

## Annual Report **2015/2016**

Sustainable Wealth Creation for Generations

# SUSTAINABLE WEALTH CREATION FOR GENERATIONS





# KHARAZMI INVESTMENT COMPANY

## At a Glance

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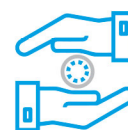
All values in IRR\* trillion

**12**



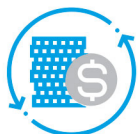
SUBSIDIARY COMPANIES

**12.5**



TOTAL CAPITAL

**22.4**



TOTAL ASSETS

**17.4**



TOTAL EQUITY

**56**



EMPLOYEES (PARENT COMPANY)

**1,703**



EMPLOYEES (GROUP-WIDE)

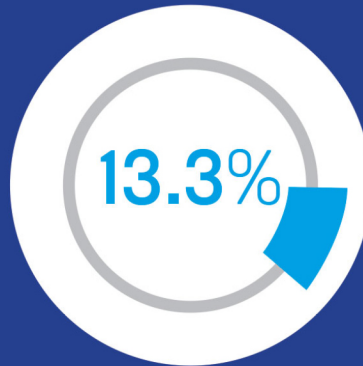
\* IRR 30,527=1 USD; Based on the official foreign exchange rate of the Central Bank of the Islamic Republic of Iran, on June 20, 2016.



# Growth Indicators (2015-16 Growth)



TOTAL ASSETS

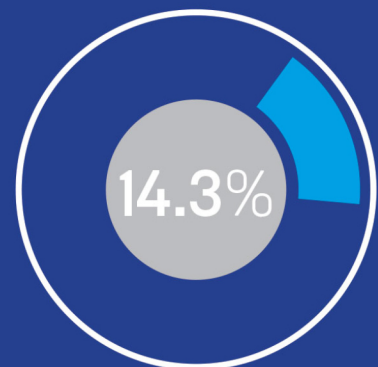


TOTAL EQUITY

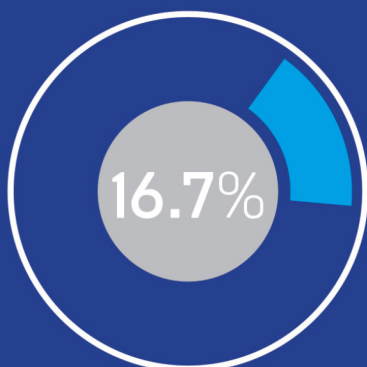


TOTAL INVESTMENTS

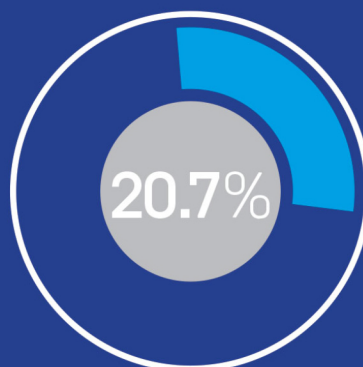
# Key Performance Indicators (Annualized three-year)



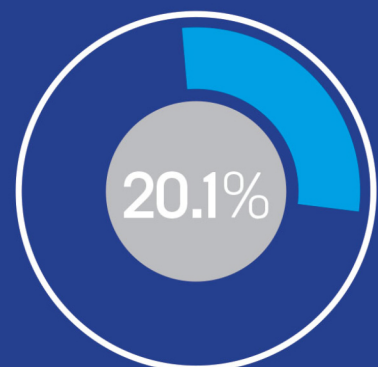
TOTAL  
SHAREHOLDER  
RETURN (TSR)



RETURN ON ASSETS  
(ROA)



RETURN ON EQUITY  
(ROE)



RETURN ON CAPITAL  
EMPLOYED (ROCE)



IN THE NAME OF GOD



Kharazmi Investment Company is one of Iran's leading investment firms, with ownership of or a controlling interest in 12 subsidiary businesses across seven diverse sectors.

Our business model is focused on effectively managing our assets to enhance efficiency, drive value, and generate shareholder wealth.

Today, Kharazmi Investment Company has about 5,000 family members and a total capital of IRR 12.5 trillion. The company has more than 50,000 direct and indirect shareholders and manages assets valued at over IRR 57.5 trillion.

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**I**ranian firms have countless opportunities in the wake of the Joint Comprehensive Plan of Action (JCPOA) agreement between Iran and the P5+1 world powers (the United Nations Security Council's five permanent members – China, France, Russia, the United Kingdom, and the United States – plus Germany) regarding nuclear issues and the gradual lifting of sanctions. Kharazmi Investment Company enjoys a diversified shareholding structure and is a fully private and public joint stock company.



**HOJATOLLAH SAYDI (PHD)**  
CEO AND VICE CHAIRMAN  
KHARAZMI INVESTMENT  
COMPANY

We are determined to cooperate with the world in taking advantage of these international and domestic opportunities, consistent with the goals set out in our seven-year strategic plan, Vision 2020.

Iran's large-scale policies focus on bringing in resources, international partners, and direct foreign investments through partnerships between domestic and foreign corporations. This presents an especially fruitful opportunity for the Kharazmi Investment Group (the Group); public joint stock companies generally offer more transparency and flexibility than privately owned operations, making them more attractive to domestic partners and foreign investors. Drawing on Iran's domestic investment opportunities and competitive advantages, along with significant executive steps in international cooperation, the Group now stands at one of the most promising points in its history.

# CEO MESSAGE

WE ARE DETERMINED  
TO COOPERATE WITH  
THE WORLD ...

Our most significant financial gains during the past fiscal year include:

- Further optimizing our diversified and efficient stock portfolio
- Promoting the structure of our subsidiaries and increasing their productivity
- Developing our production and services capacities
- Accessing new precious metals mines
- Continuing and completing development projects
- Entering new fields such as oil, gas, petrochemicals, and small-scale power plants
- Developing a comprehensive system of banking software (Core Banking)
- Commencing international commercial and financial activities, and ensuring their profitability
- Growing the market share for our subsidiaries' products
- Increasing the volume and value of the Group's assets
- Improving profitability and increasing the dividable profits for shareholders.

These results are due to the ceaseless effort of the Group managers and staff members in executing Kharazmi's seven-year plan. This is despite a relative recession in the global economy, a decline in the price of basic commodities on international markets, and existing financial hardships that limit domestic and international trade in Iran.

As we stand on the doorstep of the fourth year in this seven-year plan, key features of the Group's

operational plans in the coming months include our efforts to:

- Offer gold products on an acceptable scale
- Improve efficiency, grow our share of the electricity market and increase capacity
- Develop an export market for our pharmaceutical products and increase our share of the domestic market
- Enter the new field of information and communication technologies (ICT)
- Develop investments in oil, gas, and by-products
- Build our international financial and monetary activities
- Leverage the capacity of our retail markets and Iran's 80 million-strong active market
- Increase investment in the construction sector
- Promote our combined investment portfolio.

We will invite potential foreign partners to help Kharazmi achieve these objectives as quickly and effectively as possible, offering a win-win situation for all parties.

As always, and in accordance with Vision 2020, we will strive to:

- Continue on the road set out in our strategic plan
- Establish a strong corporate governance system and more active risk, audit, human capital and investment committees
- Take a flexible approach to progress
- Rely on skilled, capable, and intelligent people who adhere to ethical principles, and who are fully motivated to execute and uphold the Group's social corporate responsibility.

By adhering to these everlasting strategies, we can be sure that we are doing all we can to guarantee our success in the future.

**HOJATOLLAH SAYDI**  
CEO AND VICE CHAIRMAN

# OVERVIEW OF WORLD ECONOMY

The global economy is projected to expand 3.1% in 2016 and 3.4% in 2017, according to the International Monetary Fund (IMF) forecasts<sup>1</sup>. This follows the slow pace of global economic recovery in the last quarter of 2015 (see Diagram 1).



The U.S. economy also recorded slow growth in the last quarter of 2015, equivalent to 2%. But despite signs of sluggish movement, U.S. labor market indicators improved notably, including a particularly high employment growth rate (at an average of more than 280,000 new jobs per month) and a significantly improved labor market participation rate. At the same time, the U.S. unemployment rate continued its downward trend, setting a record of 5% at the end of 2015. The U.S. economy is projected to record 2.2% growth in 2016, a trend that is set to continue onwards to 2.5% by the end of 2017.

The modest European recovery is projected to continue in 2016 and 2017, with weakening external demand outweighed by the favorable effects of lower energy prices, a modest fiscal expansion, and supportive financial conditions. Potential growth is expected to remain weak; a combined result of crisis-induced conditions (high private and public debt, low investment, and the erosion of skills due to high long-term unemployment), an aging population, and slow total productivity growth.

On this basis, and taking into account the impact of the UK's vote to withdraw from the European Union (Brexit), economic growth in the Eurozone is expected to reach 1.6% and 1.4% in 2016 and 2017 respectively.<sup>1</sup>

Growth in China is projected to slow to 6.6% this year and 6.2% in 2017. This is slightly higher than the projections in the IMF's October 2015 World Economic Outlook, and reflects changes in China's subsequently announced stimulus policy. The industrial sector is expected to weaken even further as excess capacity continues to unwind, especially in real estate and related upstream industries, as well as in manufacturing. Services sector growth should be robust as the economy continues to rebalance away from investment and toward consumption. It is expected that high income growth, a robust labor market, and structural reforms designed to support consumption will keep the rebalancing process on track over the forecast horizon.

**2.2%**  
The U.S. economy growth forecast 2016

**1.6%**  
Eurozone economy growth forecast 2016

**6.6%**  
China economy growth forecast 2016

The emerging markets and developing economies that enjoyed a strong economic growth rate of 4% in 2015 will still account for a major share of global economic growth in 2016, although growth toward the end of 2016 is expected to be minimal compared to the same time in 2015. Forecasts have this figure increasing to 4.1% and 4.6% in 2016 and 2017 respectively (see Diagram 1); but remaining 2% lower than the average growth rate over the past decade. Based on existing analysis, this growth in the years to come will likely result from factors such as the weakness of oil-exporting countries, moderate slowing down economic growth in China, and a weak outlook for exporters of non-oil commodities.

From a macro-economic perspective, the Brexit vote implies a substantial increase in economic, political, and institutional uncertainty, which is projected to have broader negative consequences, especially in advanced European economies. But with the event still unfolding, it is very difficult to quantify the potential repercussions.

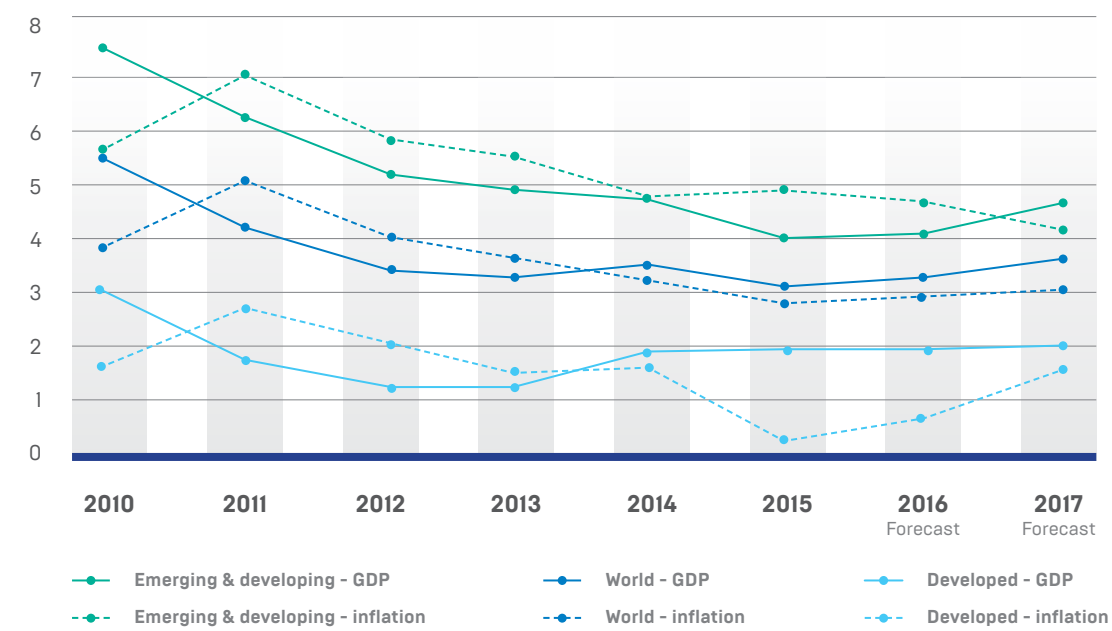
Although the negative impacts of Brexit on the international banking system are obvious, the long-term effects – such as a division of political powers in the international arena, the issue of refugees, and unrest in the Middle East – remain to be seen as the situation develops in the years to come.

According to the April 2016 IMF report, headline inflation in the advanced economies stood at an average rate of 0.3% in 2015, the lowest it has been since the 2008 global financial crisis (GFC). This can be attributed to the economic recession, in part caused by drastically lower commodity prices as a result of the falling oil price.

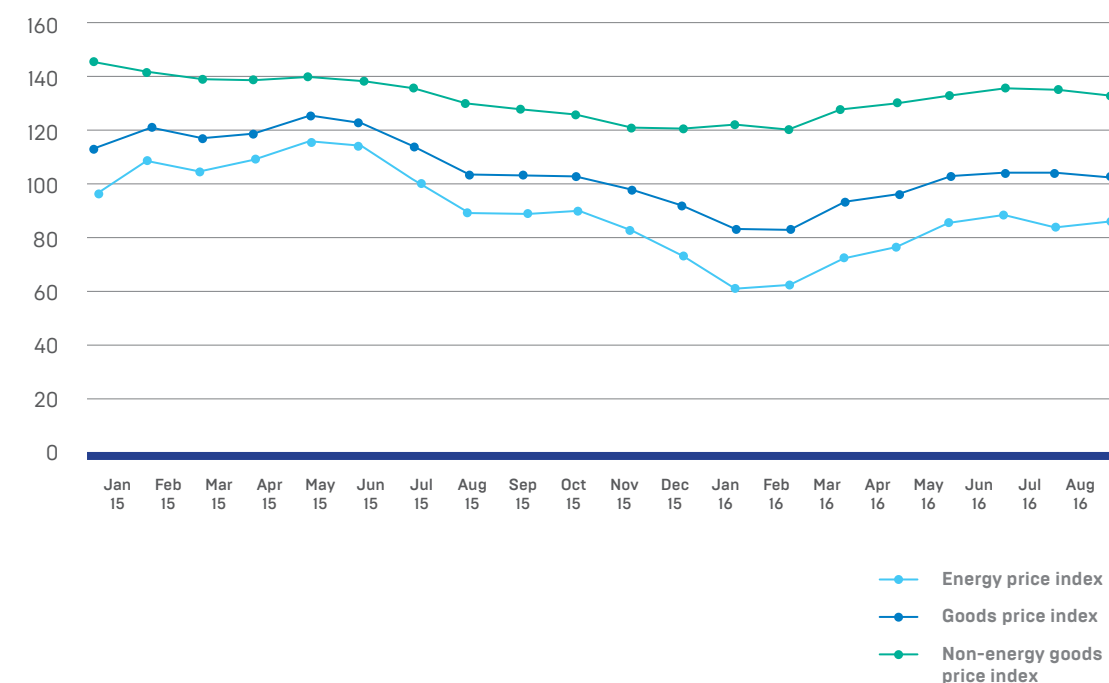
Despite the growing demand for oil in the wake of substantial price cuts, various factors – including oversupply by Russia and members of the Organization of the Petroleum Exporting Countries (OPEC); the jump in Iran’s oil output and export; and concerns over the flexibility of global oil demand – have led to the declining price of West Texas Intermediate oil from about USD 61 per barrel on June 23, 2015 to about USD 26 per barrel on February 11, 2016, a loss of more than 57%.<sup>1</sup> Meanwhile, expectations of sluggish growth rates among emerging economies – especially China, which has oversupply relationships in different economic sectors – resulted in lower prices for many commodities in the world markets. Based on IMF analysis, the commodity price index dropped by 19% between August 2015 and February 2016 (see Diagram 2).

**4.1%**  
The emerging markets and developing economies growth forecast 2016

› Diagram 1 – Trend of economic growth and inflation in the world, developed and emerging & developing economies <sup>1</sup>



› Diagram 2 – Energy, non-energy, and goods price indices, from January 2015 to August 2016 <sup>2</sup>



1. FRED Economic Data, Federal Reserve Bank of St. Louis, Economic Data and Crude Oil Prices: West Texas Intermediate, Cushing Oklahoma

1. IMF, Data Series, September 2016  
2. Ibid.



# OVERVIEW OF IRAN ECONOMY

**Calendar year 1394 (the 2015/16 financial year) was the fifth year of Iran's Fifth Economic Development Plan. Over the course of the year, Iran's inflation rate continued its downward trend that began in 1393 (2014/15), reaching a low of 11.9%.**

Despite optimistic views for an improvement in economic conditions, the unprecedented drop in global oil prices had an adverse effect on numerous economic activities. This, combined with structural problems in financial markets and financial hardships, caused a drop in total demand across all sectors and a gradual recession. As a result, Iran's economy could not continue the boost of 1393 (2014/15), and the Statistical Center of Iran reported that economic growth had dropped from 2.9% in 1393 to about 1.3% in 1394.

The growth rate across all industrial sectors was negative for the first three quarters of the year; most industries had trouble securing sales, and the increase in interest rates helped dampen demand in 1394 (2015/16). Despite positive growth in 1393 (2014/15) and in 1394 (2015/16), the deep economic recession of 1391 (2012/13) and 1392 (2013/14) has left the Iran economy with a long way to go before it can realize a GDP equal to that of 1390, before international sanctions commenced.



Government revenues in 1394 (2015/16) indicate a growth rate of about 15% compared to the previous year. However, considering the inflation rate of about 12% in 1394 (2015/16), the real growth rate in government revenue is close to 3%. In the same period, the government's tax revenue and other revenues grew by about 12% and 24% respectively, while its oil revenue only increased by 6.5% in nominal value – a 5% decrease in real value – due to the global oil price falling by 60%.

The government budget for 1394 (2015/16) considered an oil price of around USD 50 per barrel, but in fact the price per barrel of Iranian crude dropped to about USD 25 in the last months of the year. A slight increase in oil revenues (nominal) along with the 19% surge in current expenditures prompted the government to cut its development expenditures budget by 7.5%, which couldn't prevent a budget deficit of IRR 165 trillion (see Table 1).

**1.3%**  
Iran economy growth  
1394 (2015/16)

The downward trend of inflation started in the middle of 1392 (2013/14), dropping from about 35% at the end of 1392 to about 12% in the last month (Esfand) of 1394 (2015/16). Statistics show that the downward trend of inflation rate continued in the first quarter of the current year (1395, starting March 21, 2016) and dropped to 9.7% in the 12-month period leading to the Iranian calendar month of Khordad (June 20). At this point Iran's inflation rate eased into single digits for the first time in a quarter of a century.

The most important factors bringing down inflation over the past two years include controlled growth of the monetary base in 1393 (2014/15); reduced demand due to decrease in high interest rate and a downturn in oil revenue; a sustained decrease in national income over the past few years; negative growth in import; and lower consumer sentiment that emerged, postponing consumption generally (see Table 1).

Liquidity increased by more than 30% at the end of 1394 (2015/16) – compared to 22.3% at the end of 1393 (2014/15) – which saw liquidity reach IRR 10,173 trillion at the end of 1394. The monetary base growing 17.1% and the money multiplier coefficient rising by 11% combined to produce this increase in the volume of liquidity. The pressure of a fiscal deficit due to diminishing oil revenue was the most important factor affecting the growing monetary base in 1394 (2015/16).

Liquidity growth has been most visible in the form of increased fixed deposits (mainly time deposits). This type of increase in non-functional liquidity cannot help increase effective demand in the economy, and will therefore have a lesser inflationary impact than other increase in functional liquidity.

Liquidity was still on the rise during the first quarter of 1395 (March–June 2016), registering a growth of 4.2% at the end of Khordad (May/June 2016) – compared to the end of Esfand 1394 (February/March 2016) – and reached to the IRR 10,595 trillion (see Table 1).

Finally, the country's balance of payments in 1394 (2015/16) was equivalent to more than USD 2.2 billion – a decrease of 74% compared to the previous year. The main contributing factor was the drop in oil revenue combined with diminished imports. Furthermore, Iran's trade balance dropped by 43%,

reaching USD 12.2 billion in 1394 compared to about USD 21.4 billion in 1393, mainly due to falling oil export revenues (see Table 1).

One positive economic event in 1394 (2015/16) was an increase in the balance of trade related to non-oil exports. Generally speaking, the decrease in oil prices put pressure on the balance of payments, but this improvement in the non-oil balance of trade – along with access to foreign reserves in the post-JCPOA period – allowed the Central Bank of Iran to manage the foreign exchange market and maintain a partly stable position for the Iranian exchange rate.

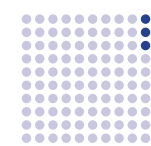
#### Iran's four-year economic indicators, 1391-1394 (2012/13 - 2015/16)<sup>1</sup>

Description/Year	1391 (2012/13)	1392 (2013/14)	1393 (2014/15)	1394 (2015/16)
Liquidity (IRR billion)	4,606,936	6,395,505	7,823,848	<b>10,172,900</b>
Liquidity growth (%)	30.0	38.8	22.3	<b>30.0</b>
Inflation (%)	30.5	34.7	15.6	<b>11.9</b>
GDP at base year price (IRR billion)	2,011,554	1,972,852	2,031,596	–
GDP growth* (%)	(6.8)	(1.9)	3.0	<b>1.3</b>
GDP at base year price without oil (IRR billion)	1,793,351	1,774,109	1,823,406	–
Growth of GDP without oil (%)*	(0.9)	(1.1)	2.8	<b>1.3</b>
Total government revenue (IRR billion)	568,200	717,400	977,600	<b>1,123,700</b>
Government tax revenue (IRR billion)	395,200	494,200	709,700	<b>791,900</b>
Government oil revenue (IRR billion)	425,500	609,400	629,200	<b>670,400</b>
Current expenditures (IRR billion)	890,000	1,197,600	1,438,300	<b>1,706,900</b>
Development costs (IRR billion)	152,300	220,200	299,500	<b>277,000</b>
Current account balance (USD million)	23,362	25,105	15,861	<b>9,016</b>
Trade balance – commodity account (USD million)	28,563	29,326	21,392	<b>12,178</b>

\* GDP growth in 1394 (2015/16) is based on the latest report released by the Statistical Center of Iran.

## 2015/16 IN BRIEF

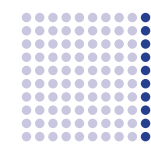
**The 1394 calendar year (March 21, 2015 to March 20, 2016) marked an important historical moment for Iran, which together with the P5+1 nations reached the Joint Comprehensive Plan of Action (JCPOA), agreeing to lift international sanctions against the country. Even Though Iran economy still faced a drop in inflation on one hand, and a continuing economic recession on the other.**



**3%**

Growth in total assets

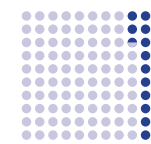
The downward trend in inflation could have boosted the manufacturing sector, thus driving up the Iran economy. However, this was not realized, due in part to the unresolved difficulty of interaction between Iranian and international banks, and subsequently constrained investment in Iran's real economy.



**10%**

Growth in ROA

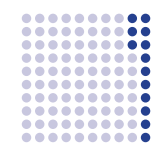
Failure to absorb foreign capital as had been expected also caused sluggish movement among Iranian producers, which held back the real economy and hindered economic growth. Despite this general economic condition and a difficult 2014/15 fiscal year, Kharazmi Investment Company fulfilled some important elements of our seven-year strategic plan (Vision 2020) while maintaining our profitability trend. These achievements include:



**12.5%**

change in (ROCE)

- A 3% growth in total assets
- A 10% growth in the return on assets (ROA)
- A 12.5% change in return on capital employed (ROCE)
- A 165% increase in net cash flow from operational activities
- More than 13% growth in equity
- Increased investments in the electricity sector with respect to growing small-scale power generation projects, and more efficient electricity production at the Montazer Ghaem power plant

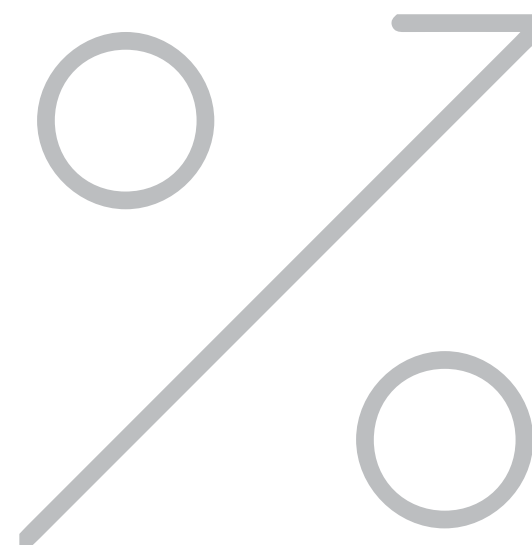


**13%**

Growth in equity

- Accelerated activities in the form of complementary surveys for investment opportunities in the oil, gas, and petrochemical sectors
- Development of a comprehensive system of banking software (Core Banking) in Kharazmi IT Development Company
- Increased market share for subsidiaries' products
- Employment of senior international consultants with expertise in international business development
- Meetings and negotiations with international financial agencies, technical experts, and investors, to enhance our capabilities in specialist areas
- Preliminary studies and follow-up measures required for us to participate in the European banking sector, in line with our policy of using the economic openings created when sanctions were removed
- Complementary studies in the mining sector, with a focus on precious metals, and the engagement of Sadr Jahan Mining Development Company as a first step towards extracting precious metals, especially gold, from high-potential mines
- Investment in the construction sector and making progress on the Homa Kids and Olympic building projects, by engaging Kharazmi Construction Development Company
- A focus on securing international commercial opportunities that arose as a result of the JCPOA agreement.

