership share) + Σ (Company book value * ownership share) + Total assets of the Corporate Center (excluding investments in portfolio and associates) – Corporate Center liabilities + ([Dividends to Shareholder + Other distributions to Shareholder - Contributions to share capital from Shareholder) cumulatively beginning 2015]</p> <p>Market value of the company = Market capitalization [number of shares * price per share]</p> <p>Company book value = (Total Assets (market, if not then book value) - Total Liabilities (Market, if not then book value) - Non-controlling interest)</p>
5	ROI	%	Return on invested capital = (income from investments (<i>including dividends received</i>)/initial investments) – 1
6	TSR	%	Total shareholder profitability = (share price at the end - share price at the beginning + dividends received - contribution to equity capital)/share price at the beginning
7	Dividends to shareholders	%	<p>Dividend payout ratio (estimate of 2017) = Dividends paid for the reporting period/stand-alone net income for the period</p> <p>Dividend payout ratio (estimate of 2028) = Dividends paid for the reporting period/Dividends received from portfolio assets for the reporting period (stand-alone financial statements)</p>
8	Corporate governance score	Score	As per approved Fund’s methodology

Appendix 3

to SWF “Samruk-Kazyna” JSC Development Strategy for 2018-2028

**High Level Roadmap
of SWF “Samruk-Kazyna” JSC Development Strategy for 2018-2028**