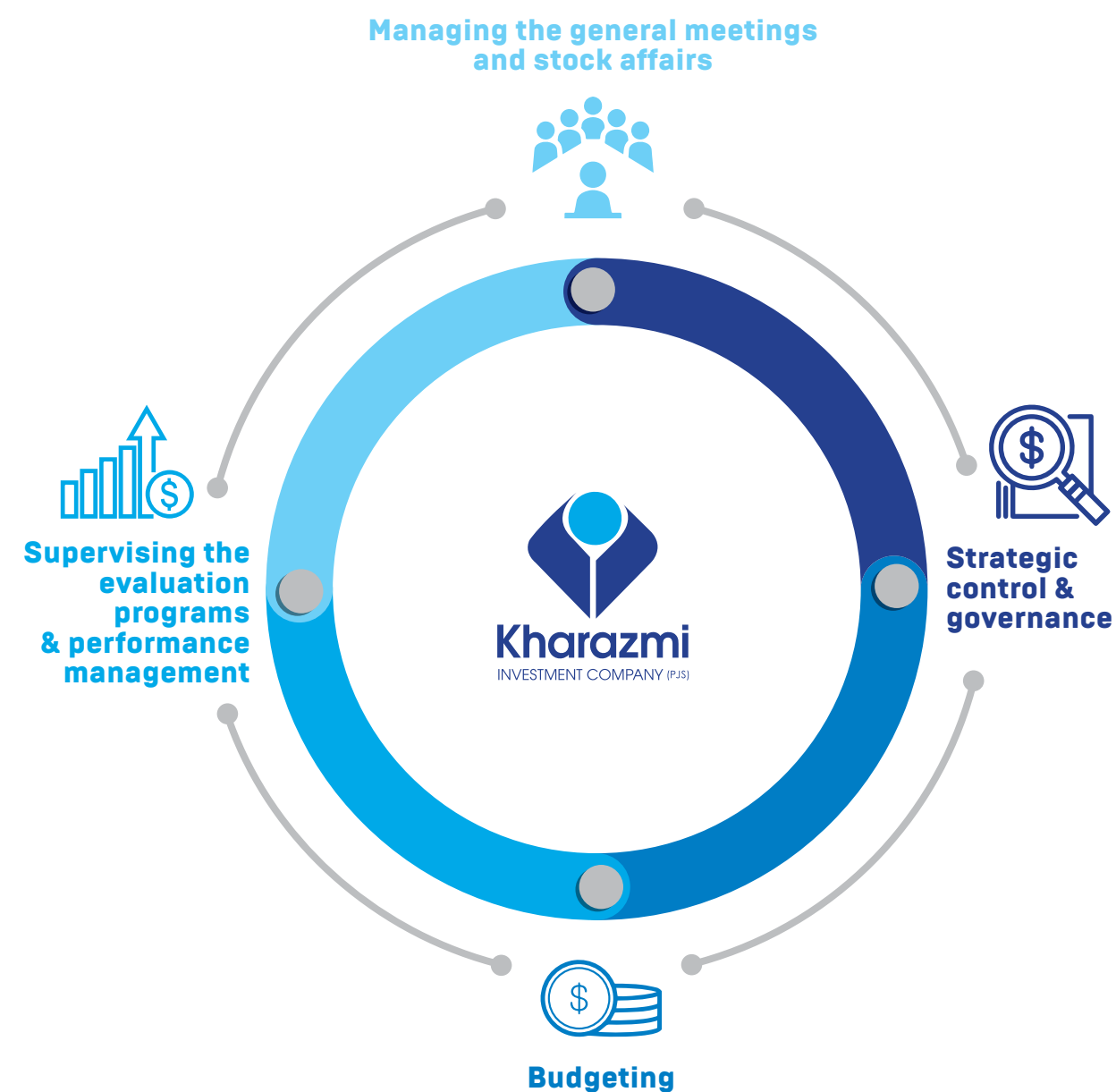
### OUR VISION 2020 FOCUSES ON BUILDING HIGHLY EFFICIENT INDUSTRIES



We continue to monitor, balance, and restructure our investments in line with the Vision 2020 focus on building highly efficient industries. The following important actions aim to increase our shareholders' wealth in the long term:

- 1. Continuing to monitor, assess, and manage the Group's investments and assets**
- 2. Optimizing the Group's investment portfolio in line with macro-economic and capital market conditions**
- 3. Developing investments and activities in targeted industries by:**
  - Increasing the potential to grow cash investments through portfolio restructuring
  - Assessing activity in businesses that have the potential to be profitable on a domestic and international scale

## Four main missions to execute governance and effective self controlling within the Group



- Increasing the capital of investee companies:
  - › In the non-listed companies portfolio, by IRR 950 billion
  - › In the listed companies portfolio, by approximately IRR 515 billion
  - › Growing our investments in oil, gas, and petrochemicals, by increasing the capital of Ziemna Oil, Gas and Petrochemical Company to IRR 900 billion.
- Receiving companies' strategic monitoring reports and assessing their validity
- Periodically monitoring the performance of companies' boards of directors
- Governing companies' activities related to improved accounting and financial systems, internal auditing, and risk management.

### 2. Budgeting

- Assessing companies' budgetary needs within the framework of the Group's objectives and strategic policies
- Regulating and issuing any necessary directives on companies' annual budgets
- Briefing and guiding companies to help them forecast and adjust their capital budgeting
- Analyzing companies' proposed budgets.

### 3. Supervising the evaluation programs and performance management

- Monitoring companies' annual operational plans to ensure they align with the goals defined in the strategic plan and budget of each company
- Continuously monitoring and supervising the Group annual budget execution by reporting and analyzing relevant information
- Monitoring and managing companies' position regarding applicable laws and regulations, and the legal environment governing the relevant business environment
- Seeking input from company managers to inform business intelligence indices
- Monitoring companies' performance in the context of developing the capital market
- Communicating with counselors and other informed individuals to update and maintain the Group's financial, banking, and tax data.

We are also committed to improving supervision, coordination, and financial and operational control of our investee companies. We develop the leadership and management teams of the companies affiliated with the Group, shaping effective communication with these corporate bodies. This promotes operational synergy and effective self-control within the Group, and helps create an interactive and effective and systematic working relationship in line with the operational goals of the Vision 2020 strategic plan. We execute these governance and coordination efforts across four main areas:

#### 1. Strategic control and governance

- Overseeing and monitoring the drafting and implementation of Group companies' strategic plans
- Explaining the Group's objectives, policies, and general strategies to its companies
- Interacting effectively with companies to receive their operational programs and reports
- Leading the company management patterns and establishing optimized management systems
- Providing the balanced scorecard (BSC) of subsidiaries and convening meetings with boards of directors to monitor their strategic objectives

#### 4. Managing the general meetings and stock affairs

- Tracking and monitoring the implementation of duties at companies' general meetings
- Governing activities related to increasing companies' capital
- Checking and controlling homogeneity in companies' activities, to ensure their tasks and missions align with the framework of the company charter
- Providing a set of standards in order to be granted companies' admission to official listing on stock exchange
- Communicating with the subsidiaries' financial sector regarding activities related to drafting companies' periodic financial statements
- Tracking and receiving independent auditor reports regarding the investee companies, then offering recommendations to senior company managers to prevent potential interpretation errors.

In pursuing our strategic plan, we are increasing oversight and the implementation of performance monitoring strategies among the Group's subsidiaries. This includes:

- › **Establishing a continuous reporting system within Group companies**
- › **Preparing companies for admission to the stock exchange**
- › **Designing and establishing assessment and development centers for Group company managers**
- › **Developing corporate governance practices**
- › **Guiding the Group subsidiaries to expand their international activities.**

In the 2015/16 fiscal year, we made great progress in delivering the Group's seven-year strategic plan for the parent company. Some of the most significant achievements are as follows:

- Increasing the parent company's capital from IRR 10,000 billion to IRR 12,500 billion as at August 23, 2015
- Obtaining acceptable mid-term audit reports
- Holding annual meetings
- Appropriate capital budgeting to participate in increasing the capital of the Group companies
- Implementing mechanisms to pay dividends to shareholders
- Promoting accountability and improving corporate transparency through increased cooperation with market regulators, and timely and appropriate dissemination of information to shareholders
- Planning to leverage capital market potentials and debt instruments
- Monitoring the drafting of bylaws, instructions and inter-organizational contracts
- Planning to include professional ethics regulations in organizational bylaws
- Planning to improve communication with Group companies – including identifying capabilities and synergies by forming workshops with representatives from each company, to develop advice and guidance at the corporate and subsidiary level
- Reviewing the parent company's business intelligence project and updating plans for its implementation
- Upgrading the Group's information and communications system.

Looking to 2016/17, the most important future plans at the corporate level include:

- Increasing transparency of corporate information we distribute on the Tehran Stock Exchange (TSE)
- Building a database for aggregating and facilitating access to this information
- Using the capital market capacity to mobilize the company's resources, including debt securities
- Immunizing internal networks against potential security intrusion
- Using data mining and algorithmic trading to increase the efficiency of transactions on the stock exchange
- Providing education and orientation programs for staff members in various organizational areas.

## KEY FIGURES

For the years ended June 20

### › Parent company

Income Statement	Unit	2013	2014	2015	2016	2015-16 Changes [%]	Annualized during 3-year 2013-16 Changes [%]
Operating income	IRR million	2,161,361	3,097,443	3,773,785	<b>3,056,331</b>	(19.0)	12.2
Net income	IRR million	1,941,878	3,383,956	2,772,291	<b>2,124,303</b>	(23.4)	3.0
<b>Balance sheet</b>							
Total assets	IRR million	9,850,357	15,783,182	21,883,222	<b>22,424,128</b>	2.5	31.5
Total liabilities	IRR million	1,091,810	2,410,331	6,499,292	<b>5,000,983</b>	(23.1)	66.1
Total equity	IRR million	8,758,547	13,372,851	15,383,930	<b>17,423,145</b>	13.3	25.8
<b>Key ratios</b>							
Total shareholder return (TSR)	%					(7.4)	14.3
Total return on the Tehran Stock Exchange index (TEDPIX)	%					13.0	14.4
Return on assets (ROA)	%					9.6	16.7
Return on equity (ROE)	%					13.0	20.7
Return on capital employed (ROCE)	%					12.5	20.1



# 14.3%

Total shareholder return (TSR), Annualized over 3 years, 2013-16

### › Kharazmi Investment Group

Income statement	Unit	2013	2014	2015	2016	2015-16 changes [%]	Annualized change over 3 years, 2013-2016 [%]
Operating income	IRR million	1,874,267	6,605,961	11,847,383	<b>15,383,908</b>	29.9	101.7
Gross profit	IRR million	683,522	4,154,031	5,515,376	<b>6,583,677</b>	19.4	112.8
Net income	IRR million	2,095,352	3,777,453	1,765,416	<b>3,169,366</b>	79.5	14.8
<b>Balance sheet</b>							
Total assets	IRR million	13,583,705	40,317,133	49,710,273	<b>57,551,277</b>	15.8	61.8
Total liabilities	IRR million	3,553,844	25,066,499	34,450,114	<b>39,226,481</b>	13.9	122.7
Total equity	IRR million	10,029,861	15,250,634	15,260,159	<b>18,324,796</b>	20.1	22.2
<b>Other information</b>							
Employees	Person	1,062	1,632	1,651	<b>1,703</b>	3.1	17.0
<b>Key ratios</b>							
Total shareholder return (TSR)	%					(7.4)	14.3
Total return on the TSE index (TEDPIX)	%					13.0	14.4
Return on assets (ROA)	%					5.9	7.9
Return on equity (ROE)	%					18.9	19.9
Return on capital employed (ROCE)	%					9.5	11.7

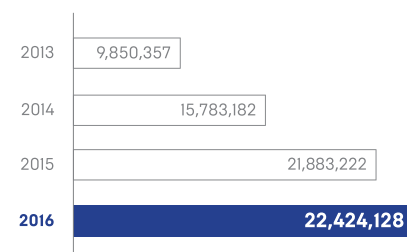
# FINANCIAL HIGHLIGHTS

For the years ended June 20

All values in IRR million

## › Parent company

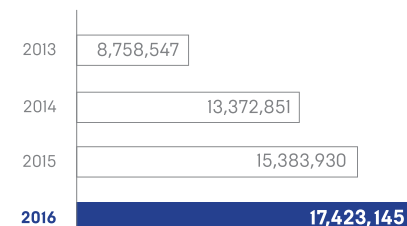
### Total assets



2015-16 change (%) 2.5

Annualized change over 3 years, 2013-16 (%) 31.5

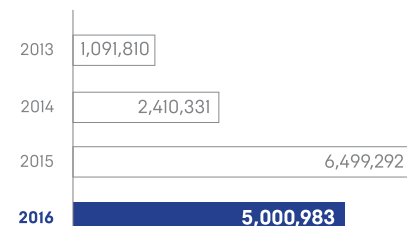
### Total equity



2015-16 change (%) 13.3

Annualized change over 3 years, 2013-16 (%) 25.8

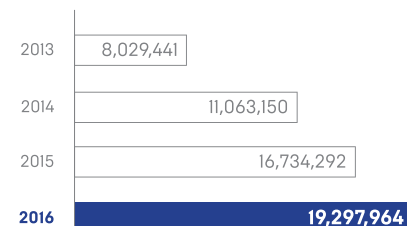
### Total liabilities



2015-16 change (%) (23.1)

Annualized change over 3 years, 2013-16 (%) 66.1

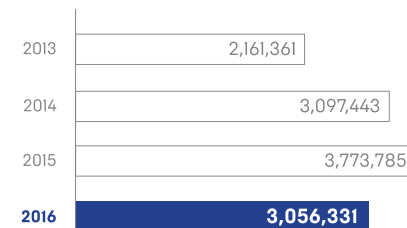
### Total investments



2015-16 change (%) 15.3

Annualized change over 3 years, 2013-16 (%) 33.9

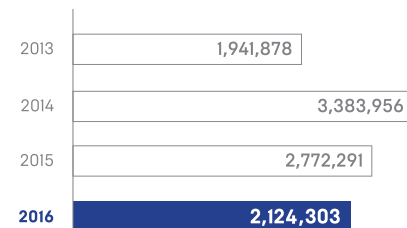
### Operating income



2015-16 change (%) (19.0)

Annualized change over 3 years, 2013-16 (%) 12.2

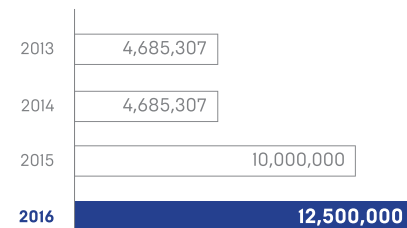
### Net income



2015-16 change (%) (23.4)

Annualized change over 3 years, 2013-16 (%) 3.0

### Registered share capital

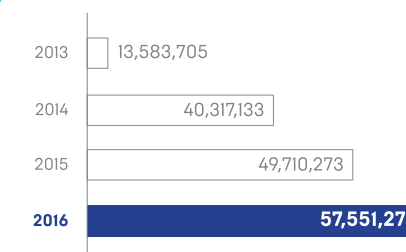


2015-16 change (%) 25.0

Annualized change over 3 years, 2013-16 (%) 38.7

## › Kharazmi Investment Group

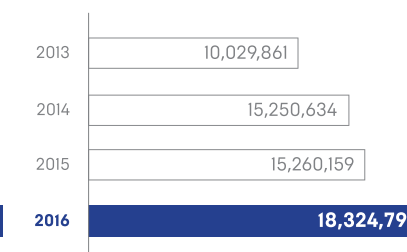
### Total assets



2015-16 change (%) 15.8

Annualized change over 3 years, 2013-16 (%) 61.8

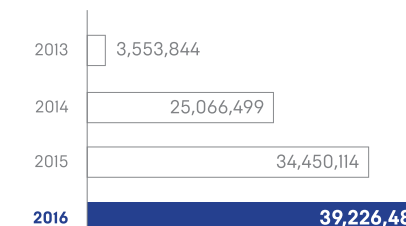
### Total equity



2015-16 change (%) 20.1

Annualized change over 3 years, 2013-16 (%) 22.2

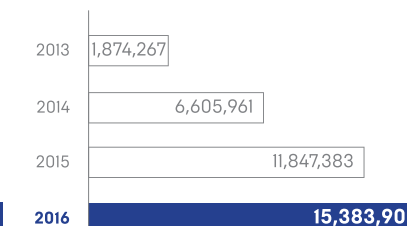
### Total liabilities



2015-16 change (%) 13.9

Annualized change over 3 years, 2013-16 (%) 122.7

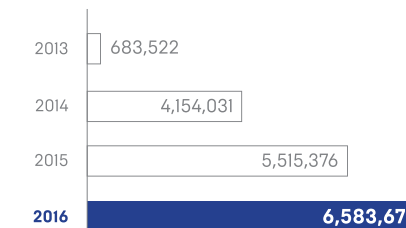
### Operating income



2015-16 change (%) 29.9

Annualized change over 3 years, 2013-16 (%) 101.7

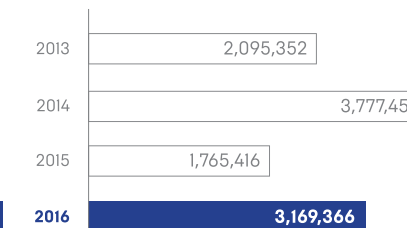
### Gross profit



2015-16 change (%) 19.4

Annualized change over 3 years, 2013-16 (%) 112.8

### Net income



2015-16 change (%) 79.5

Annualized change over 3 years, 2013-16 (%) 14.8

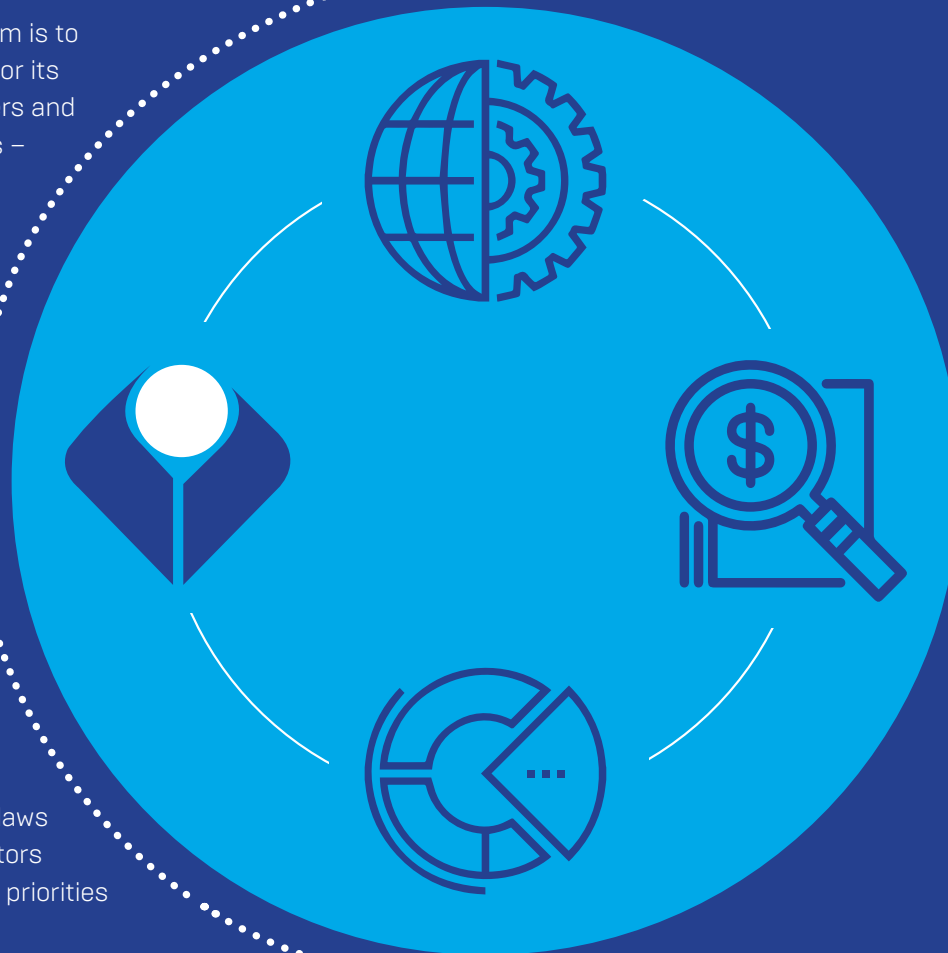


# INVESTMENT CRITERIA AND PROCESS

Kharazmi Investment Group's main aim is to produce sustainable wealth creation for its main shareholders – mostly pensioners and employees of two major Iranian banks – and for the generations. To this end, we have concentrated our strategic planning by investing in areas that offer a comparative advantage and high potential for value creation. Our capable workforce, efficient and experienced managers, and specialized advisers have made it possible for us to put forward the Group as a suitable candidate for cooperation with foreign and domestic investors. We are proud of our transparency, completely private and independent shareholder structure, awareness of Iranian laws and regulations, and comprehensive understanding of foreign investment laws and regulations. Combined, these factors allow us to offer favorable negotiating priorities for foreign investors.

We also pay special attention to risk management, internal control systems, and compliance with corporate principles of governance. This helps maintain that high level of transparency and accountability to our stakeholders in Iran and abroad.

The Group uses small individual and private investment to advance its operational goals and pursue its mission of sustainable wealth creation. As an economic institution we feel responsible toward society as one of our main stakeholders, and we are taking steps to improve our performance in this area. By 2020, in addition to realizing our strategic goals, we aim to play a better and larger role in the field of social responsibility.



## INVESTMENT APPRAISAL, SELECTION, AND MANAGEMENT



### GLOBAL AND LOCAL BUSINESS LIFECYCLE EVALUATION

- › Analyzing potential investments according to their stage in the business lifecycle and risk-adjusted earnings potential, and ensuring these align with the Group's strategic objectives
- › Creating a provisional shortlist of investment opportunities.



### STOCK AND PROJECT SELECTION

- › Analyzing the fundamentals of each potential opportunity
- › Conducting company due diligence, and stock and project valuations
- › Creating a list of qualifying investment opportunities.



### PORTFOLIO DESIGN AND MANAGEMENT

- › Optimizing the risk–return balance
- › Rebalancing portfolios as required
- › Managing risk
- › Delivering feedback and internal reporting
- › Evaluating investment performance.



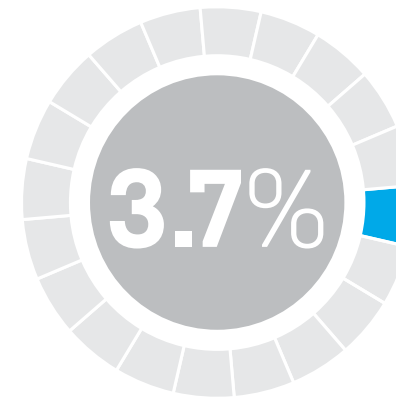
**SUSTAINABLE WEALTH CREATION FOR GENERATIONS**





# MARKET REVIEW

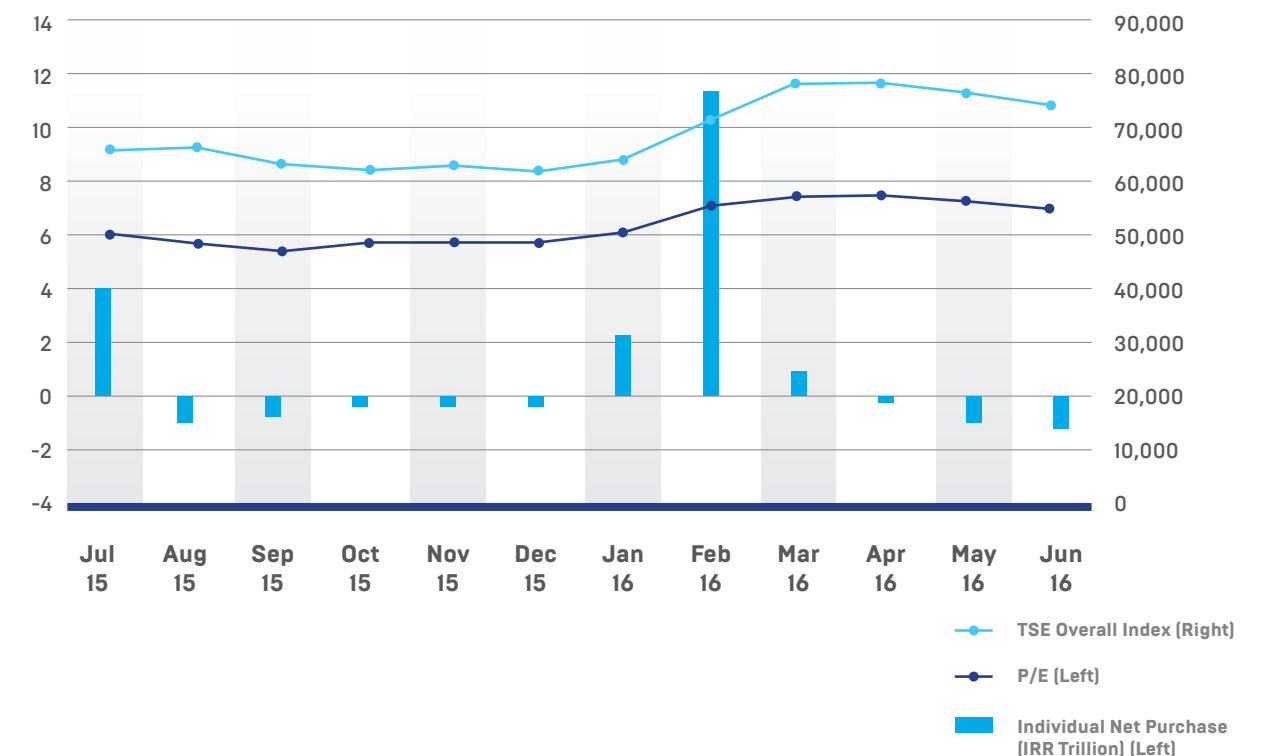
The 2015/16 fiscal year (June 21, 2015 to June 20, 2016) began well for the Iran's capital market, initially influenced by optimism about the outcome of the nuclear talks. The Tehran stock market's overall index, which experienced growth of 8% from the beginning of the financial year (June 21, 2015), jumped to 69,433.5 points on the day the nuclear deal was created (July 14, 2015). From that point onwards, reduced market excitement and an unprecedented fall in oil prices saw the capital market trading value decline little by little; the TSE overall index had dropped to 61,414 points in mid-December 2015 after recording a low trading value and index fluctuations for the five months prior [see Diagram 3].



**THE AVERAGE DAILY TRADING VALUE GROWTH FOR IRAN'S CAPITAL MARKET**

As a result of increasing confidence in the capital market and the arrival of liquidity through individual investors (especially from purchasing shares in the automotive sector), the average daily trading value for Iran's capital market saw a 3.7-fold growth compared to the average daily trading value in January, reaching about IRR 5,400 billion on average throughout the winter. Hopes for a recovery in oil prices and a cut in bank deposit interest rates led the overall stock exchange index to a high of 81,537 points on April 2, 2016. However, the index's overall resistance to the above-mentioned change – together with the increase in the capital market's price-to-earnings ratio [P/E ratio] to 7.54 by April 19, 2016 – gradually led to the withdrawal of liquidity from the stock market. As the automotive sector (as the forerunner of the recent market growth) left the capital investment spotlight, we saw the overall stock market index decline to 72,615 points on June 20, 2016 (see Diagram 3).

› **Diagram 3 – Overall index and capital market P/E ratio trend**





IRR **3,080** trillion  
THE TOTAL MARKET VALUE OF THE TSE

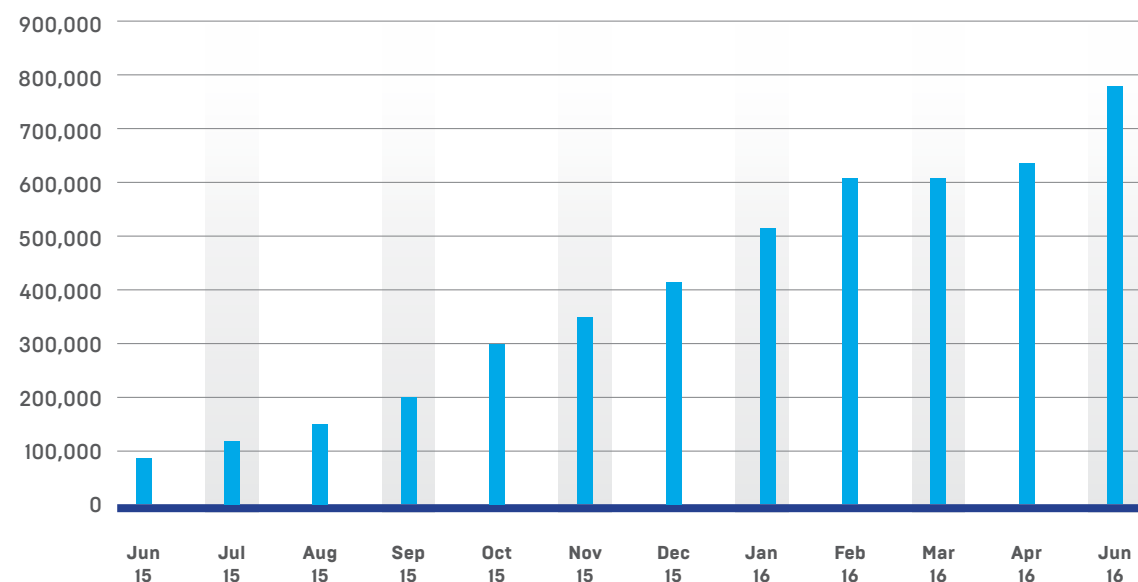


The total market value of the TSE amounted to IRR 3,080 trillion on June 20, 2016, which compared to the same period in the previous year (IRR 2,810 trillion equivalent) represented a growth of about IRR 270 trillion. In total, the market experienced negative fluctuations and low-volume transactions in the first half of the 2015/16 fiscal year, but positive and high-volume fluctuations in the second half of the same year.

Shares that are related to commodity prices (particularly petrochemicals, oil, base metals, and iron ore) account for more than 50% of the TSE market value. As such, the 2015/16 decline in commodity prices led to a sharp decline in the profitability of companies in this sector; some oil refinery shares recorded up to a 90% decline in net profits.

This reduced profitability in the commodity sector eventually led to cuts in market profitability. With respect to the growth of the overall index, this drove up the P/E ratio from 5.44 on June 20, 2015 to 6.94 at a similar point in 2016. In the absence of favorable fundamental factors – such as commodity price increases, an improved exchange rate, and greater commodity production – the index growth rate in this period was mainly due to price increases in the services sector and other industries that would benefit directly or indirectly from the JCPOA, including automotive, banking, and telecommunications.

› **Diagram 4 – Fixed-income investment funds' net asset value (IRR billion)**



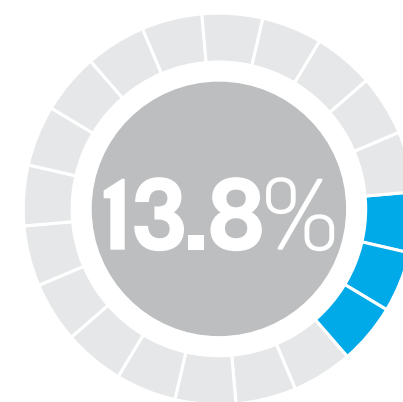
Capital increase due to revaluation of surplus assets was a topic of interest throughout 2015/16. In the previous year, legislators introduced a pre-tax exemption for this type of capital increase, allowing many companies to revalue surplus assets and by doing so increase their capital by several hundred percent. Some companies, including Saipa, saw a surge in share prices after such revaluations, which set the tone for broader market growth during the winter. However, a revival of these revaluations and subsequent tax exemptions in the new calendar year, turned investor sentiment against companies that chose to revalue their assets, eventually leading to a drop in market indices.

The debt-based financing instruments market grew significantly in 2015/16 in response to strategic planning implemented by the government and parliament (Majlis). In recent years, faced with declining oil revenue, the

government has increased tax revenues and issued debt securities to cover expenses and secure project financing. For the same reason, the government released Islamic treasury bills totaling over IRR 5 trillion in five stages, aiming to repay government debts and finance the government budget. These efforts were generally well received across the country's capital market.

Non-government corporations also issued debt securities during the fiscal year including various Sukuk securities, on such a large scale that the overall market volume of debt securities at the end of the reported period reached IRR 190 trillion – a significant increase on previous years. Within the debt securities market, fixed-income investment funds also recorded increasing growth in 2015/16. The net asset value (NAV) of these funds increased from less than IRR 100 trillion in June 2015 to more than IRR 750 trillion in June 2016, most of which was invested in bank deposits (see Diagram 4).

In total, the TSE index recorded a growth rate of 13.8% for the 2015/16 fiscal year, reaching 72,615 points. This was largely influenced by individuals investing in automotive industry shares. But given the not-so-favorable macro-economic and business environment throughout the year, we generally witnessed a decline in the profitability of various industries. This, coupled with the declining profitability of many companies, caused the target market P/E ratio to increase almost eight-fold. This could be a sign of increasing investor optimism regarding an increase in profitability, or of hopes for reduced investment risk in a post-JCPOA economic landscape, and the expectation that bank interest rates will drop as a result. The materialization of these key factors will play an important role in shaping market trends in the near future.



**RECORD OF THE TSE INDEX GROWTH FOR THE 2015/16 FISCAL YEAR**

## BUSINESS ENVIRONMENT

On July 14, 2015, nuclear-related negotiations between Iran and the P5+1 countries culminated in the creation of an international agreement called the Joint Comprehensive Plan of Action (JCPOA), followed by early practical steps to remove international sanctions against Iran on January 15, 2016. This development was undoubtedly the most important economic and political event in the Iranian calendar year 1394 (March 21, 2015 to March 20, 2016), creating a wave of optimism among Iranian entrepreneurs after operational and international opportunities began to open up.

JCPOA will eventually have a significant effect on economic activities in Iran. However, the delayed execution time and suspensions on economic activities throughout most of 2015 due to uncertainty about the JCPOA conditions mean that we are yet to see any lasting positive effects. In fact, the economic growth of 2.9% in 1393 (2014/15) declined to around 1.3% in 1394 (2015/16). After recording a high inflation rate of 35% in the last months of 1392 (2013/14), Iran's inflation rate reduced to 12% in February/March 2015, and continued down to single digits (9.7%) during the first three months of 1395 (March 21 to June 20, 2016).

The Iranian economy is directly influenced by oil price fluctuations, and the government – in line with its policy of recovering its pre-sanctions share of oil output – has already taken steps to increase oil production and exports. That policy agenda also includes infrastructure development – a key factor in the economic growth of any country – and related efforts to attract foreign investment. The result is that in addition to

joint venture agreements between Iranian and European automakers, and new interactions in the steel manufacturing value chain, there are strong grounds to support the presence of investors and technology providers in Iran. Iran's banks are also determined to observe the new standards of the Basel Committee (Basel III), in compliance with International Financial Reporting Standards (IFRS).

In this post-JCPOA economic environment, and within the framework of our seven-year Vision 2020 strategic plan, Kharazmi Investment Group plans to develop our investments in seven key fields: electricity, oil, gas, and petrochemicals; mines and mining industries; banking; information and communications technology (ICT); construction; international trade; and other high-yielding business opportunities in the domestic and international capital markets. To achieve the most from these new opportunities,

### WE WARMLY WELCOME NEGOTIATIONS WITH INTERNATIONAL INVESTORS AND OTHER MARKET PARTICIPANTS.

## INTERNATIONAL STRATEGY

The nuclear deal and immediate lifting of international sanctions against Iran in January 2016 led to the creation of a market that will be worth USD 1 trillion over the next five years. This enormous potential investment opportunity certainly encouraged large number of investors to seriously consider and undertake the "Iranian Risk" at a time where cost of funds and interest rates are at their lowest in the recent history.

For potential investors, if "Iranian Risk" could be identified according to international standards, evaluated by utilizing globally accepted methodologies and covered or minimized for the large part, then there are more than 1000 projects to choose from.

Close study of current "Pending" Iranian industrial projects suggests that it will probably take hundreds of billions of dollars to be completed. Similarly, aiming to expedite the development of Iranian "Energy Sector" and simultaneously reviving and further developing oil, gas & petrochemical complexes and increasing product's refining capabilities, an additional USD 600 to USD 700 billion is projected. Likewise, there are more than few thousands of incomplete public projects requiring at least USD 200 billion of foreign investments. If it takes 25 years for the pending projects to be completed, we've estimated that the annual foreign investment can reach up to USD 30 billion.

Annual influx of USD 30 billion is significant and for Kharazmi's motto, driven from the notion of Creating Sustainable Revenue Stream across diverse sectors, it shall determine the parameter

and define our international strategy. In fact as we take on the third year in our seven-year plan, our list of priorities includes a number of critically important objectives, namely:

- Expansion and further development of Montazer Ghaem Power Plant Project
- Development of Sadr Jahan Mining Development Company
- Promotion and expansion of Zieme Company's activities in the oil, gas and petrochemical sectors
- Broadening international trade activities for Kharazmi Trade Development Company
- Development and expansion of Mafakher which is Kharazmi IT Development Company
- Widening and strengthening Ati-Negar Sepehr Iranian Investment Company position in the financial service industries
- Expanding Kharazmi Construction Development Company's international profile as a regional construction consortium
- Increasing productivity across the Group's companies and growing profitability and earnings per share
- Raising the Group's profile in the global capital market
- Widening Sina Daru Laboratories Company's operation from regional to global market.



A realistic and achievable Strategy is the key to successful realization and completion of every project. Currently, large Multinational Corporations are exploring opportunities to either form a joint venture partnership with Kharazmi or to participate as a EPCF contractors who is to provide financing. In either case, providing proper guarantee to cover "Non-Payment" risks remains a major challenge for Kharazmi and its subsidiaries.

Our international strategy is formed based on the idea that Kharazmi group is indeed the most eligible and qualified local partner to be found among Iranian Companies. To achieve such status ("the Most Qualified Local Partner"), we

are committed and adhered to the principle of compliance, applicable laws and regulations.

Asserting to be the most eligible and qualified local partner, Kharazmi's international strategy and policies are founded on complete transparency, disclosure, adherence to international norms and procedure of latest compliance regulations. Additionally, due to lack of credible business intelligence service companies, we have taking upon ourselves to assist potential investors with required due diligence process. In brief, we are committed to all applicable global rules and regulation to provide a sound and predictable investment environment.

Implementing our international strategy to create and/or enhance investment capacity, we constantly search for innovative and practical solution. Ziema Co., our oil, gas and petrochemical company is among seven other Iranian companies that have recently been recognized by NIOC as an approved vendor to participate in the development of Iran's vast oil, gas and petrochemical resources. The Ministry of Petroleum can now award various types of contracts to a consortium or joint venture consisting of a local Iranian company and its foreign partner. Same procedure exists in the production of electricity and/or development of Iran's vast and enormous mining sector.

In general, the development of Iran's vast natural resources requires a qualified local Iranian company partnering with a technically qualified and financially capable foreign entity (investor). In all cases, Kharazmi's general policy and strategic goal is to convince its foreign investors that the associated risks are identified, evaluated and covered in full compliance with the international standards.

**PROVEN TO BE SUCCESSFUL, OUR INTERNATIONAL STRATEGY COUPLED WITH OUR COMMAND AND FULL UNDERSTANDING OF INTERNATIONALLY ACCEPTED PROCEDURES, GUIDELINES AND APPLICABLE REGULATION SHALL ENSURE POTENTIAL INVESTORS TO CONSIDER KHARAZMI INVESTMENT COMPANY AS THE MOST QUALIFIED PARTNER.**



## COMPETITIVE POSITIONING

**Kharazmi Investment Group has unique capabilities in professional asset management, specifically in the areas of financial intermediation and investment management. This allows us to offer opportunities for those interested in high-potential investment industries such as energy (including electricity, oil, gas, and petrochemicals); international trade; banking and financial intermediaries; construction and real estate; mining and mineral industries; ICT; and pharmaceuticals.**

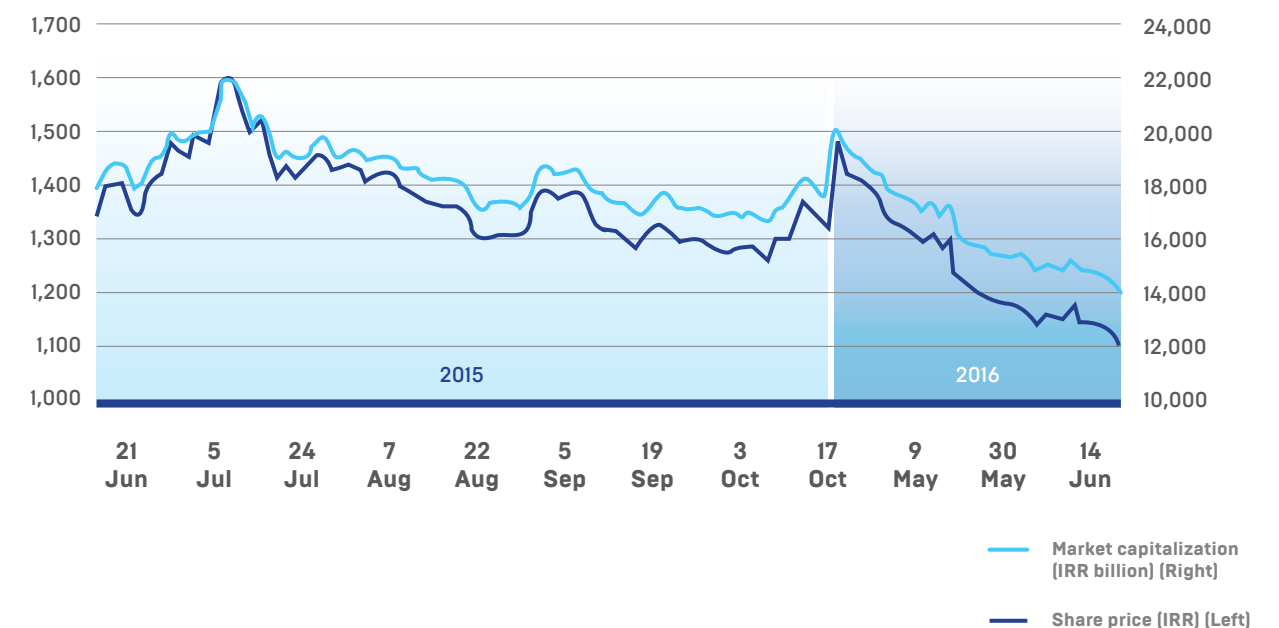
The Group's particular areas of strength include our:

1. Experienced, professional, and efficient management team, staffed by people who have a solid background in various services and business areas
2. Skilled and motivated human capital
3. Actively involved and wholly private shareholders
4. Diversified portfolio, where each element has different and attractive advantages in relevant industries and economic spheres
5. Medium scale, which enables agility and dynamism
6. Continuous presence on the list of the most successful, profitable, and liquid companies in Iran's stock exchange and capital market
7. Seven-year strategic plan, representing our long-term dedication to developing and ensuring the Group's profitability and to increasing shareholders' wealth
8. Proper legal support within Iran's business environment.

## SHARE PERFORMANCE

[Represented by ticker symbol IKHRI on the Tehran Stock Exchange]

› **Diagram 5: Kharazmi Investment Company market value and share price in the fiscal year ended June 20, 2016**

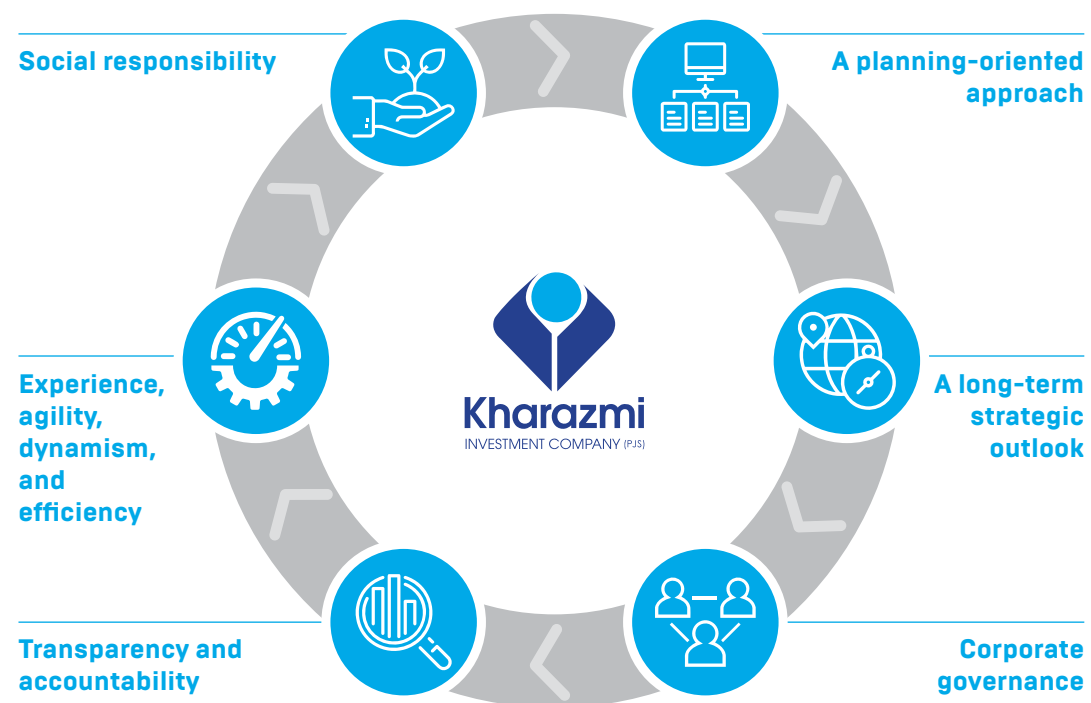


Kharazmi Investment Company's stock enjoys a high rate of liquidity thanks to our 48% free-floating shares. The latest ranking from the Securities and Exchange Organization of Iran (SEO) places it in 30<sup>th</sup> place among about 400 companies that have active shares listed on the TSE and Iran Farabouse.

Furthermore, in a quarterly report released by the TSE on June 20, 2016, the company's stock placed among the top 50 most active listed companies. The top companies are determined on the basis of transactional indices such as share liquidity power and the extent to which they influenced the stock market at the end of the fiscal year.

# OUR PROPOSITION

Kharazmi Investment Group engages in diversified investments with the aim of creating value and generating sustainable profitability for its stakeholders. Our investment activities include purchasing and owning company shares; conducting mergers; restructuring the organizational and professional management of various companies and industries; co-investing with other holdings; and offering various specialized services such as professional asset and cash flow management, and active investment management.



To this end, our investment portfolios are diversified in the following high-potential domestic and international industries:

- Energy (including electricity, oil, gas, and petrochemicals)
- Banking
- ICT
- Mining and related industries
- Construction and real estate
- International trade
- Other high-yield capital market opportunities.

Our seven-year Vision 2020 strategic plan sets out the most important principles and values that guide us in accomplishing our core operational objectives. These values include:

- **A planning-oriented approach**  
Over the past three years, Kharazmi Investment Group has formulated sound plans to achieve our seven-year strategic goals. In the meantime, we have balanced our asset management policies in line with our strategic goals; outlined our activity framework in economic studies, project evaluations, and defined investment opportunities; and actively managed our investment portfolio in line with the Vision 2020 targets.
- **A long-term strategic outlook**  
One of the Group's operational goals is to invest in industries that have a direct, long-term impact on the country's economic growth, while at the same time delivering sustainable shareholder wealth.

We believe that rapid growth through investment in high-potential industries combined with sustainable profitability gains will help us ensure wealth creation for generations.

- **Corporate governance**  
We adhere to the principles of good corporate governance developed by the Organisation for Economic Co-operation and Development (OECD) to help companies create corporate governance systems that comply with their legal and organizational environments.
- **Transparency and accountability**  
Transparency goes beyond observable compliance with the rules and regulations of domestic and international business environments. It permeates our entire decision-making process and holds us accountable to all stakeholders.
- **Experience, agility, dynamism, and efficiency**  
In today's rapidly changing commercial environment, the ability to evolve quickly is essential. Although Kharazmi Investment Group has been operating and growing for more than 20 years, we have lost none of the energy, agility, and ambition of our youth. Today, we temper this dynamism with the wisdom and prudence that comes with experience.
- **Social responsibility**  
Corporate social responsibility (CSR) is a relatively new concept for Iranian firms. Our ethical approach to business makes us well placed to take the lead in setting new CSR standards within our sector.

Kharazmi Investment Company was established in 1997 as a private joint stock. In 2005 we became a public joint stock company, which allowed us to expand our business operations and broaden our scope to encompass a range of new investment sectors.

In 2010, Kharazmi Investment Company registered with the Securities and Exchange Organization of Iran (SEO), and gained a listing on the over-the-counter exchange, Iran Fara Bourse, in 2011. We were listed on the main Tehran Stock Exchange (TSE) in 2012 under the ticker symbol IKHRI, and now offer the highest levels of information transparency in Iran's capital market.

Today, Kharazmi Investment Group (parent company and subsidiaries) has about 5,000 family members and a total capital of IRR 12.5 trillion. We have more than 50,000 direct and

indirect shareholders and manage assets valued at over IRR 57.5 trillion.

We are one of Iran's leading investment firms, boasting ownership of, or a controlling interest in, 12 subsidiary businesses across seven diverse sectors. Founded upon an ethos of "sustainable wealth creation for generations", our objective is to maximize the value of our investments and generate greater wealth for our investors.

Among our most important achievements in 2015/16, Iran's Industrial Management Institute (IMI) improved the company's ranking by 18 places (from 125 to 107) on the list of the country's 500 top companies. We are also among the top 30 TSE-listed companies in terms of free-floating shares, and among the 50 most active TSE listed stock companies.

# COMPANY PROFILE



## OUR VALUES

**We** are committed to building close, long-term relationships with our investors. To this end, we are committed to consistently delivering on our promises and providing a steady flow of opportunities to create value.

**We** recognize that our company is only as good as our people, so we nurture, motivate, and empower all our staff members to be the very best they can be.

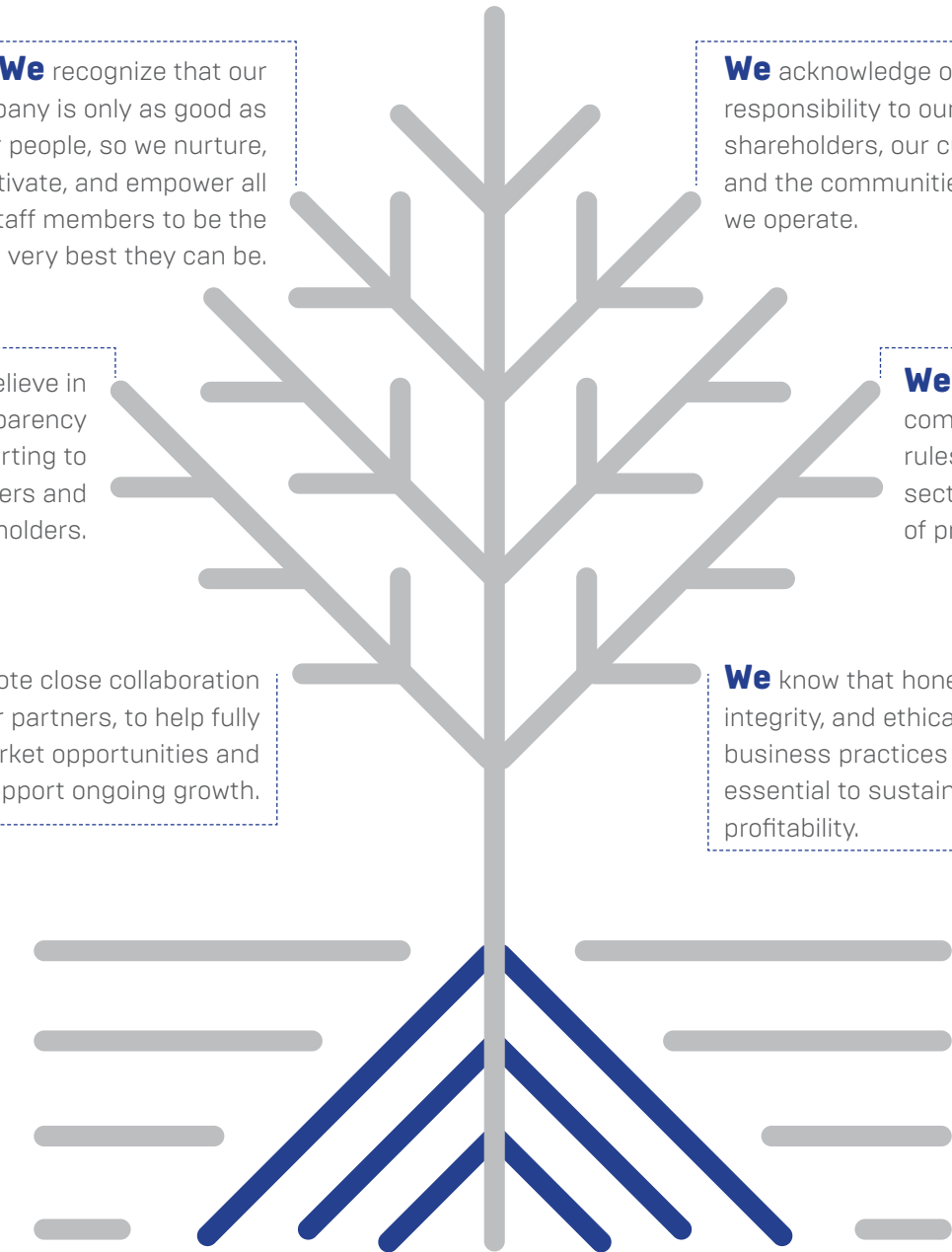
**We** acknowledge our responsibility to our shareholders, our customers, and the communities in which we operate.

**We** believe in complete transparency in reporting to shareholders and strategic stakeholders.

**We** insist on full compliance with all rules, regulations, and sector-specific codes of practice.

**We** promote close collaboration between our partners, to help fully exploit market opportunities and support ongoing growth.

**We** know that honesty, integrity, and ethical business practices are essential to sustainable profitability.



# BUSINESS MODEL

<b>Investment sectors</b>  <span style="font-size: 2em; font-weight: bold;">1 →</span>	<ul style="list-style-type: none"> <li>› Banking and finance</li> <li>› ICT and telecommunications</li> <li>› Power and renewable energies</li> <li>› Oil, gas, and petrochemicals</li> <li>› Pharmaceuticals and healthcare</li> <li>› International trade</li> <li>› Mining and related industries</li> <li>› Construction and real estate</li> <li>› Other high-potential businesses consistent with the Group's overall portfolio structure and risk profile</li> </ul>
<b>Investor relations</b>  <span style="font-size: 2em; font-weight: bold;">2 →</span>	<ul style="list-style-type: none"> <li>› Annual reports</li> <li>› Audited financial statements</li> <li>› Monthly portfolio statements</li> <li>› Interim financial statements</li> <li>› A monthly newsletter (in Persian)</li> </ul>
<b>Channels</b>  <span style="font-size: 2em; font-weight: bold;">3 →</span>	<ul style="list-style-type: none"> <li>› Kharazmi Group websites</li> <li>› Annual general meetings</li> <li>› CODAL (a financial reporting website for listed companies, managed by the SEO) and TSETMC (a share-trading website for listed companies, managed by the TSE)</li> </ul>
<b>Value proposition</b>  <span style="font-size: 2em; font-weight: bold;">4 →</span>	<ul style="list-style-type: none"> <li>› A suite of specialist asset management services</li> <li>› The assurance that we will invest in and channel resources into sustainable, high-yield sectors</li> </ul>

<b>Core activities</b>  <span style="font-size: 2em; font-weight: bold;">5 →</span>	<ul style="list-style-type: none"> <li>› Investment management</li> <li>› Active portfolio management</li> <li>› Research into and analysis of potential investee businesses and market opportunities</li> <li>› Evaluation of investment plans and proposals</li> <li>› Assessment of portfolio position and overall market performance</li> </ul>
<b>Key resources</b>  <span style="font-size: 2em; font-weight: bold;">6 →</span>	<ul style="list-style-type: none"> <li>› Funding from shareholder equity and liabilities</li> <li>› Intellectual capital (including our specialized, talented young personnel)</li> <li>› Reliable data from trusted sources, including Business Monitor International Research, the World Bank, the United Nations Conference on Trade and Development (UNCTAD), and the International Monetary Fund (IMF)</li> </ul>
<b>Key stakeholders</b>  <span style="font-size: 2em; font-weight: bold;">7 →</span>	<ul style="list-style-type: none"> <li>› Company employees</li> <li>› Company shareholders</li> <li>› Lenders and other finance providers</li> <li>› Financiers and sponsors</li> <li>› Private- and public-sector partners across all core sectors</li> <li>› Market analysts</li> <li>› Members of society</li> <li>› The Iranian government and government bodies</li> </ul>
<b>Revenue streams</b>  <span style="font-size: 2em; font-weight: bold;">8 →</span>	<ul style="list-style-type: none"> <li>› Earnings (profit) from dividends</li> <li>› Capital gains realized through effective asset management</li> </ul>
<b>Cost structure</b>  <span style="font-size: 2em; font-weight: bold;">9 →</span>	<ul style="list-style-type: none"> <li>› Funding costs</li> <li>› Human resources, including employees and external advisers</li> <li>› Share-trading transaction fees</li> <li>› Information gathering</li> <li>› Research and development into existing and potential Group companies</li> </ul>



# OUR STRATEGY

## › Vision statement

In 2013, Kharazmi Investment Company published a seven-year plan defining our investment strategy and setting out clear objectives for asset growth, stronger financial performance, and increased market share and shareholder value. This strategic vision includes some very challenging goals, committing us to achieve these targets by 2020.

## › Our 2020 Vision is:

- To be ranked in the top 50 Iranian companies by Iran's Industrial Management Institute
- To be one of Iran's top five investment holding companies, based on asset value.

Kharazmi Group's performance to date puts us firmly on track to deliver on these objectives, and we now seek to further strengthen our position by building relationships with new international partners who can profit from our expertise across the diverse sectors of Iran's increasingly dynamic economy. Our overarching strategy is to continue delivering strong, balanced growth, and to maintain a diverse portfolio of interests aligned with our core expertise. Guided by a strong leadership team that brings together the energy and dynamism of youth plus the wisdom and insight of experience, our growth strategy will be underpinned by robust corporate governance and prudent risk management.

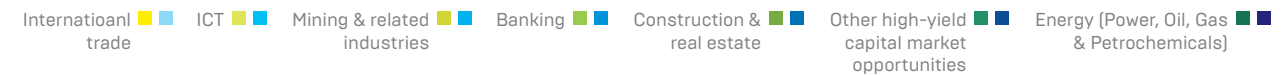
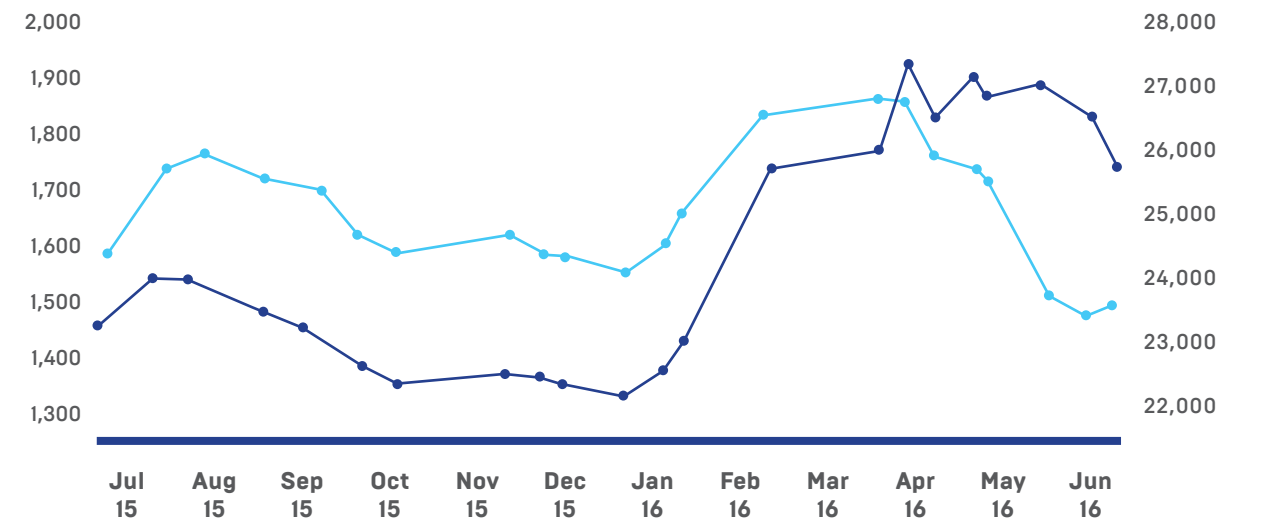
## › Mission statement

- We will work to grow shareholder wealth by identifying high-growth opportunities, and using our unique capabilities and human resources to turn this potential into sustainable, long-term value.
- We will strive to attract inward investment and facilitate the distribution of assets to companies that have the capacity to deliver yields exceeding market norms, thereby enhancing the efficiency of Iran's capital markets and making a significant contribution to Iran's economic development.

## › Key pillars

Our mission statement is supported by four key pillars:

- Setting challenging financial objectives for subsidiary companies, and providing the support needed to ensure they are achieved
- Defining key metrics on which to base continual performance monitoring and facilitate ongoing profit optimization
- Continually improving the operational performance of our subsidiaries by demonstrating enhanced leadership capabilities, efficient organizational design, and effective business process management
- Implementing positive change to maximize long-term, sustainable returns for our shareholders and strategic partners.

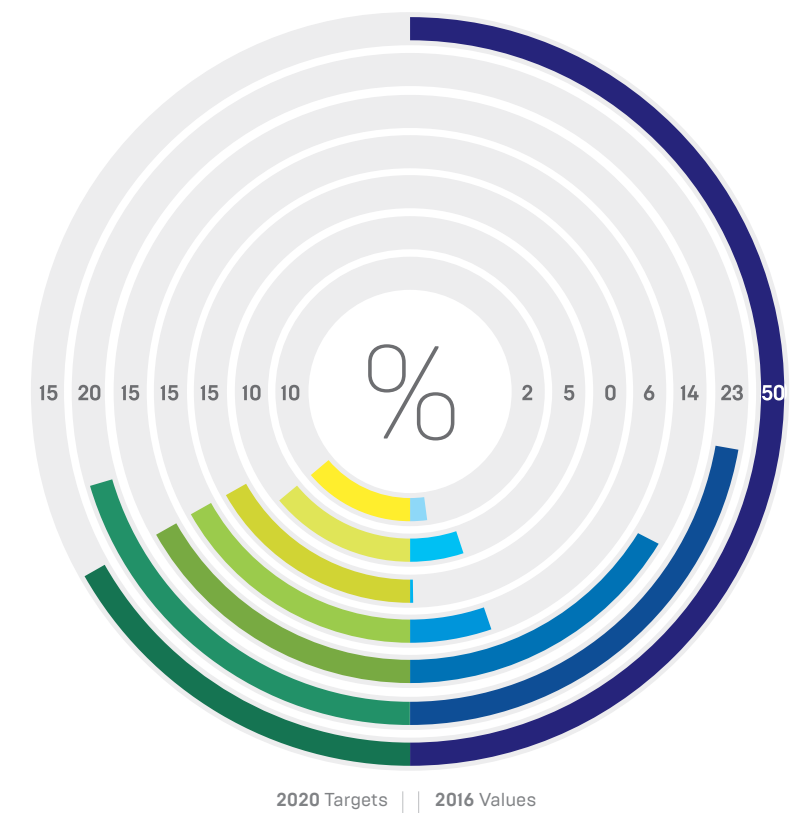


## › Operating objectives

Kharazmi Investment Group boasts an impressive track record of identifying profitable new opportunities, and boosting the operational capability and efficiency of our subsidiary companies. It is these assets and achievements that give us the confidence to set such ambitious targets.

## › Commercial focus

The scope of our activities is determined by our core expertise, our network of relationships, and the nature of our strategic stakeholders' businesses. As such, our investment projects are broadly distributed across seven sectors.



# KEY PERFORMANCE INDICATORS

[KPIs]

## Parent company

KPIs

	2014/15–2015/16 change [%]	Annualized change over 3 years, 2012/13–2015/16 [%]
Operating income	(19.0)	12.2
Net income	(23.4)	3.0
Total assets	2.5	31.5
Total equity	13.3	25.8

KPRs [Annualized change over 3 years 2012/13–2015/16 (%)]

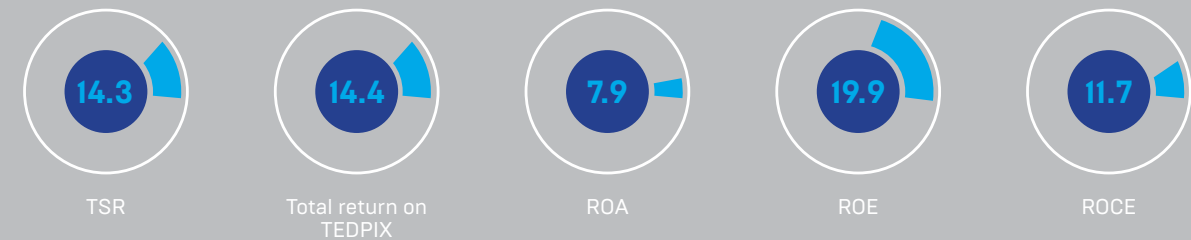


## Kharazmi Investment Group

KPIs

	2014/15–2015/16 change [%]	Annualized change over 3 years, 2012/13–2015/16 [%]
Operating income	29.9	101.7
Net income	79.5	14.8
Total assets	15.8	61.8
Total equity	20.1	22.2

KPRs [Annualized change over 3 years 2012/13–2015/16 (%)]



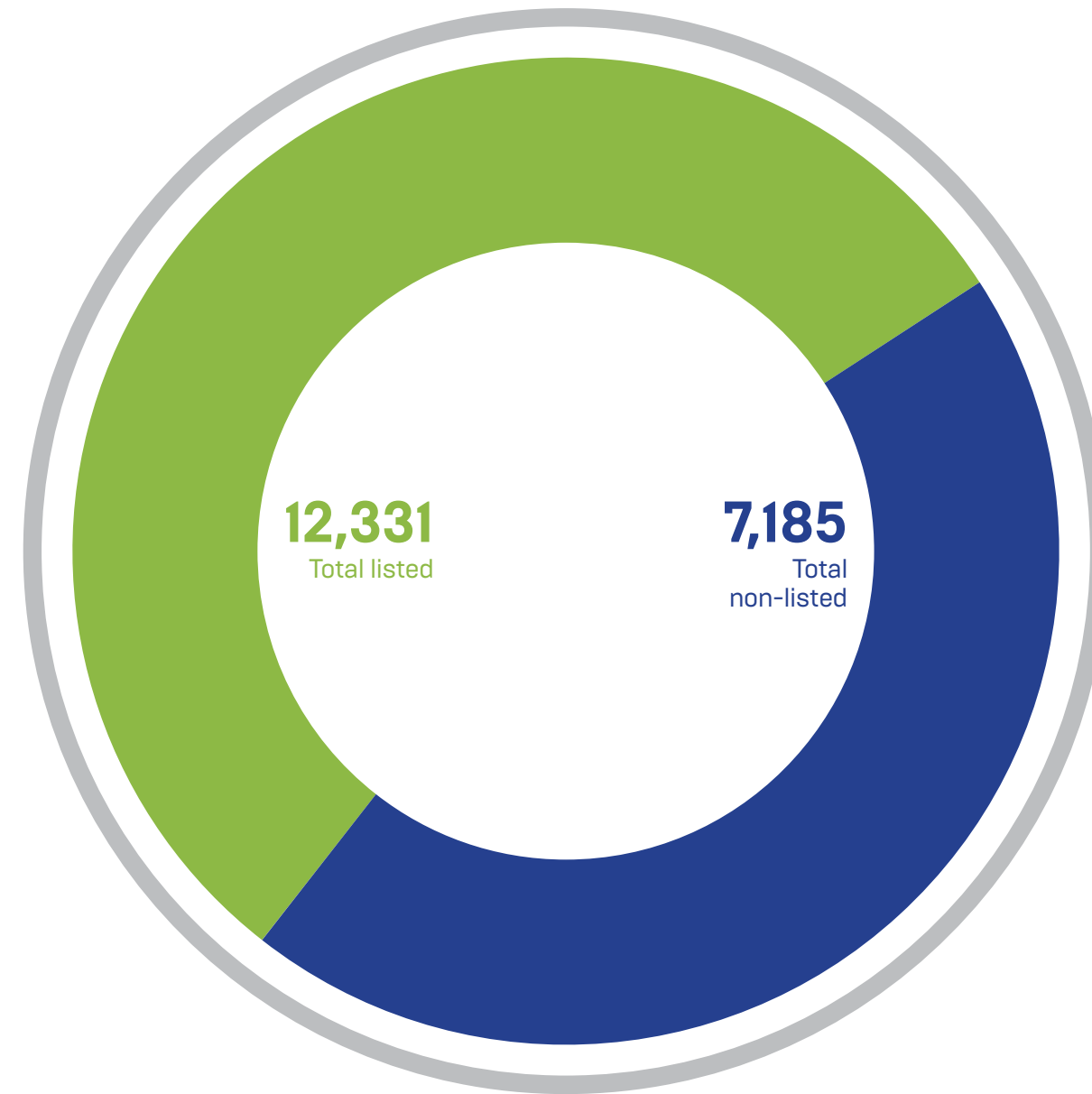
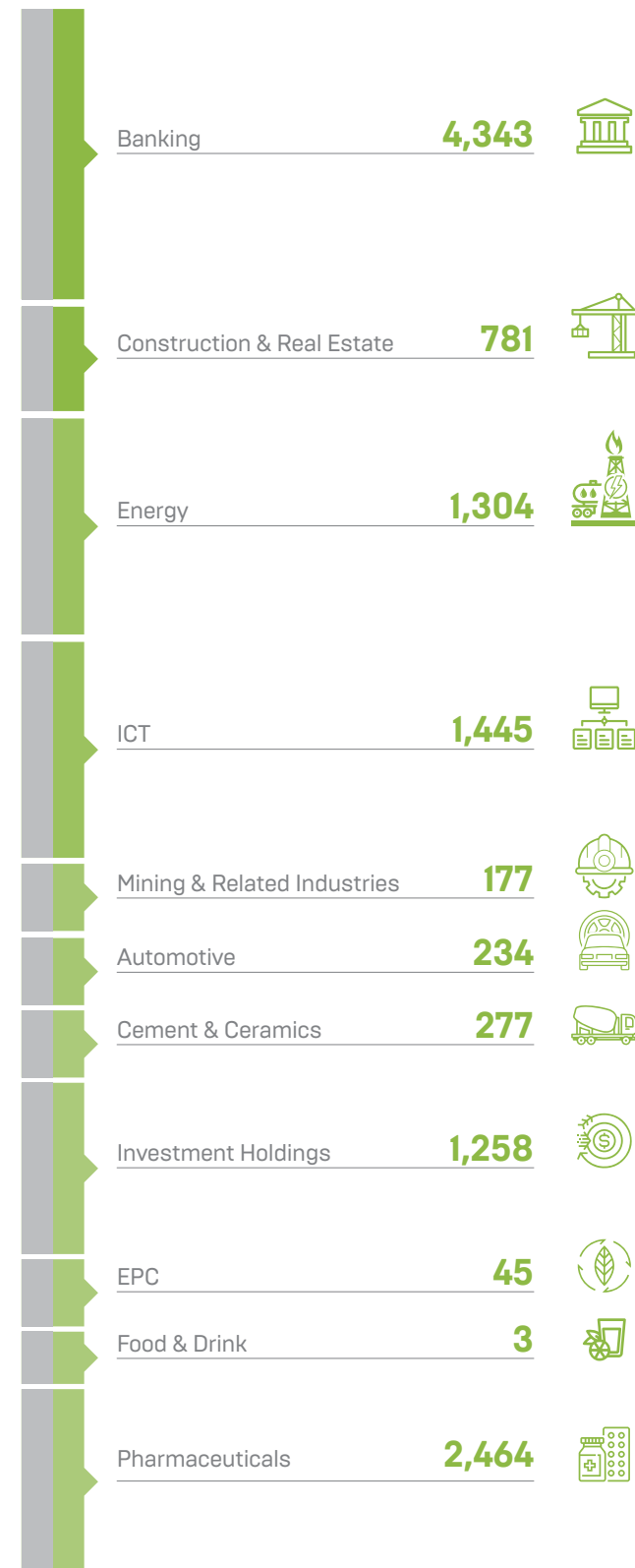
# OUTLOOK

Continuing to execute our 2020 Vision will involve:

- › Diligently pursuing the operational goals of the seven-year strategic plan
- › Taking the advantage of the existing investment environment, as well as post-JCPOA economic openings and the removal of international financial hardships
- › Striving for operational and financial expansion in international markets
- › Improving our portfolio performance by growing profits and reducing risk, consistent with our strategic objectives
- › Designing and establishing assessment and development center for Group managers
- › Developing secure administrative automation systems, data mining projects and algorithmic trading in order to increase the efficiency of our stock exchange transactions
- › Developing educational programs for corporate staff members at various organizational levels
- › Leveraging capital market capacities in a way that best utilizes the Group's resources, including debt securities
- › Improving the amount and transparency of information we distribute on the TSE
- › Preparing subsidiaries for admission to the stock exchange
- › Developing a corporate governance system and eventually governing Group subsidiaries as they expand their activities in the international arena
- › Developing strategies for monitoring the performance of Group subsidiaries, including establishing a sustainable reporting system among our subsidiaries
- › Increasing our market share in industries that offer competitive advantages in the fields of electricity, construction, and pharmaceutical
- › Producing precious metals and moving toward leadership in the precious metals market
- › Entering the retail ICT market
- › Planning long-term investment projects in the oil, gas, and petrochemicals industries.

# PORTFOLIO OVERVIEW

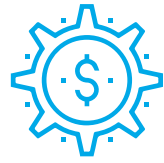
All values in IRR billion



Power



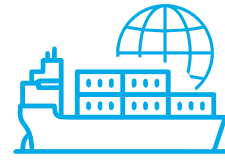
Financial Services



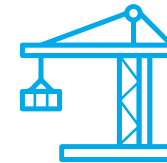
Oil, Gas & Petrochemicals



International Trade



Construction & Real Estate



ICT



Mining & Related Industries




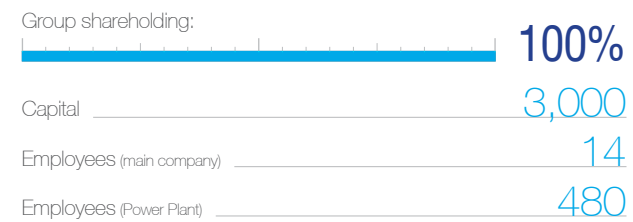
Pharmaceuticals



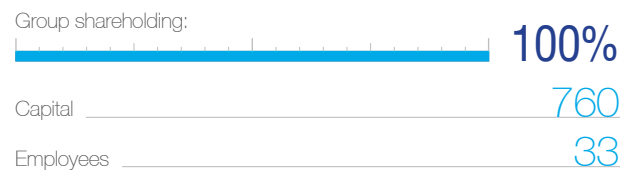
# Investments & Subsidiaries

All values in IRR billion


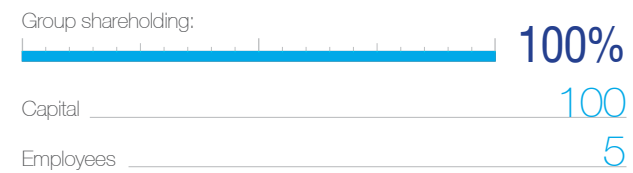
**Sub sector** Power  
**Subsidiary** Sepehr Power & Energy Development Co.  
 Established 2012  
 Acquired 2014

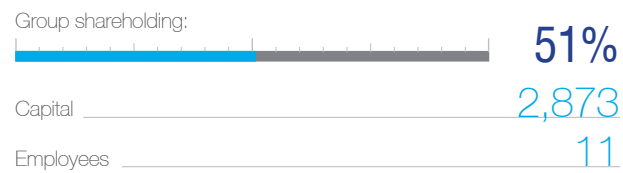
**Sub sector** Power  
**Subsidiary** Niroo Parse Power Plant Production & Development Co.  
 Established 2011  
 Acquired 2012

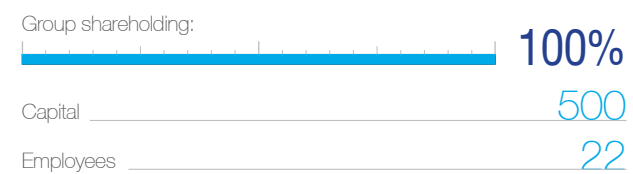
**Sub sector** Oil, gas, & petrochemicals  
**Subsidiary** Ziema Oil, Gas and Petrochemical Co.  
 Established 2016  
 Acquired 2016


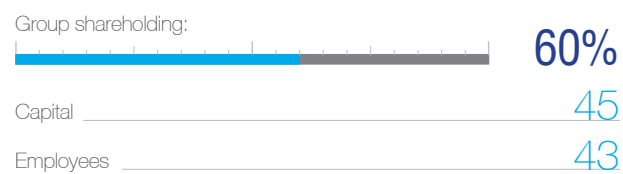
**Sub sector** Financial services  
**Subsidiary** Kharazmi Investment Management Development Co.  
 Established 1997  
 Acquired 1997

**Sub sector** Financial services  
**Subsidiary** Ati Negar Sepehr Iranian Investment Co.  
 Established 2007  
 Acquired 2007


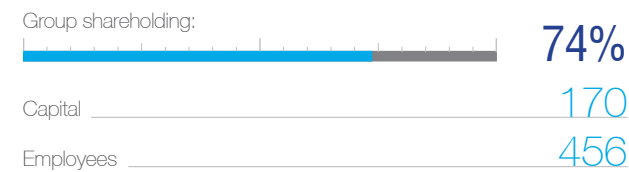



**Sub sector** Financial services  
**Subsidiary** Kharazmi Ayande Negar Brokerage Co.  
 Established 2006  
 Acquired 2013

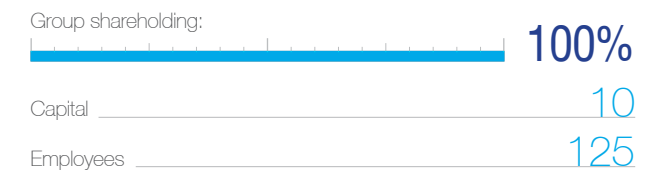



All values in IRR billion

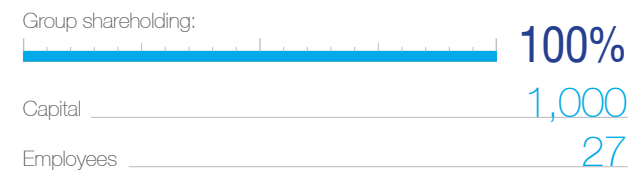
**Sub sector** ICT  
**Subsidiary** Kharazmi IT Development Co.  
 Established 1997  
 Acquired 1997

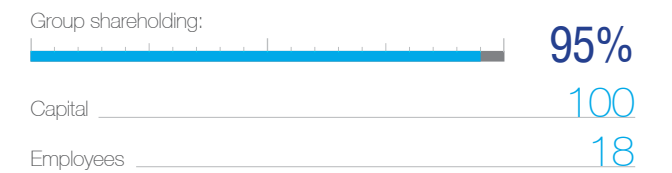
**Sub sector** ICT  
**Subsidiary** Kharazmi Data Processing Co.  
 Established 1997  
 Acquired 1997


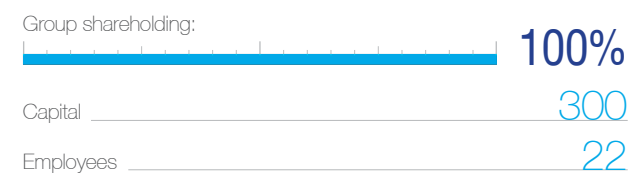
**Sub sector** Construction & real estate  
**Subsidiary** Kharazmi Construction Development Co.  
 Established 2007  
 Acquired 2007


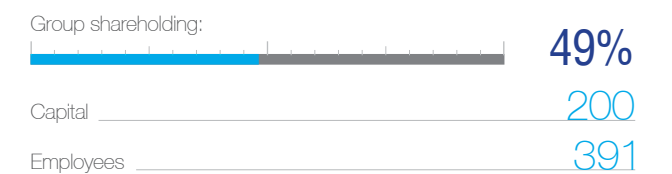
**Sub sector** Mining and related industries  
**Subsidiary** Sadr Jahan Mining Development Co.  
 Established 2014  
 Acquired 2014

**Sub sector** International trade  
**Subsidiary** Kharazmi Trade Development Co.  
 Established 2007  
 Acquired 2007

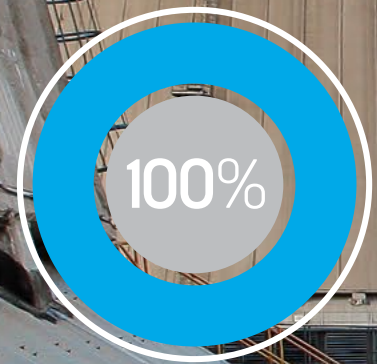
**Sub sector** Pharmaceuticals  
**Subsidiary** Sina Darou Laboratories Co.  
 Established 1967  
 Acquired 2006



# SEPEHR POWER & ENERGY DEVELOPMENT COMPANY (PJS)

Office Address: No.25, 5<sup>th</sup> Floor, West Brazil St., South Shirazi St., Molla Sadra Ave., Tehran  
 Tel: (+9821) 88623890-3  
 Website: www.sepedco.com



GROUP SHAREHOLDING

**2014**

ACQUIRED



**3,000**

TOTAL CAPITAL (IRR BILLION)



**14**

EMPLOYEES (PARENT COMPANY)



**480**

EMPLOYEES (POWER PLANT)



FIELD OF ACTIVITY:

**Production and sale of electricity in the wholesale energy market**



All values in IRR million (For the fiscal year ended June 20, 2016)\*

**5,238,420**

SALES

**29,705,953**

TOTAL ASSETS

**1,973,654**

OPERATING PROFIT

**3,618,192**

TOTAL EQUITY

**640,813**

NET PROFIT

\*The end of the company's fiscal year in the month of Ordibehesht 1394 (April/May 2015) changed from the 30th of Azar (December 20) to the 31st of Khordad (June 20) every year.



## A glimpse of the Shahid Montazer Ghaem power plant

The Shahid Montazer Ghaem power plant in the city of Karaj comprises 13 steam, gas, and combined-cycle units, with a total nominal capacity of 1,623 megawatts (MW). The power plant generates an average annual output of 8,500 gigawatt-hours (GWh), supplying 100% of the electricity in Alborz Province and helping meet demand as part of the nationwide grid.

### Achievements

- › Completed a project to make the plant 100% gas-based.
- › Implemented different environmental projects, including eliminating polluted Askarel oil, and purchasing and installing two sets of analyzers for outgoing gas.
- › Completed environmental studies, implementing an environmental management plan and system.
- › Continued implementation of study and designing of plans and projects to optimize water consumption in the power plant.

### Future projects

- › Expand activity by implementing the new 500 MW combined-cycle project.
- › Implement RI projects for basic repairs to steam and gas units within the combined-cycle system.
- › Increase gas unit production loads by installing systems that cool air entering into the turbo compressors.
- › Implement a project for optimizing water consumption in different parts of the power plant.
- › Purchase and install six sets of outgoing gas analyzers in gas unit chimneys to monitor pollution from online units.
- › Install protective relays in old steam unit generators and transformers.



# 8,500

GIGAWATT-HOURS (GWH)  
AVERAGE ANNUAL OUTPUT

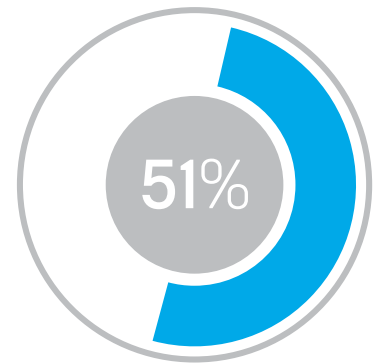
SUPPLYING **100%**  
OF THE ELECTRICITY IN ALBORZ PROVINCE





# KHARAZMI INVESTMENT MANAGEMENT DEVELOPMENT COMPANY

Office Address: No.120, West Brazil St., South Shirazi St., Molla Sadra Ave., Tehran  
Tel: (+9821) 88600825-6



GROUP SHAREHOLDING

**1997**

ACQUIRED



**2,873**

TOTAL CAPITAL (IRR BILLION)



**11**

EMPLOYEES



FIELD OF ACTIVITY:

KHARAZMI INVESTMENT MANAGEMENT DEVELOPMENT CO.

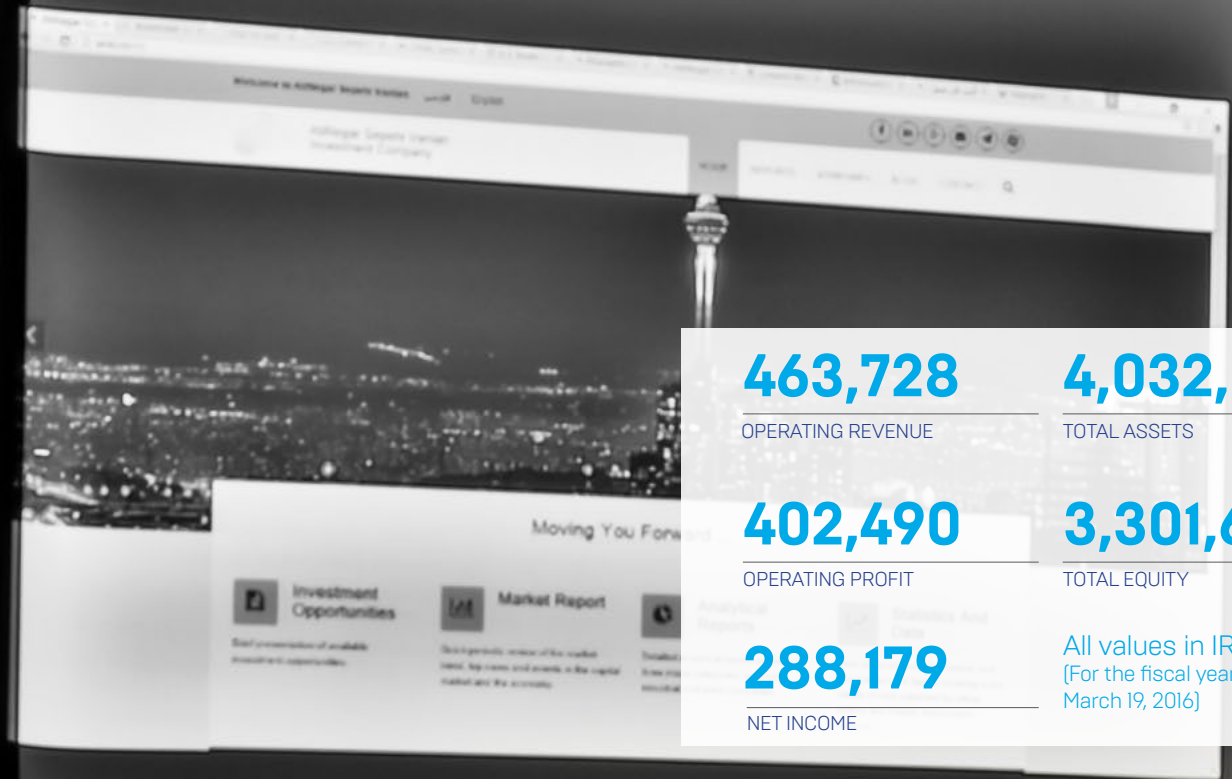
Investment and participation in firms' management and provision of investment management consulting services.

### Achievements

- › Optimized the investment portfolio.
- › Participated in increasing the overall capital of the Group companies.

### Future plans

- › Optimize the company's investment portfolio and its investment in Group companies, in line with the broader strategic plan.
- › Establish a company that will focus on Group companies' insurance activities.



**463,728**

OPERATING REVENUE

**4,032,862**

TOTAL ASSETS

**402,490**

OPERATING PROFIT

**3,301,608**

TOTAL EQUITY

**288,179**

NET INCOME

All values in IRR million  
(For the fiscal year ended March 19, 2016)





# KHARAZMI CONSTRUCTION DEVELOPMENT COMPANY

Office Address: No.23, 9th Floor, West Sarv St., Kaaj Square, Saadat Abad, Tehran  
 Tel: (+9821) 22364257-9  
 Website: [www.ts-kharazmi.ir](http://www.ts-kharazmi.ir)



GROUP SHAREHOLDING

## Current projects

- Continued working on the Homa Kids multi-purpose building project, covering commercial, administrative, cultural, and recreational space, establishing a niche children's facility market in Iran.
- 99.5% completion of the Ofogh Kharazmi project, covering housing and commercial space.

## Future plans

- Develop an atmosphere conducive to pursuing participatory projects.
- Continue executive advancement of current projects based on the available time schedule.
- Increase the company's capital from IRR 1,000 billion to IRR 2,600 billion, and pursue activities and progress in programmed construction projects.

**2007** 

ACQUIRED

**1,000** 

TOTAL CAPITAL (IRR BILLION)

**27** 

EMPLOYEES

- Continued working on Olympic projects covering combining commercial, administrative, recreational, sports, medical, and cinema applications.
- Entered the final stages of the Sepehr Kharazmi project, suitable for commercial use by knowledge-based industries.



خوارزمی

KHARAZMI CONSTRUCTION DEVELOPMENT COMPANY

FIELD OF ACTIVITY

Implementing all operations and services activities relating to construction (including building, investment, and trade).

**2,651,933**

SALES

**7,392,953**

TOTAL ASSETS

**759,883**

OPERATING PROFIT

**2,804,911**

TOTAL EQUITY

**755,061**

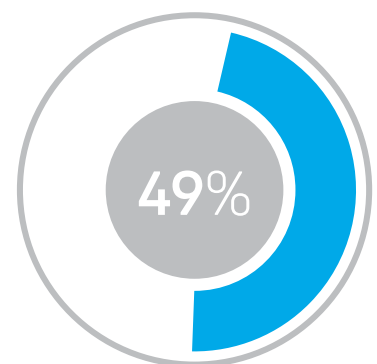
NET INCOME

All values in IRR million  
 (For the fiscal year ended March 19, 2016)



# SINA DAROU LABORATORIES COMPANY

Address: Sina Darou St., Blvd. 52, 15 km Lashkari Exp., Tehran  
 Tel: (+9821) 44194521-3  
 Website: www.sinadarou.com



GROUP SHAREHOLDING



FIELD OF ACTIVITY:

**Manufacturing, distributing and selling a wide variety of pharmaceutical, chemical, and sanitary products.**

**2006**

ACQUIRED



**200**

TOTAL CAPITAL (IRR BILLION)



**391**

EMPLOYEES



### Achievements

- Established a production line for the first single-use sterile eye drops (Sinalone®) in the Middle East.
- Achieved 42% progress in implementing a project that aims to develop and renovate of product lines.

### Future plans

- Complete the plan for developing new production lines.
- Increase capital.
- Modify production bottlenecks and increase efficiency
- Improve the company's product portfolio.



<b>1,602,495</b>	<b>1,995,083</b>
SALES	TOTAL ASSETS
<b>860,966</b>	<b>1,056,587</b>
OPERATING PROFIT	TOTAL EQUITY
<b>643,886</b>	All values in IRR million (For the fiscal year ended March 19, 2016)
NET INCOME	



# ATI NEGAR SEPEHR IRANIAN INVESTMENT COMPANY

Office Address: No.16, Unit 409, Bozorgmehr St., Vali-e Asr Ave., Tehran  
 Tel: (+9821) 66972652  
 Website: www.ansi.co



GROUP SHAREHOLDING



FIELD OF ACTIVITY:

Investing in stocks, investment units, funds, and other securities, and providing investment management advisory services.

**2007**

ACQUIRED



**500**

TOTAL CAPITAL (IRR BILLION)



**22**

EMPLOYEES



### Achievements

- › Launched domestic and international investment activities to finance domestic projects.
- › Conducted studies related to creating and developing international financial services holdings.
- › Increased the company capital to IRR 500 billion.
- › Enhanced the company's activities by creating necessary investment management and corporate advisory infrastructure.

### Future plans

- › Complete the necessary infrastructure development to support the activities of the management unit, investment advisory, and domestic and international financing management teams.
- › Create the infrastructure required to establish international financial services holdings.
- › Increase the company capital to IRR 2,000 billion.



<b>75,942</b> OPERATING REVENUE	<b>1,432,843</b> TOTAL ASSETS
<b>67,646</b> OPERATING PROFIT	<b>1,423,744</b> TOTAL EQUITY
<b>67,750</b> NET INCOME	All values in IRR million (For the fiscal year ended March 19, 2016)



# KHARAZMI TRADE DEVELOPMENT COMPANY

Office Address: No.15, Units 7 & 8, 1st Alley, Gandhi St., Tehran  
 Tel: (+9821) 88876532-4  
 Website: www.kharazmitrade.com



GROUP SHAREHOLDING



FIELD OF ACTIVITY:

Offering services and transactions in commercial affairs and domestic and foreign trade. Selling, purchasing, importing, and exporting commodities and legal commercial goods.

**2007**

ACQUIRED



**300**

TOTAL CAPITAL (IRR BILLION)



**22**

EMPLOYEES



### Achievements

- › Diversified the company's portfolio of services.
- › Improved internal processes, turning the company into a profit-making business and in turn improving international relations.

### Future plans

- › Expand target markets.
- › Diversify the company's services and suppliers.
- › Enter into export deals for products and commodities.
- › Participate in imports with other companies, and increase imports of basic commodities and grains.
- › Increase the company's capital.



<b>2,161,801</b>	<b>1,110,691</b>
OPERATING INCOME	TOTAL ASSETS
<b>91,285</b>	<b>203,212</b>
OPERATING PROFIT	TOTAL EQUITY
<b>6,604</b>	All values in IRR million (For the fiscal year ended March 19, 2016)
NET INCOME	

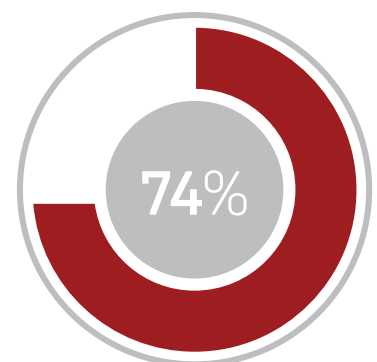


# KHARAZMI IT DEVELOPMENT COMPANY

Office Address: No. 153, between Mofateh & Soleyman Khater St., Motahhari Ave., Tehran

Tel: (+9821) 88500670

Website: [www.kharazmico.com](http://www.kharazmico.com)



GROUP SHAREHOLDING



FIELD OF ACTIVITY: KHARAZMI IT DEVELOPMENT COMPANY

ICT, with an emphasis on supply, use, and support of different types of hardware, software, computer, and telecommunications equipment.

**1997**

ACQUIRED



**170**

TOTAL CAPITAL (IRR BILLION)



**456**

EMPLOYEES



## Achievements

- › Extended the contract for supporting Iran's banking IT systems.
- › Progress in project of installation 214 ATM terminals to support Iranian banks.
- › Expanded support and maintenance services for banking hardware and software, including ATMs.
- › Entered into the field of traffic and safety cameras.

## Future plans

- › Enter into the core banking and core insurance business markets.
- › Establish world safety standards within Iran's banks.
- › Modify and integrate the company's information systems to increase overall agility.

**533,723**

OPERATING INCOME

**975,929**

TOTAL ASSETS

**49,545**

OPERATING PROFIT

**119,318**

TOTAL EQUITY

**14,671**

NET INCOME

All values in IRR million  
(For the fiscal year ended March 19, 2016)





## SADR JAHAN MINING DEVELOPMENT COMPANY

Office Address: No.6, 2nd Floor, 3rd Alley,  
Iran Zamin St., Sanaat Sq., Tehran  
Tel: (+9821) 88090464



GROUP SHAREHOLDING

FIELD OF ACTIVITY:



Advancing the Group's strategic programs in the field of mines and mining industries, including exploration, exploitation, and processing of substances; provision, production, equipment supply, and operation of lines of industrial factories.

### 2014

ACQUIRED



### 100

TOTAL CAPITAL (IRR BILLION)



### 18

EMPLOYEES



#### Achievements

- › Took initial measures to purchase land for the establishment of a ferro-alloy factory.
- › Established ownership of seven mines within the mining zone.
- › Performed supplementary exploration and processing tests.
- › Took a certificate of discovery for the Shadan gold mine, and secured more than 15 metric tons in gold reserves, making it among the top five gold mines in Iran.

#### Future plans

- › Follow up on and monitor realization of the Vision 2020 targets.
- › Launch the pilot unit of the gold production in the three zones of Shadan, Ardestan, and Rashidabad.
- › Commence 20,000 meters of drilling in all mining ranges.



# 20,000

METERS OF DRILLING IN ALL MINING RANGES.



# KHARAZMI DATA PROCESSING COMPANY

Office Address: No.2, Soheili Alley, below Shoa' Sq., Qaem Maqam Farahani Ave., Tehran  
 Tel: (+9821) 89308888  
 Website: www.dpkharazmi.com



GROUP SHAREHOLDING



Offering registration services; processing and producing computer data; providing and designing information management systems; and providing and producing hardware and software related to these systems.

**1997**

ACQUIRED



**10**

TOTAL CAPITAL (IRR BILLION)



**125**

EMPLOYEES



### Achievements

- › Promoted and developed support systems for banking services.
- › Designed and created new systems in response to customer demand.

### Future plans

- › Develop a system for preserving the integrity of banking software and other existing systems.
- › Promote and develop systems to meet the needs of the country's banking providers.

**64,758**

OPERATING INCOME

**43,611**

TOTAL ASSETS

**10,771**

OPERATING PROFIT

**7,299**

TOTAL EQUITY

**10,780**

NET INCOME

All values in IRR million  
 (For the fiscal year ended March 19, 2016)



# NIROO PARSE POWER PLANT PRODUCTION & DEVELOPMENT COMPANY

Office Address: No.120, West Brazil St., South Shirazi St., Molla Sadra Ave., Tehran  
 Tel: (+9821) 88609788  
 Website: [www.niroparse.com](http://www.niroparse.com)



## FIELD OF ACTIVITY:

Designing, implementing, building, and assembling all elements of power plants – including installations, parts, and equipment – and investing in the construction of electricity generators.

## Achievements

- › Launched the 8.3 MW Tarasht power plant.
- › Concluded agreements for financing small-scale power plants with total capacity 500 MW in Mazandaran Province.
- › Completed the final stages of the 29 MW Saba Steel Factory power plant.
- › Installed and commissioned the 25 MW Tonekabon power plant.
- › Increased the company's commercial activities, selling three generators.
- › Reduced the company's overhead costs.

## Future plans

- › Increase investment in small-scale power plants.
- › Complete a 29 MW power plant for simultaneous generation of combined heat and power (CHP) for Mobarakeh Steel Company.
- › Develop effective communications with regional power plants throughout the country.

**2012** 

ACQUIRED

**760** 

TOTAL CAPITAL (IRR BILLION)

**33** 

EMPLOYEES



GROUP SHAREHOLDING

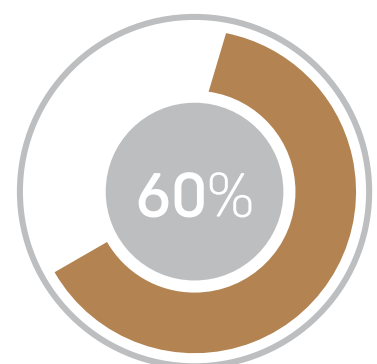


<b>383,795</b> SALES	<b>1,251,285</b> TOTAL ASSETS
<b>29,749</b> OPERATING PROFIT	<b>293,704</b> TOTAL EQUITY
<b>3,817</b> NET INCOME	All values in IRR million (For the fiscal year ended March 19, 2016)



# KHARAZMI AYANDE NEGAR BROKERAGE COMPANY

Office Address: No.16, Unit 101, Bozorgmehr St.,  
Vali-e Asr Ave., Tehran  
Tel: (+9821) 61914000  
Website: [www.kharazmibroker.com](http://www.kharazmibroker.com)



GROUP SHAREHOLDING



## Achievements

- Expanded brokerage branches in the country, establishing Sari and Mashhad branches.
- Acquired a license to trade petrochemical products on the Iran Mercantile Exchange.
- Acquired a trade license for energy exchange.
- Acquired a license to create the private Market Making Investment Fund (Ayandeh Negar Toseh Sina Fund).

**2013**

ACQUIRED



**45**

TOTAL CAPITAL (IRR BILLION)



**43**

EMPLOYEES



## FIELD OF ACTIVITY:

Offering all brokering services in the field of buy and sell all listed securities, commodities and energy as agent of capital market investors.

## Future plans

- Expand branches in Tehran, establishing a branch in the Saadat Abad area.
- Acquire an offering consultancy license from the SEO.
- Acquire a license to trade agricultural products on the Iran Mercantile Exchange.
- Establish a fixed-income investment fund to increase the company's revenues.
- Operate a marketmaking and fund analysis unit.
- Increase the customer base by developing and strengthening analysis and market-making capacities, and by offering specialized analyses.
- Develop and grow an online trading unit.



\* The company's fiscal year changed from the 31st of Shahrivar (September 22) to the 29th of Esfand (March 19).

**2,891**

NET INCOME

**20,081**

OPERATING INCOME

**121,848**

TOTAL ASSETS

**4,133**

OPERATING PROFIT

**46,905**

TOTAL EQUITY

All values in IRR million  
(For six months ended  
March 19, 2016)\*



## ZIEMA OIL, GAS & PETROCHEMICAL COMPANY

Office Address: Unit 8, 4th Floor, NO. 75, Sattari Blvd.,  
Vali-e Asr Ave., Tehran  
Tel: (+9821) 88871185, 88871175  
Website: [www.ziemaco.com](http://www.ziemaco.com)



**Kharazmi established Ziema Oil, Gas and Petrochemical Company in 2016 as part of our strategy to enhance our international investment capacity.**

We have since researched upstream, middle stream and downstream oil and gas production. Top managers, an executive team, and advisers familiar with the economic issues all contributed to the research, which included studies that examined the financial capacity of these sectors.

Recently, the National Iranian Oil Company approved Ziema and other local businesses to develop these vast resources. Several companies that specialize

### 2016

ACQUIRED



### 100

TOTAL CAPITAL (IRR BILLION)



### 5

EMPLOYEES



**GROUP SHAREHOLDING**

in oil, gas, and petrochemical production endorse our strategies and we have begun negotiating with them.

Ziema's priorities include investing in and developing international oil, gas, and petrochemical plants. We welcome the participation of all investors, technology owners, and local and international economic entities in developing these sectors.

In addition to approvals to develop these sectors, the Ministry of Petroleum can now award contracts to consortiums or joint ventures between local companies and foreign partners wanting to invest in electricity production and the development of Iran's huge mining sector.





# CORPORATE GOVERNANCE

The OECD's Principles of Corporate Governance are designed to help companies prepare and implement corporate governance systems that reflect internationally accepted standards while complying with specific legal, institutional, and regulatory environments. The International Corporate Governance Network (ICGN) has issued Global Governance Principles as a guide to applying the OECD principles, and the Commonwealth Association of Corporate Governance (CACG) has adopted a series of corporate governance principles to help nations develop and execute strategies that promote corporate governance (although the latter does not impose any obligations at a corporate level). Together, these provisions promote competitive success in a world that is constantly changing. They are a necessary guidance tool, helping corporations formulate, manage, and support their relationships with stakeholders in a structured and professional way.

Although the aforementioned international principles and standards are not binding, Kharazmi Investment Company has voluntarily restructured its corporate governance in recent years, in line with these global standards. We have also developed our business activities in line with guidelines issued by the Securities

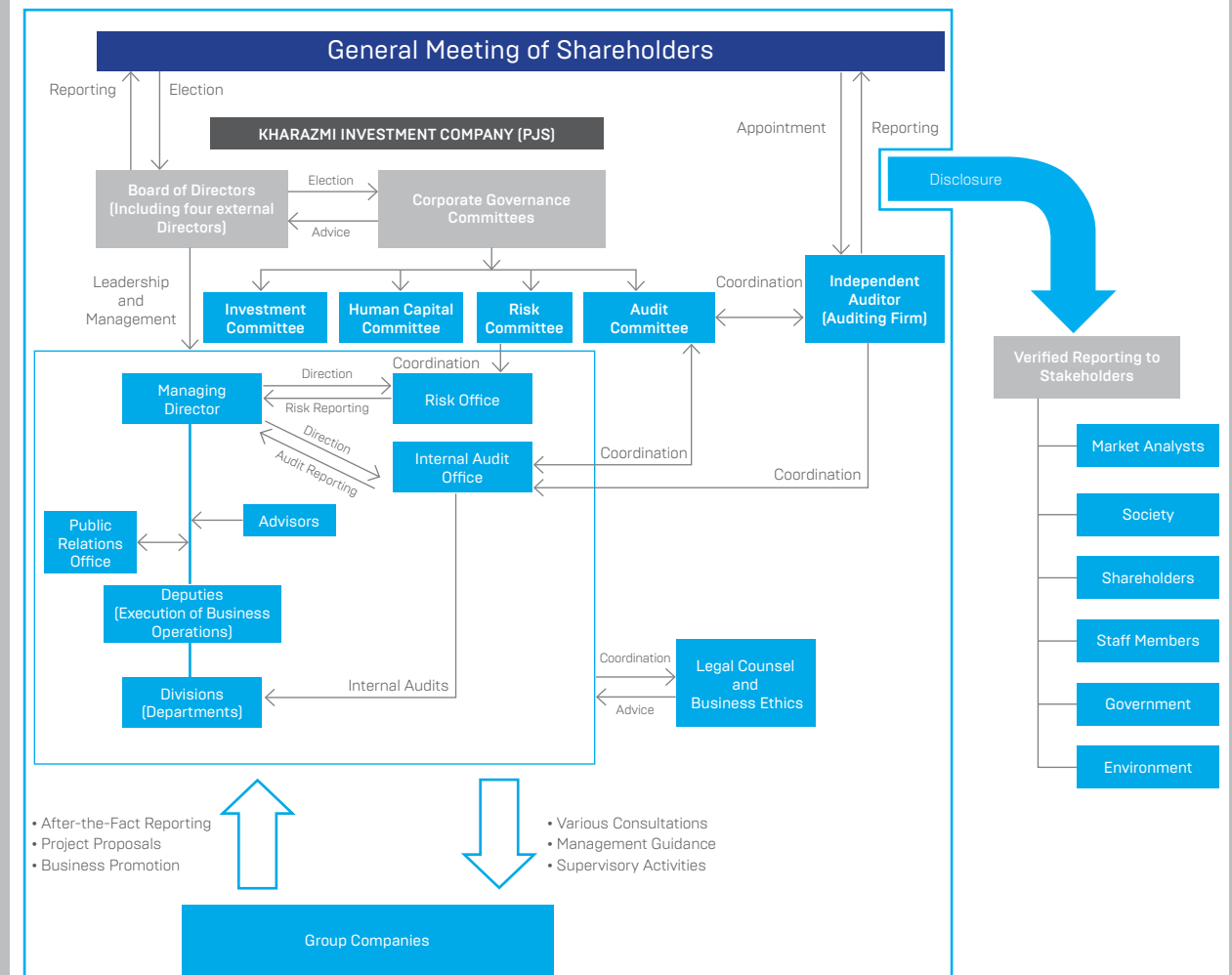
and Exchange Organization (SEO), creating a committee and unit for internally controlling and auditing any Group companies listed on the TSE and Iran Fara Bourse. In doing so, we have paved the way for promoting accountability within the Group, as well as demonstrating the importance of innovation and complying to corporate governance principles. Indeed, one of our Vision 2020 targets – sustainable wealth creation for generations – requires the commitment to the rules and principles of corporate governance, especially accountability to stakeholders and transparency when making decisions.

Over the past year, we have incorporated consultation, oversight, and control mechanisms into Kharazmi Investment Group's operational processes, while continuing to realize our agreed targets and outcomes – increased asset value, high-quality profitability, and sustainable wealth creation. We observed corporate governance

control and consultation frameworks in preparing our financial statements, in developing an internal audit office and risk management office, in consulting international advisors, and in making decisions within our four Executive Committees: Audit, Risk, Investment and Human Capital. This has created a dynamic environment of learning and growth within the organization, where we have access to a constant flow of business information and analysis.

Moreover, leveraging our expert advisors, departmental deputies, and independent auditors – and acting in accordance with our social responsibility commitments – gives the Group a greater opportunity to increase accountability to our shareholders.

The aim is to equip the Group with the tools to best serve its shareholders – a mission that will create value and drive sustainable growth.







## BOARD OF DIRECTORS

### **ALIREZA BOLGOURI** Non-executive Director

**Representing: Tamin Atieh Maskan Investment Company**

Born in 1967, Mr. Bolgouri has an outstanding reputation in the banking industry, and is recognized as an expert in finance and accounting. He was a member of the Bank Maskan (Housing Bank) Board of Directors, and Chairman of the Bank Maskan Investment Company Board. Mr. Bolgouri holds a Master's degree in Accounting and is Chairman of the Investment Committee.

### **HOJATOLLAH SAYDI** Vice Chairman and CEO

**Representing: Omid Ayandegan Sepehr Company**

Born in 1967, Dr. Saydi has been Vice Chairman and CEO of Kharazmi Investment Company since 2013. He has served as Vice Chairman of Iran Khodro, Chairman of Sepahan Cement Company, and Deputy CEO of Ghadir Investment Company. Dr. Saydi holds a PhD in Accounting.

### **ALI DEGHAN MANSHADI** Chairman

**Representing: Hamyari Ghadir Institution**

Born in 1948, Mr. Manshadi has served as Chairman of the Board of Directors at Kharazmi Investment Company since 2013, and is Chairman of the Human Capital Committee. He has also served as an Executive Vice President of Parsian Bank, and as a Board member for Ghadir Investment Company and Pars Aryan Investment Company. Mr. Manshadi holds a BA in Economics.

### **MOHAMMADREZA ERFANI** Non-executive Director

**Representing: Iran Card Company**

Born in 1964, Mr. Erfani has been a non-executive member of the Board of Directors since 2013. Mr. Erfani is a reputable banker with an extensive Board-level track record at a number of Iran's banks and financial institutions. He has also served on the Board of the Tose'e Sepehr Hashtom Investment Company. Mr. Erfani holds an MBA and is Chairman of the Risk Committee.

### **MOHAMMAD RABI'EZADEH** Non-executive Director

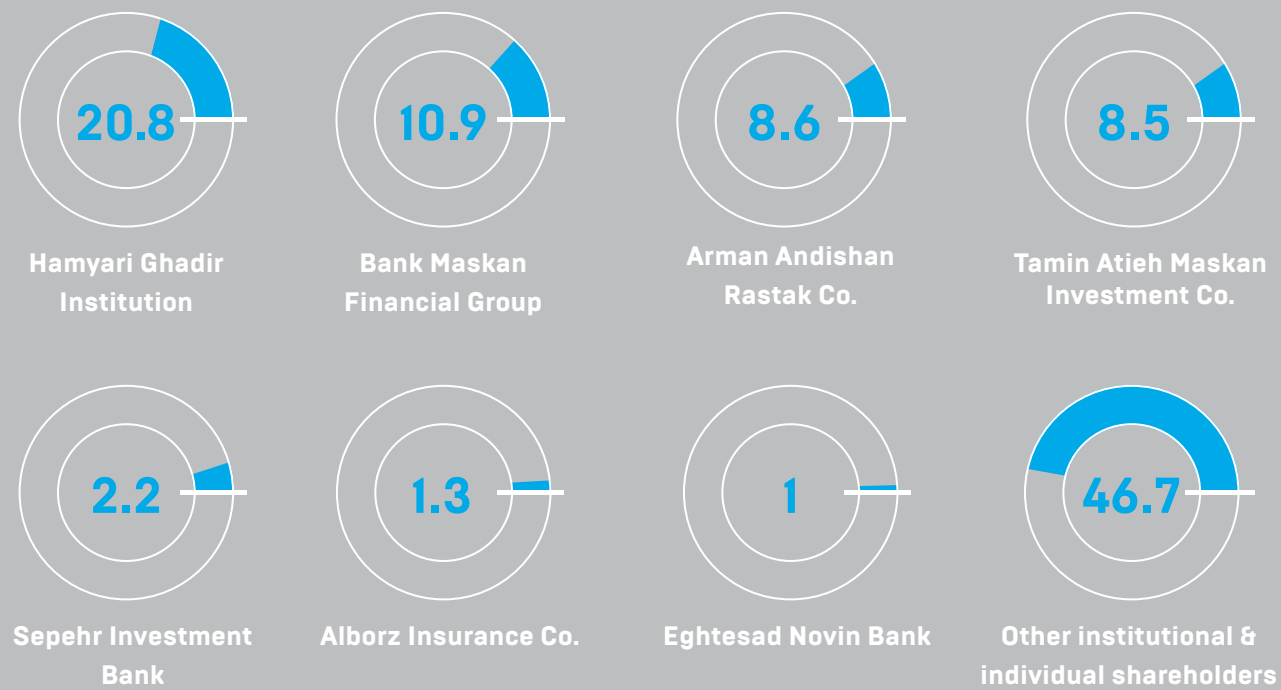
**Representing: Melli Payapay Company**

Born in 1962, Mr. Rabi'ezadeh has served as a Board member for Kharazmi Data Processing Company and Glucosan Company. He has served on the Board of Kharazmi Investment Company since 2013 and is Chairman of the Audit Committee. Mr. Rabi'ezadeh holds a Master's degree in Banking Management.

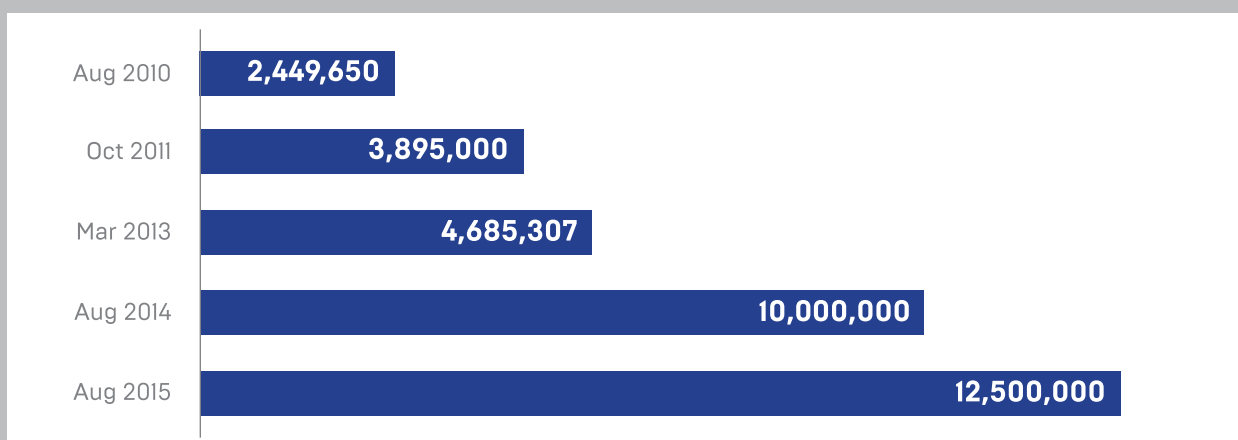


# SHAREHOLDER STRUCTURE & SHARE CAPITAL

Shareholder Structure (Ownership percentage)

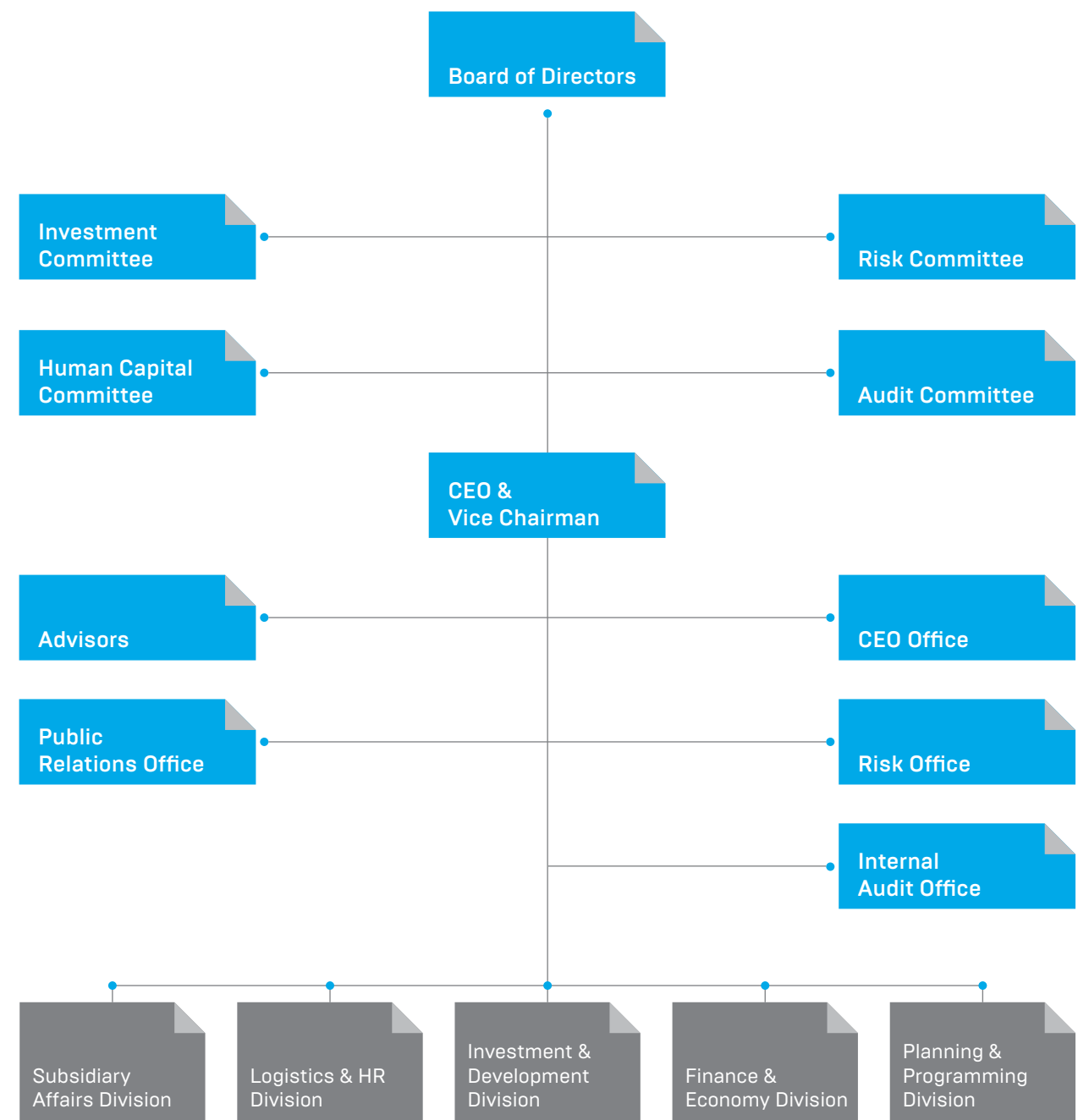


Share Capital (IRR million)



# EXECUTIVE MANAGEMENT

Organizational Structure



# GOVERNANCE & BOARD COMMITTEES

Four independent committees – Audit, Risk, Investment, and Human Capital – help the Board of Directors improve the quality and speed of its decision-making processes. Each committee comprises a non-executive Board member as Chairman, working together with senior managers and subject experts. The committees work within the Group’s corporate governance framework, and are active throughout the year – executing, implementing, and accelerating executive decisions and actions.

## › Audit Committee

### Membership

Five principal members appointed by the Board:

- Chair: A non-executive member of the Board of Directors
- Independent subject experts with necessary expertise in accounting and/or finance.
- Secretary: A representative of the CEO

### Responsibilities

#### Internal controls and risk management

- Assess the effectiveness of internal control systems, including IT systems and security
- Provide assurance that internal control systems are adequately reviewed by the internal auditor
- Provide assurance regarding the effectiveness of the risk management process
- Implement recommendations and resolve issues reported by internal and independent auditors
- Deliver Board reports on the internal controls of all Group companies.

#### Financial reporting

- Oversee, assess, and deliver judgments on financial reporting, including general accounting procedures, disclosure methods, and related-party disclosures
- Provide assurance regarding:
  - › The reliability and timeliness of financial reports
  - › Observance of accounting standards and other reporting regulations
  - › The scope and quality of all information presented to the Board
- Review independent auditor recommendations and draft financial statements prior to their approval by the Board.

#### Internal audit

- Review the Internal Audit Charter and structure, and provide assurance regarding the effectiveness and independence of internal audits
- Manage internal audit annual programming and resource allocation
- Monitor internal audit performance and effectiveness

- Provide assurance regarding:
  - › Access to necessary resources and data
  - › Observance of stipulated local and international standards
  - › The presentation of internal auditors’ findings and recommendations
- Make recommendations to the Board regarding the appointment, dismissal, and remuneration of the Head of Internal Audit.

#### Independent audit

- Monitor the impartiality of independent auditors and ensure there is no potential conflict of interest
- Review independent auditors’ contracts and remuneration
- Make recommendations regarding the selection, rotation, or replacement of independent auditors
- Engage with independent auditors regarding audit planning and strategy
- Review and confirm implementation of recommendations made in the Independent Auditor’s Report and at shareholder general meetings.

#### Rules, regulations, and requirements

- Ensure compliance with rules, regulations, and requirements
- Ensure the Group’s strategic plan is aligned with its overall objectives
- Ensure senior management and employees observe the Group Code of Ethics Charter
- Monitor and assess the impact of regulatory changes on Group activities and performance

- Follow up on reports of Board non-compliance with rules, regulations, and requirements.

#### General reporting

- Report internal and independent audit performance to the Board
- Draft the annual Audit Committee performance report
- Deliver other reports to the Board as stipulated by the Audit Committee Charter.

#### Other responsibilities

- Oversee the content, conditions, and observance of requirements in related-party transactions
- Ensure the accuracy and reliability of published company reports
- Attend general meetings of shareholders to answer shareholder questions
- Interact with other Board committees
- Regularly evaluate the Audit Committee and committee members’ performance
- Implement other actions related to the Audit Committee Charter, as requested by the Board.



**Objectives**

- Ensure the effectiveness of corporate governance, risk management, and internal control processes
- Ensure the objectivity and impartiality of independent audits
- Ensure the independence of external audits
- Ensure compliance with relevant laws, rules, and regulations.

**2015/16 activities**

- Commenced operations and held nine meetings throughout the fiscal year
- Monitored the operation and improvement of internal control systems within Group companies
- Reviewed reports on internal controls from the 2014/15 fiscal year
- Reviewed the Independent Auditor's Report and mid-term financial statements of each Group company
- Reviewed draft financial statements and Independent Auditor's Reports for the parent company and some subsidiaries (including Sepehr Power & Energy Development Company), and made efforts to resolve the notes cited in the Independent Auditor's Report
- Reviewed the annual reports of subsidiary companies and abstracts of their annual activities
- Reviewed the Board of Directors' performance report
- Reviewed the letter of management for Group companies.

**Future plans**

- Review the 2015/16 parent company and consolidated financial statements
- Bring together independent auditors and legal inspectors to examine the 2015/16 financial statements
- Formulate procedural guidelines and regulations relating to Group disclosures, and disclosure and approval of transactions by persons affiliated with the Group, then meet with the Board of Directors to discuss the adoption and notification of these guidelines
- Formulate checklists for the observance of rules and regulations stipulated by the SEO, and of internal control and financial reporting obligations, then discuss their adoption and notification with the Board of Directors
- Produce a reasonable assurance report focusing on eliminating internal control flaws, as cited in the Chief Internal Accountant's report on internal controls weak points, and based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) internal control framework
- Support greater interaction between Audit Committee members and independent auditors of subsidiary companies, to promote and enhance internal control across the Group.

**› Risk Committee****Membership**

Three principal members approved by the Board:

- Chair: A non-executive member of the Board of Directors
- Secretary: A representative of the CEO, chief risk officer (CRO)
- Subject-matter experts with the necessary risk management experience and expertise.

**Responsibilities**

- Identify and evaluate risks, and recommend appropriate mitigating actions
- Review and assess the Board's risk appetite within the risk policy framework
- Assess the efficiency and effectiveness of risk management structures, principles, systems, and controls
- Ensure the independence of risk oversight
- Promote a culture of risk awareness across the Group
- Review the Independent Auditor's Report and recommend appropriate operational changes
- Develop risk management processes, guidelines, and policies.

**Objectives**

- Devise policies for timely identification of risks
- Recommend appropriate mitigating actions to the Board
- Ensure appropriate risk notification processes are in place
- Assess the effectiveness and efficiency of risk management systems and procedures
- Review and validate the effectiveness of internal control frameworks
- Monitor and regularly report on identified risks
- Conduct an annual review of the Group's risk management strategy and policy.

**2015/2016 activities**

- Held 12 meetings throughout the fiscal year
- Outlined the general outlook of Group subsidiary commitments based on the value of loans they received and their collateral deposits
- Presented a proposed model for determining the extent of required guarantees and collaterals when receiving financial facilities, and improving the capacity to accept commitments within the Group
- Held a four-day training workshop on implementing risk management in subsidiaries. This included:
  - › Interviewing Risk Committee officials within Group companies
  - › Using the risk management consulting services of Professor Jalilvand, Professor of Finance at Loyola University Chicago

- › Identifying 12 major risk groups for Kharazmi Investment Group: strategic; financial; credit; operational; innovation; market and international; information; human resources (HR); reputation; environment; social responsibility; and regulatory, government, and political risk.
- › Drafting and adopting a conceptual risk model for Kharazmi Investment Group companies
- Drafted profit quality reports for Group companies, to identify indicators of profit quality and develop a ranking based on the Technique for Order of Preference by Similarity to Ideal Situation (TOPSIS) method
- Followed up on the progress of the Group's construction projects and reviewed risk assessment forms for construction projects
- Followed up on construction project sales policies to help improve cash flow
- Reported on the application of value at risk (VaR) in Group investment decisions
- Reviewed a proposed plan for calculating the asset quality of Group companies.

#### Upcoming plans

- Visit subsidiary companies every six months
- Draft financial analysis reports, including financial ratio assessments, and vertical and horizontal analyses of quarterly financial statements
- Review quarterly reports on the status of corporate governance principles within Group companies
- Review half-year reports on the observance of Iran's trading rules in the Board decision-making process
- Review half-year reports on the status of dormant accounts
- Review half-year reports on the status of human capital indicators within Group companies, including organizational charts; job descriptions; and the extent of staff adjustment, attraction, retention, and satisfaction
- Draft quarterly reports on the correlation between indicators of stock company shares and portfolio or market indicators
- Draft half-year reports on the change in indicators of risk assessment among Group companies
- Review half-year reports on budget deviations in Group companies
- Review annual reports on Group companies' strategic plans
- Draft annual future risk monitoring forms and update Group company risk data
- Report on customer satisfaction with the Group companies every six months
- Review quarterly reports on the progress of Group projects.

#### › Investment Committee

##### Membership

- Three principal members appointed by the Board:
- Chair: A non-executive member of the Board of Directors
- Secretary: The Vice President of Investments
- Subject-matter experts with appropriate experience in investment and capital markets, one of whom is a representative of the CEO.

##### Responsibilities

- Review and assess factors relating to the risk and potential return of existing and future investments, and provide expert opinion and advice
- Review and advise on investment plans for the parent company and Group companies
- Review and assess investment strategies and provide recommendations
- Evaluate the Group's investment portfolio and make recommendations to the Board and CEO
- Periodically review asset allocation across the various investment types
- Provide advice on continuously improving the investment mix
- Report the Committee's activities to the Board at least twice a year.

#### Objectives

- Support the Board of Directors by reviewing and revising investment strategies and proposed transactions
- Provide expert advice to support the Board's decision-making process
- Explore and assess alternative investment options.

#### 2015/16 activities

- Continued reviewing and assessing factors relating to the risk and potential return of existing and future investments
- Advised on proposed Group investment plans.
- 2016/17 outlook
- Continue to review the Group's investment portfolio
- Periodically review asset allocation across various investments types
- Provide guidance on how to continuously improve and optimize the Group portfolio's investment composition
- Revise guidelines for investment dealings and activities
- Continuously monitor Group performance against our seven-year strategic plan.



## › Human Capital Committee

### Membership

Three principal members appointed by the Board:

- Chair: A non-executive member of the Board of Directors
- Advisor: A subject-matter expert with the necessary experience and expertise in HR and remuneration
- Secretary: A representative of the CEO.

### Objectives

- Provide advice in relation to recruitment, retention, and training
- Conduct effective HR planning
- Improve employee training and development
- Ensure an appropriate compensation and benefits framework is in place
- Review, assess, and develop employee appraisal processes.

### 2016/17 outlook

- Develop closer cooperation between Group companies' HR departments
- Advise on the design and implementation of appraisal systems
- Review and assess HR training and development planning
- Create a new knowledge management system
- Explore measures to enhance employee motivation and performance.

# INTERNAL AUDIT

**The Kharazmi Investment Group Internal Audit Charter was drafted and approved by the Board of Directors in accordance with Article 10 of the Regulations on Internal Controls for Companies Listed on the Tehran Stock Exchange and Iran Fara Bourse.**

## › Mission

The internal audit unit is tasked with providing objective assurance that the Group's governance and risk management controls are operating effectively, and assessing and improving the quality and efficiency of internal processes.

- safeguarded and efficiently utilized
- Determining whether Group programs, objectives, and plans are appropriate and achievable
- Confirming compliance with relevant legal and regulatory frameworks.

## › Scope

The unit has wide-ranging responsibilities, so it can support and promote effective internal controls, but also add value by identifying inefficiencies and potential quality issues. Its mandate includes:

- Evaluating the effectiveness of internal audits
- Engaging effectively with the Group's governance bodies
- Ensuring that financial, management, and operational data is accurate and reliable
- Ensuring that employee performance and conduct is consistent with Group strategies, standards, and procedures
- Assessing procurement processes, and ensuring resources are judiciously

## › Authority

Internal Audit is authorized by the Board to:

- Engage with the Audit Committee
- Access all documents, records, and assets of parent and Group companies
- Use financial and human resources sufficient to fulfill its responsibilities and deliver defined objectives
- Procure training, advisory, and other professional services to ensure the unit can effectively discharge its duties.

### › Main responsibilities

- Devise a flexible annual internal audit program, employing appropriate risk-based methodologies
- Continuously monitor the effectiveness of internal controls, and report to the Board and Audit Committee
- Encourage optimization by continuously improving internal systems and procedures
- Establish and implement a quality control program to monitor and maintain Internal Audit performance
- Provide assurances and advisory services to help the management team achieve the Group's business objectives
- Regularly report to the Board and the Audit Committee
- Cooperate in fraud detection and anti-money laundering (AML) operations, providing timely and appropriate warnings to the AML Officer, management team and Audit Committee
- Communicate and cooperate with external auditors to optimize the independent audit process and overall efficiency
- Communicate the Group's AML activities to our independent auditors, in accordance with regulations.

### › Accountability

The Head of Internal Audit reports to the Board and the Audit Committee, and is directly responsible for:

- Implementing the annual internal audit program, as ratified by the Board
- Annually assessing the effectiveness of internal control and risk management processes
- Reporting on significant internal control processes for the parent company and Group companies
- Drafting and implementing an internal control quality assurance and improvement program.

### › Independence, objectivity, & vigilance

- The Internal Audit unit reports directly to the board and Audit Committee, to ensure the independence of internal auditors.
- The Head of Internal Audit is appointed by the Board of Directors, on the recommendation of the Audit Committee.
- Internal Audit reports are presented to the Board and the Audit Committee.

### › Internal audit standards and professional code of conduct

Internal auditors are required to act in accordance with defined standards and to comply with a professional code of conduct. In the absence of local guidelines, international standards will be observed.

### › Internal control

In 2012, to protect shareholders' rights, increase transparency, and prevent fraud, the SEO issued its Guidelines on Internal Controls for Companies Listed on the Tehran Stock Exchange and the Iran Fara Bourse. Under these guidelines, all companies listed on the TSE or Iran Fara Bourse must:

- Implement suitable and effective internal control systems and mechanisms
- Disclose internal control findings annually, in the Internal Controls Report
- Have the Internal Controls Report approved and signed by the CEO and Board of Directors, including the most senior financial executive in the company (for Kharazmi Investment Group, the Vice President of Finance) and the Chair of the Audit Committee
- Ensure the company's independent auditors provide commentary on their findings regarding internal control systems, as part of their report to the general meeting of shareholders.

### › Key actions in 2015/2016

In striving to establish and improve the system of internal controls among Group companies, the Internal Audit Office in 2015/16:

- Followed up on establishing and developing Audit Committee and the Internal Audit Office executive operations within most Group companies
- Followed up on and received Group companies' internal control reports, which

had been discussed and approved by the Audit Committee of each company concerned

- Received a letter of management from the independent auditors of each Group company, and made efforts to remove any weak points in interaction and coordination among Group companies' internal auditors
- Monitored and reviewed Group companies' financial documents, and proposed issuing amending documents and taking preventive measures
- Gave reasonable assurance about the accuracy and reliability of financial statements and other information released by Group companies.

### › Future measures and plans

- Activate the Internal Audit Office and Audit Committee in all Group companies
- Formulate procedural guidelines and regulations related to Group company disclosures, and disclosure and approval of transactions by persons affiliated with Group companies. Discuss with the Board of Directors how these practices will be adopted and communicated to the Group companies
- Draft checklists for the observance of SEO internal control and financial reporting rules and regulations, and discuss this with the Board of Directors for approval and notification
- Give reasonable assurance about the elimination of weak points in internal control systems, consistent with improving the effectiveness of internal controls using the COSO integrated framework
- Interact more widely with the Group companies' Audit Committees.



# REGULATORY ENVIRONMENT

Our operations are subject to the following domestic and international laws, rules, and regulations.

## › Domestic business legislation and regulations

- Iran Commercial Code
- Bylaws and regulations set by the SEO, including:
  - › The Bylaw on Brokers' Licensing and Operations
  - › The Transactions Bylaw for the Tehran Stock Exchange Company
  - › The Executive Bylaw of the Securities Market Act of IR Iran
  - › The Executive Bylaw of the Anti-Money Laundering Act
  - › The Bylaw for Customer Identification and Verification in the Capital Market
- Regulations issued by the SEO
- The Direct Taxation Act
- Labor laws
- The Social Security Act
- The Five-Year Economic, Social and Cultural Development Plan Acts
- Annual State Budgetary Acts
- State Monetary and Banking Act

## › Internal (Group) decrees and regulations

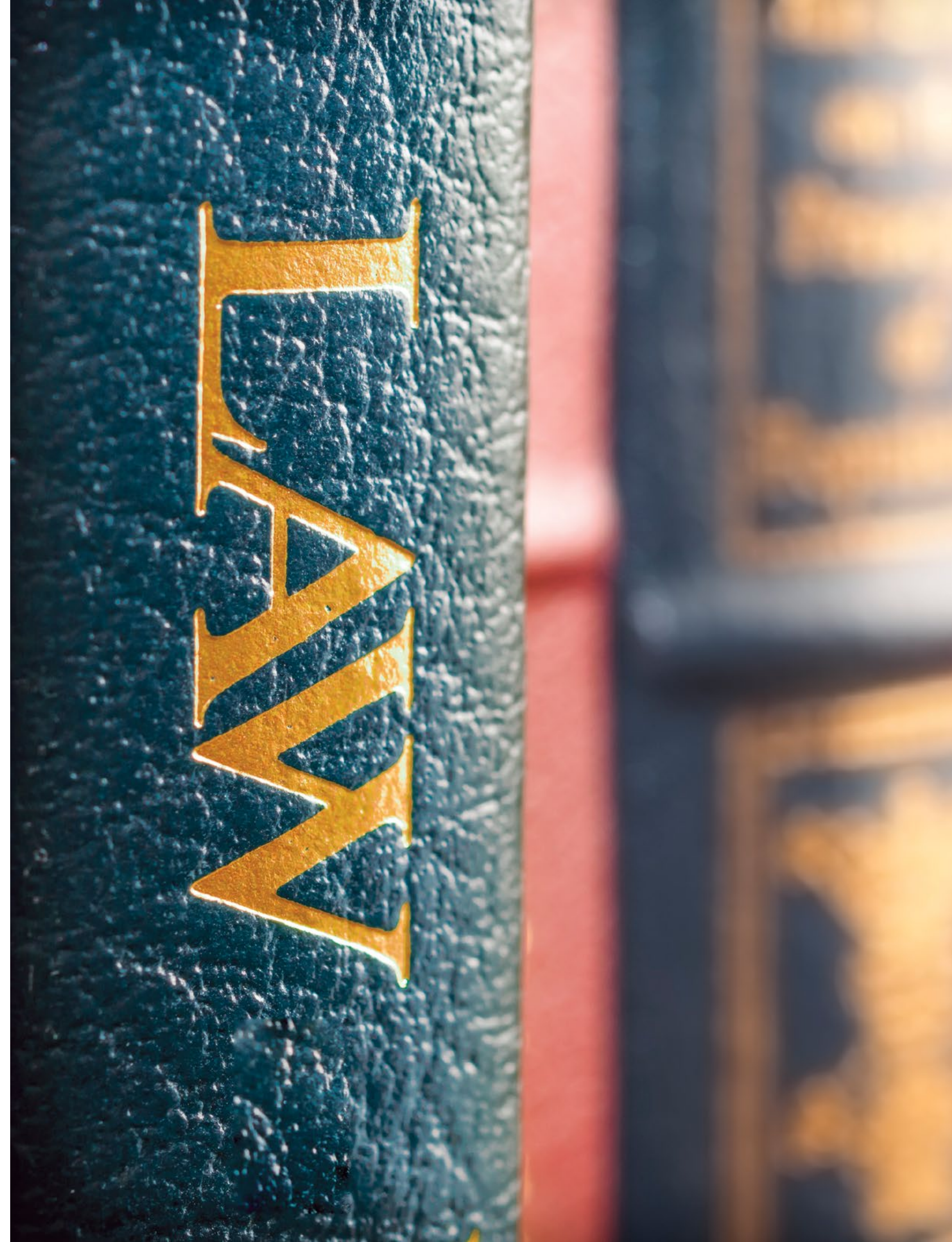
- Articles of incorporation
- Ratifications of the general meetings of shareholders
- Ratifications of the Board of Directors
- Other administrative and executive decrees

## › International regulations

- Rules and regulations governing the Iranian Petroleum Contract (IPC)
- Rules and regulations governing international commerce and trade
- Rules and regulations relating to international conventions on foreign investment
- Rules and regulations governing foreign investment in any country
- Rules and regulations regarding accepting foreign investment in Iran
- Rules and regulations governing financial institutions around the world
- Any other applicable regulations, laws, and agreements that apply to or affect Kharazmi Investment Group

## › Notes:

- The Securities and Exchange Organization of Iran (SEO) is the main regulatory body for Iran's securities markets
- Tehran Stock Exchange (TSE) is Iran's primary and largest stock exchange
- Iran Fara Bourse is Iran's over-the-counter (OTC) market for securities and other financial instruments





# RISK MANAGEMENT

Kharazmi Investment Group is exposed to a variety of risks that could adversely affect our ability to achieve our strategic objectives. This is why we take a robust approach to identifying, evaluating, monitoring, mitigating, and managing key risks.

The prolonged period of relative economic isolation significantly affected Iranian companies in several ways. Having been protected from the rigors of the global marketplace, businesses must now work quickly to bring their risk management practices in line with international standards. And so in 2013/14 we established a new Risk Office charged with defining, developing, implementing, and overseeing effective risk management policies and processes across the Group.

## › Risk management framework

The Board is responsible for setting overall strategic direction, and for determining the appropriate balance between risk avoidance and profit generation. The Board is supported by the Risk Committee, the Audit Committee, and the Risk Office, the latter of which reports directly to the CEO. Together, these bodies form an effective framework with clearly defined responsibilities for assessing and managing risk.

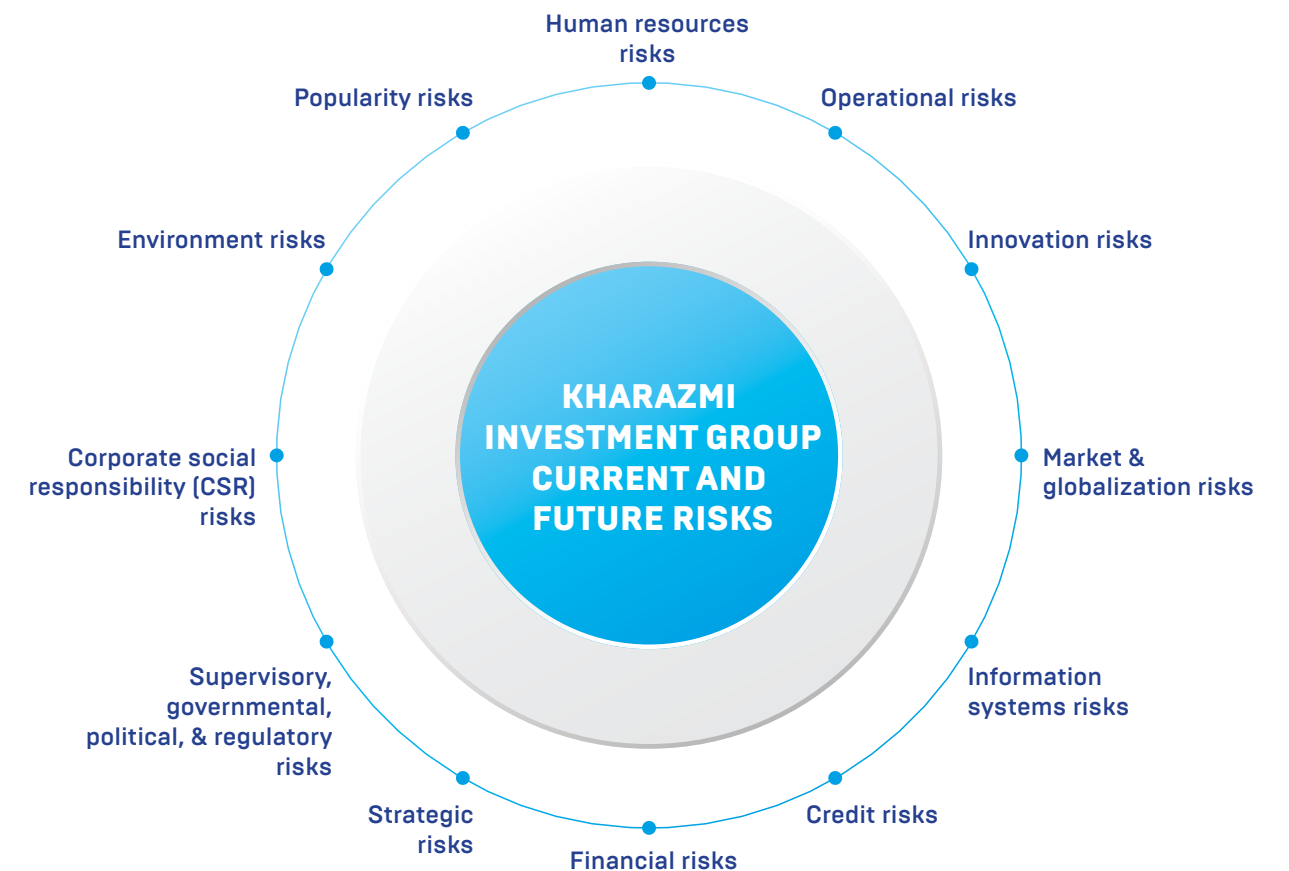
## › Responsibilities of the Risk Office

- Identify, understand, and assess risks
- Develop Group risk management policies in line with international best practice
- Evaluate the efficacy of various risk management methods and procedures
- Promote and nurture a risk-aware culture across the Group.

## › 2015/16 activities

The Risk Management office completed many important actions in the 2015/2016 fiscal year, including:

- Holding a four-day training workshop on implementing risk management, delivered with the guidance and advice of Professor Jalilvand from Loyola University Chicago and Senior Risk Management Advisor for Kharazmi Investment Group. The workshop involved assessing and prioritizing the major and minor risks of each company in the Group; incorporating guidance from the senior directors of the Group's investment-based companies; then drafting a Group-wide conceptual risk model, which was approved by the Risk Committee
- Drafting and compiling reports examining the status of Group companies' bank loans and deposited collaterals, which led to the drafting and presentation of reports on the quality of these assets
- Presenting a proposed model for determining necessary guarantees and required collateral deposits when receiving financial facilities
- Attempting to replace high-rate loans with low-rate facilities, to increase the Group's credit capacity and reduce its total cost of capital
- Drafting and compiling reports on the profit



quality of Group companies, and ranking the companies based on indicators of profit quality

- Drafting and compiling reports on the value at risk
- Drafting reports on risk identification and evaluation in the Homa Kids and Olympic construction projects.

## › 2016/17 risk outlook

- The most important future programs will focus on efforts to check and monitor risk indicators in each Group company. We will accomplish this by:
- Periodically inspecting Group company projects to review and monitor their status
- Drafting evaluation reports on Group

company financial statements, either as an analysis of financial ratios or a comparative analysis

- Assessing the implementation of corporate governance principles within Group companies
- Assessing the status of Group companies' annual or dormant accounts
- Assessing human capital indicators within Group companies
- Analyzing risk indicators in the Group's TSE-listed companies
- Examining and monitoring the parent company's budget and strategic plan
- Reviewing and monitoring the possible risks facing the Group, and updating risk management records as needed
- Analyzing Group companies' customer satisfaction ratings.



# HUMAN CAPITAL

Like many of Iran's most successful businesses, **Kharazmi Investment Group** has long relied on an informal approach to human resources, using our strong reputation and professional network to attract top talent. In doing so, we have succeeded in recruiting many well-educated, highly motivated professionals who have profound experience in our core sectors. Yet we recognize that in an increasingly competitive environment, we must take a more structured approach if we are to continue to recruit and retain the best people.

The Group's recently established Human Capital Committee is collaborating with our Logistics and Human Resources Division to design a progressive Human Capital Management Framework. This new framework will encompass planning, hiring, retaining, performance management, and development, with an initial rollout set for next year.

In addition to strengthening our ability to acquire new talent, the new framework aims to develop the potential that already exists within our business, and to ensure that the skills we nurture are aligned with our vision. Looking beyond our seven-year strategic plan, we seek to build the capability and commercial agility that will allow Kharazmi Investment Company to adapt to a rapidly changing global environment, and fully exploit new opportunities as they arise.



## › Kharazmi Investment Company employee education level

Education	2014/15	2015/16	[%] Change
Doctorate	13	13	0
Masters	11	12	9
Bachelors	20	21	5
Higher diploma	0	0	0
Up to high school diploma	13	10	-23
Total	57	56	-2

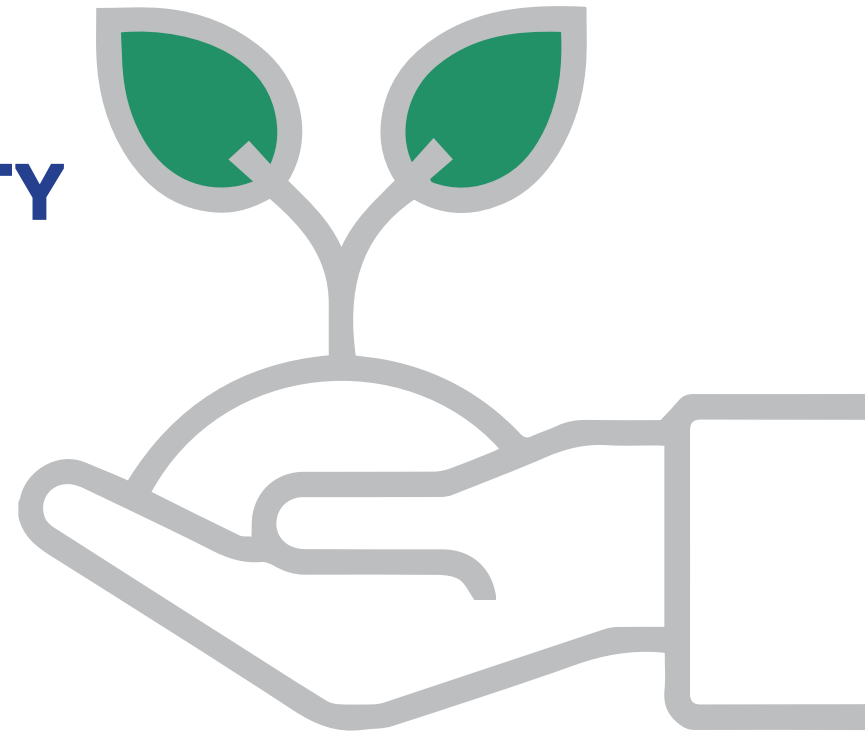
## › Kharazmi Investment Company employee years in service

Work Experience	2014/15	2015/16	[%] Change
More than 20	17	17	0
to 20 15	4	5	25
to 14 10	8	8	0
to 9 5	15	16	7
Less than 5	13	10	-23
Total	57	56	-2

## › Kharazmi Investment Company employee contracts

Type of Contract	2014/15	2015/16	[%] Change
Full-time	50	47	-6
Part-time	7	9	29
Total	57	56	-2

# CORPORATE SOCIAL RESPONSIBILITY



Complying with social responsibility standards can help organizations become more efficient and effective, gradually reducing overall costs. Taking steps to ensure environmental responsibility – including reducing resources and energy consumption, and reducing emissions and waste – minimizes environmental impacts while also avoiding the legal costs associated with litigation should the company fail to comply.

Companies that comply with social responsibility standards tend to offer products and services that are attractive and have non-monetary value for customers, helping boost motivation in employees. To look at it from another perspective, social responsibility can elevate the market status of a company's products, services, and overall brand. Observing social responsibility also leads to

lasting relationships with stakeholders, enabling companies to have better interactions with their stakeholders and more easily access investment resources. Furthermore, the positive correlation between social responsibility and the creation of long-term economic value has been proven; investments in companies that uphold standards of social responsibility have demonstrated stronger growth than investments in other companies.

The European Foundation for Quality Management Excellence Model mentions social responsibility as one of the eight values it uses to assess a company's excellence. In recent years, government and independent organizations that are active in the field of social and environmental issues in the U.S. and Europe have been assessed and ranked with a focus on social and environmental criteria.

The main factors influencing a company's performance according to these social responsibility standards are:

- Corporate governance, risk management, tax transparency, and anti-corruption in the domain of organizational governance
- Climate change, water problems, biodiversity, pollution issues, and conservation of resources in the area of environmental issues
- Responsibility toward customers, social rights, humanitarian issues, workplace health standards, and health and safety issues in the sphere of social matters.

Observing and responding to these issues makes companies more competitive and creates long-term economic value.

Kharazmi Investment Group's mission is to create sustainable wealth for generations and to contribute to economic and social development, especially in Iran but also internationally. With this in mind, we have taken steps to make sure our seven-year strategic plan incorporates principles of social responsibility. The most significant measures we have taken in this regard have involved:

- Restructuring corporate governance within Group companies, and especially in the parent company
- Holding quarterly or semi-annual meetings at the senior executive level, to help improve communication and synergy between Group company managers

- Setting up Group-wide risk management training courses, equipping specialized risk management teams within Group companies, and ultimately developing major risk management plans in accordance with each company's risk matrix
- Enhancing transparency and accountability by having Group companies disclose timely information in effective cooperation with the Securities and Exchange Organization (SEO), and increasing participating in domestic and international communications
- Increasing Group company stock liquidity by establishing and operating two special market-making funds for the Group's stock-controlling corporations (Kharazmi IT Development Company and Sina Darou Laboratories Company)
- Participating in and cooperating with the Department of Environment Green Film Festival
- Conducting environmental studies to help realize the Group's environmental ideals, especially in the power plant sector
- Supporting sports teams at the club level – for example, Kharazmi Trade Development Company now sponsors a judo team
- Cooperating with charity institutes and assisting people with incurable diseases (Kharazmi Ayande Negar Brokerage Company)
- Supporting charity organizations that care for children with cancer



- Supporting the publication of educational works about professional exams held in Iran's capital market (Kharazmi Ayande Negar Brokerage Company)
- Constructing major cultural and commercial complexes, to reduce traffic congestion in urban areas and less developed regions of the capital
- Planting trees in open spaces around ongoing development projects (Sadr Jahan Mining Development Company)
- Reducing energy consumption at the Group level by improving the organizational consumption culture
- Paying attention to the rights of customers and consumers by increasing the quality of products and services
- Offering new products with specific applications in the pharmaceuticals field
- Publishing a Persian-language book titled Please be a Manager, Boss!, with the cooperation of Hermes Books Publishing Company.

We take this process very seriously, and we know it is an ongoing process of improvement. This is why we are planning additional steps to achieve our operational objectives and uphold social responsibility standards, including:

- Taking actions to minimize environmental pollutants, especially in the power plant sector
- Improving Group-wide transparency and accountability by improving the transparency of our TSE-listed subsidiaries and preparing our non-listed companies to offer their shares on the market
- Promoting environmental management and efforts to achieve environmentally friendly technology
- Implementing 'green' supply chain management processes, with a focus on environmental awareness, and waste and energy efficiency
- Improving employee health and safety
- Supporting scientific and research in higher education (Kharazmi Ayande Negar Brokerage Company)
- Pursuing sustainable development and environmental management in our mining operations
- Helping improve education and health in the areas bordering our mining operations
- Creating jobs, employing local labor forces, and training specialists
- Establishing the export and supply of medicinal products to neighboring countries, to help treat and reduce the incidence of eye and respiratory diseases.

# AUDITED FINANCIAL STATEMENTS

FOR THE  
FINANCIAL  
YEAR  
ENDED  
JUNE 20, 2016

**Independent Auditor and Legal Inspector's Report**  
**To The Annual General Meeting of**  
**Kharazmi Investment Company (Public Joint Stock)**

**Report on the Financial Statements**

**Introduction**

1- We have audited the accompanying consolidated financial statements of Kharazmi Investment Company (Public Joint Stock) and its subsidiaries which comprise the statements of financial position as at June 20, 2016, income statements, the comprehensive income statement, statement of changes in equity and statement of cash flows for the fiscal year then ended, and a summary of significant accounting policies and other explanatory notes (1-39).

**Management's Responsibility for the Financial Statements**

2- Management is responsible for the preparation and fair presentation of these financial statements in accordance with Iranian Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

**Auditor and Legal Inspector's Responsibility**

3- Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Iranian Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over the entity's preparation and

fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Also, as the legal inspector of the company, we are responsible to report cases of non-compliance with the legal requirements mentioned in the Amendment of Commercial Law and the company's Articles of Association, and also other necessary cases, to the annual general meeting.

**Basis for Qualified Opinion**

4. Important notes related to subsidiaries are as follow:

4-1 Tax provision related to Sepehr Toseh Bargh & Energy for the year ended December 20, 2014 has been made as per taxation declared to the taxing authority. However, up to the date of this report, final tax review by the taxing authority is yet to be performed.

The tax return for the six-month financial period ended June 20, 2015 has been submitted and the tax provision has been reversed as mentioned in the notes 13-1-2-1 and 32 to the financial statements. As a result of this the related comparative figures are amended and restated. The tax return is yet to be reviewed by the taxing authority.

Furthermore, for the financial year under review, tax provision has been made equal to the tax declared to the taxing authority. Provision of such tax liability is necessary. However, the adequacy of such provision, would be subject to the review of the taxing authority.

4-2. Confirmation requested from Saderat Bank related to Sepehr Toseh Bargh & Energy is not received up to the date of this report.

4-3 .Reconciliation of intercompany balances between Kharazmi Toseh Sakhteman and Tehran Sepehr Investments has not been prepared and presented to us.

Signification of the probable adjustment arising from the limitations discussed in notes 4-2 and 4-3 above has not been possible.



**Qualified Opinion**

5 - In our opinion, except for the effects of the matter described in clause 4-1 and except for the possible effects of the matters described in clauses 4-2 and 4-3 in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Kharazmi Investment Company (Public Joint Stock) and its subsidiaries as at June 20, 2016 and its financial performance and its cash flows for the year then ended in accordance with Iranian Accounting Standards.

**Emphasis of matter**

6- The purchase contract related to the acquisition of Montazer Ghaam power plant was initially recorded as a financing facility (for the interim six-month period ended June 20, 2014). Subsequently after receipt of a valuation by an official expert from Department of Justice, the total amount of the contract was revised to the fair value of the power plant as per expert's valuation (Financial year ended December 20, 2014 and six-month period ended June 20, 2015).

Securities & Exchange Organization of Iran (SEO) opposed the latter accounting treatment and referred the case to the Quality Control of IACPA. The IACPA Quality Control team has released a statement that said "since the cash price of the contract is not available and the payments are to be done in installments, the present value of the future payments can be used to determine the value of the asset acquired."

Subsequently the subsidiary amended the accounts as per a letter received from SEO which had ordered to amend the Group's interim financial statements (unaudited) for six-month period ended December 20, 2015 without any further instructions regarding the adjusting method. Hence previously approved financial statements of the subsidiary was adjusted (calculated as present value of future instalment payments at discount rate of 8% per annum with the differences to the total contract price recorded as deferred expenses). The effect of such adjustment was subsequently reflected in the Group's consolidated financial statements as per note 13-1-2-1.

Without taking into consideration the legal requirement to reduce the tax expenses declared and also cut in the previously approved dividend per share of the subsidiary, it is noteworthy to mention that based on explanatory report issued by the subsidiary, the discount rate was initially calculated using six different methods. Subsequently the discount rate was determined based on the geometric mean of the six methods. The method used appears to be rational and logical.

7- As described in note 14-2 to the financial statements, the Parent Company final tax for the financial years ended June 20, 2013 and June 20, 2014 are in total IRR 133,630 million based on the taxing authority assessment.

As a result of an appeal over the final tax imposed, up to the date of this report, taxing authority has agreed to reduce part of the taxable income (from IRR 516,957 million to IRR 225,021 million) for the performance of the financial year ended June 20, 2013. The dispute over the final tax for the financial year ended June 20, 2014 is

referred to Tax Appeal Board. No tax provision has been made in the accounts for the abovementioned tax dispute.

Meanwhile for the years ended June 20, 2015 and 2016 no tax provision has been made as result of income tax exemption. Adequacy of the tax provision is subject to final review by the taxing authority.

Our opinion is not qualified as result of the above notes.

**Report on Other Legal and Regulatory Requirements Related to Kharazmi Investment Company (Public Joint Stock)****Report on Other Responsibilities of the Legal Inspector**

8- We have examined the transactions mentioned in note 37-3 to the financial statements, which include all the transactions incurred during the period and reported to us by the Board of Directors which are subject to article 129 of the Amendment of Iranian Commercial Code.

The mentioned transactions were entered in compliance with the requirements of the article which requires approval of the Board of Directors with the condition that the beneficiary management is not permitted to participate in the voting process. In our opinion these transactions are entered on a specific relationship which exist between the Company and the intercompanies.

9- We have reviewed the Board of Directors' report to shareholders for submission at the Annual General Meeting regarding the Company's activities and position as per subject of article 232 Amendment of Iranian Commercial Code. Based on our examinations, we have not come across any material instances of non-conformity of the information within the accounts and the records presented to us by the Board of Directors.

**Report on Other Legal and Regulatory Responsibilities of the Auditor**

10- In the lack required information, we were unable to check the conformity with the article 241 Amendment of Iranian Commercial Code.

11- In order to apply article 33 of Money Laundering Act, we assessed compliance with the content of the Act, related regulations and guidelines using checklists published by the related authorities and auditing standards. We did not come across any instances of material non-conformity.

Date: September 27, 2016

Daya Rahyaft  
Auditing and Management Services Institution  
Abdolhossein Farzan Gholamhossein Davani

Number of IACPA

(800595)

A. Farzan

(800503)



## CONSOLIDATED BALANCE SHEET

As at June 20, 2016

Assets	2016	(Restated) 2015
	IRR million	IRR million
<b>Current assets</b>		
Cash	870,538	818,364
Short-term investments	7,052,194	4,463,706
Receivables	9,903,624	8,804,029
Inventories	8,104,535	5,106,067
Prepays	887,571	787,632
<b>Total current assets</b>	<b>26,818,462</b>	<b>19,979,798</b>
<b>Non-current assets</b>		
Long-term receivables	42,208	34,353
Long-term investments	7,932,335	7,232,766
Intangible assets	250,427	113,701
Good will	146,879	131,295
Fixed assets	22,335,552	22,209,216
Other assets	25,414	9,144
<b>Total non-current assets</b>	<b>30,732,815</b>	<b>29,730,475</b>
<b>Total assets</b>	<b>57,551,277</b>	<b>49,710,273</b>

Liabilities and Equity	2016	(Restated) 2015
	IRR million	IRR million
<b>Current liabilities</b>		
Payables	12,564,223	8,364,593
Taxes payable	230,521	216,594
Dividends payable	1,453,992	1,433,455
Loans payable	8,155,447	6,319,742
Unearned revenue	1,314,247	196,863
<b>Total current liabilities</b>	<b>23,718,430</b>	<b>16,531,247</b>
<b>Non-current liabilities</b>		
Long-term payables	14,518,141	16,865,279
Long-term loans payable	733,173	833,512
Provision for staff termination pay	256,737	220,076
<b>Total non-current liabilities</b>	<b>15,508,051</b>	<b>17,918,867</b>
<b>Total liabilities</b>	<b>39,226,481</b>	<b>34,450,114</b>
<b>Shareholders equity</b>		
Share Capital	12,500,000	10,000,000
Shares of the parent company owned by subsidiaries	(77,246)	(50,351)
Unissued authorized shares	0	1,022,589
Legal reserves	999,939	823,894
Other reserves	630,480	145,809
Cumulative Exchange Differences	12,242	9,571
Retained earnings	2,065,462	1,602,549
<b>Total attributable to the parent company</b>	<b>16,130,877</b>	<b>13,554,061</b>
Non-controlling interest	2,193,919	1,706,098
<b>Total equity</b>	<b>18,324,796</b>	<b>15,260,159</b>
<b>Total liabilities &amp; Shareholders Equity</b>	<b>57,551,277</b>	<b>49,710,273</b>



## CONSOLIDATED INCOME STATEMENT

For The Year Ended June 20, 2016

	2016	(Restated) 2015
	IRR million	IRR million
Operating income	15,383,908	11,847,383
Cost of goods sold and services	(8,800,231)	(6,332,007)
<b>Gross profit</b>	<b>6,583,677</b>	<b>5,515,376</b>
Share of the group from profit of affiliated companies	137,945	78,049
Selling and administrative expenses	(715,315)	(561,184)
Other operating income/expenses	283,498	(234,647)
	(431,817)	(795,831)
<b>Operating profit</b>	<b>6,289,805</b>	<b>4,797,594</b>
Interest expenses	(2,851,265)	(2,848,605)
Non-operating income	38,562	74,754
	(2,812,703)	(2,773,851)
<b>Profit before tax</b>	<b>3,477,102</b>	<b>2,023,743</b>
Income tax	(307,736)	(258,327)
<b>Net profit</b>	<b>3,169,366</b>	<b>1,765,416</b>
NCI net profit	466,352	281,963
Rights attributable to owners of the parent company	2,703,014	1,483,453
<b>Basic EPS (IRR):</b>		
Operating	345	494
Non-operating	(127)	(363)
<b>Basic EPS</b>	<b>218</b>	<b>131</b>

	2016	(Restated) 2015
	IRR million	IRR million
<b>Consolidated Statement of Retained Earnings</b>		
Net profit	3,169,366	1,765,416
Retained earning at the beginning of the year	3,747,697	2,584,796
Annual adjustments	(1,786,577)	(71,027)
Retained earning at the beginning of the year- adjusted	1,961,120	2,513,769
Dividends declared	(1,931,118)	(1,983,700)
Change of NCI from retained earnings	36,129	39,229
	66,131	569,298
Attributable profit	3,235,497	2,334,714
<b>Allocation of profit:</b>		
Legal reserves	(191,802)	(230,528)
Other reserves	(484,671)	(143,066)
	(676,473)	(373,594)
Retained earnings as at June 20	2,559,024	1,961,120
Retained earnings attributable to NCI	493,562	358,571
<b>Retained earnings attributable to the shareholders of the parent company</b>	<b>2,065,462</b>	<b>1,602,549</b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Year Ended June 20, 2016

	2016	[Restated] 2015
	IRR million	IRR million
Net profit	3,169,366	1,765,416
Foreign operations-foreign currency translation differences	2,671	3,767
Comprehensive income	3,172,037	1,769,183
Annual adjustment	(1,786,577)	(71,027)
Adjusted income	1,385,460	1,698,156
Comprehensive income attributable to NCI	461,589	252,003
<b>Comprehensive income attributable to the shareholders of the parent company</b>	<b>923,871</b>	<b>1,446,153</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

For The Year Ended June 20, 2016

	2016	[Restated] 2015
	IRR million	IRR million
<b>Operating activities</b>		
Cash flows from operating activities	3,119,776	1,327,342
<b>Return from investment &amp; dividend paid</b>		
Interest paid	(2,865,412)	(2,909,907)
Dividends paid to the parent shareholders	(539,662)	(623,568)
Dividends paid to the NCI	(510,890)	(151,722)
Net cash outflow from investment & dividend paid	(3,915,964)	(3,685,197)
<b>Income tax</b>		
Income tax paid	(215,275)	(229,027)
<b>Investing activities</b>		
Fixed assets disposal	302,905	123,701
Purchase of fixed assets	(1,441,204)	(902,695)
Purchase of intangible assets	(138,595)	(20,562)
Net outflow of cash resulted from investment activities	(1,276,894)	(799,556)
Net outflow of cash before financing activities	(2,288,357)	(3,386,438)
<b>Financing activities</b>		
Proceeds from issue of share capital	617,382	738,789
Amount paid acquiring shares of parent company by subsidiaries	(26,895)	(32,611)
Proceeds from new borrowings	6,617,981	8,178,375
Repayment of borrowings	(4,868,468)	(5,556,349)
Net inflow of cash resulted from financing activities	2,340,000	3,328,204
Net increase (decrease) in cash	51,643	(58,234)
Cash at the beginning of the year	818,364	874,500
Effect of movements in exchange rate on cash held	531	2,098
<b>Cash at the end of the year</b>	<b>870,538</b>	<b>818,364</b>
Non-cash transactions	1,569,408	925,361



## BALANCE SHEET

As at June 20, 2016

Assets	2016	[Restated] 2015
	IRR million	IRR million
<b>Current assets</b>		
Cash	469,420	107,627
Short-term investments	4,625,098	4,597,488
Receivables	1,180,481	1,310,122
Prepays	41,422	1,778
<b>Total current assets</b>	<b>6,316,421</b>	<b>6,017,015</b>
<b>Non-current assets</b>		
Long-term receivables	914,039	3,628,652
Long-term investments	14,672,866	12,136,804
Intangible assets	413	402
fixed assets	519,984	99,944
Other assets	405	405
<b>Total non-current assets</b>	<b>16,107,707</b>	<b>15,866,207</b>
<b>Total assets</b>	<b>22,424,128</b>	<b>21,883,222</b>

Liabilities and Equity	2016	[Restated] 2015
	IRR million	IRR million
<b>Current liabilities</b>		
Payables	111,986	1,820,233
Taxes payable	0	0
Dividends payable	1,222,604	1,059,796
Loans payable	3,220,255	3,018,739
<b>Total current liabilities</b>	<b>4,554,845</b>	<b>5,898,768</b>
<b>Non-current liabilities</b>		
Long-term loans payable	437,418	592,899
Provision for staff termination pay	8,720	7,625
<b>Total non-current liabilities</b>	<b>446,138</b>	<b>600,524</b>
<b>Total liabilities</b>	<b>5,000,983</b>	<b>6,499,292</b>
<b>Shareholders equity</b>		
Share Capital	12,500,000	10,000,000
Unissued authorized shares	0	1,022,589
Legal reserves	818,199	711,983
Other reserves	1,530,583	1,045,912
Retained earnings	2,574,363	2,603,446
<b>Total equity</b>	<b>17,423,145</b>	<b>15,383,930</b>
<b>Total liabilities &amp; shareholders equity</b>	<b>22,424,128</b>	<b>21,883,222</b>

## INCOME STATEMENT For The Year Ended June 20, 2016

	2016	[Restated] 2015
	IRR million	IRR million
Operating income	3,056,331	3,773,785
Selling and administrative expenses	(103,911)	(78,180)
Other operating expenses	(50,687)	(168,028)
	(154,598)	(246,208)
<b>Operating profit</b>	<b>2,901,733</b>	<b>3,527,577</b>
Interest expenses	(871,142)	(755,849)
Non-operating income	93,712	563
	(777,430)	(755,286)
<b>Profit before tax</b>	<b>2,124,303</b>	<b>2,772,291</b>
Income tax	0	0
<b>Net profit</b>	<b>2,124,303</b>	<b>2,772,291</b>
<b>Basic EPS (IRR):</b>		
Operating	233	309
Non-operating	(62)	(66)
<b>Basic EPS</b>	<b>171</b>	<b>243</b>

### Statement of Retained Earnings

	2016	[Restated] 2015
Net profit	2,124,303	2,772,291
Retained earnings at the beginning of the year	3,861,070	2,560,746
Annual adjustments	(1,257,624)	15,331
Retained earnings at the beginning of the year-adjusted	2,603,446	2,576,077
Dividends declared	(1,562,500)	(1,500,000)
	1,040,946	1,076,077
Attributable profit	3,165,249	3,848,368
Legal reserves	(106,215)	(201,496)
Other reserves	(484,671)	(1,043,426)
	(590,886)	(1,244,922)
<b>Retained earnings as at June 20</b>	<b>2,574,363</b>	<b>2,603,446</b>

As the components that form comprehensive statement of income are limited to the profit of the fiscal year and annual adjustment, therefore comprehensive statement of income has not been submitted.

## STATEMENT OF CASH FLOWS For The Year Ended June 20, 2016

	2016	[Restated] 2015
	IRR million	IRR million
<b>Operation activities</b>		
Net cash from operating activities	1,446,024	(2,133,016)
<b>Return from investment &amp; dividend paid</b>		
Interest paid	(871,535)	(413,751)
Dividends Paid	(539,662)	(623,519)
Net outflow of cash return from investment & dividend paid	(1,411,197)	(1,037,270)
<b>Investment activities</b>		
Fixed assets disposal	162,400	283
Purchase of fixed assets	(499,233)	(5,154)
Paid amounts for purchase of intangible assets	(11)	(44)
Net outflow of cash resulted from investment activities	(336,844)	(4,915)
Net outflow of cash before financing activities	(302,017)	(3,175,201)
<b>Financing activities</b>		
Proceeds from issue of share capital	617,382	738,789
Financial facilities received	177,500	2,000,000
Repayment of borrowings	(131,072)	(111,204)
Net inflow of cash resulted from financing activities	663,810	2,627,585
Net increase (decrease) in cash	361,793	(547,616)
Cash at the beginning of the year	107,627	655,243
<b>Cash at the end of the year</b>	<b>469,420</b>	<b>107,627</b>
Non-cash transactions	1,196,268	895,499







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