



Kharazmi

INVESTMENT COMPANY (PJS)

Annual Report

2016 / 2017

**“
SUSTAINABLE
WEALTH
CREATION FOR
GENERATIONS
”**

KHARAZMI INVESTMENT COMPANY

At a Glance

STRATEGIC SECTORS



Power



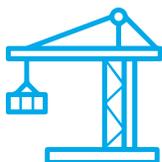
Mining &
Related Industries



Oil, Gas &
Petrochemicals



Banking



Construction &
Real Estate



International
Trade



ICT



Other high-yield
capital market
opportunities

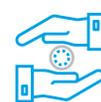
All values in IRR* trillion

13



SUBSIDIARY COMPANIES

12.5



TOTAL CAPITAL

24.3



TOTAL ASSETS

17.2



TOTAL EQUITY

67



EMPLOYEES (PARENT COMPANY)

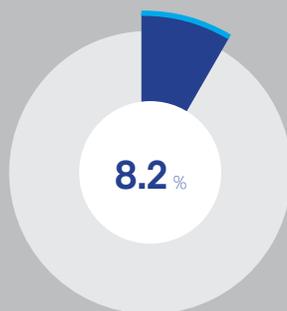
1,715



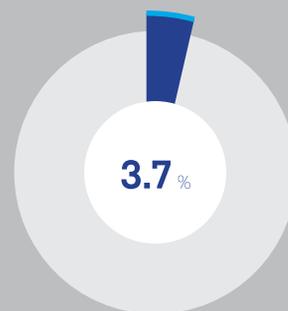
EMPLOYEES (GROUP-WIDE)

* IRR 32,495=1 USD; Based on the official foreign exchange rate of the Central Bank of the Islamic Republic of IRAN, on June 21, 2017

Growth Indicators (2016-17 Growth)



TOTAL ASSETS



TOTAL INVESTMENTS

2020 Vision

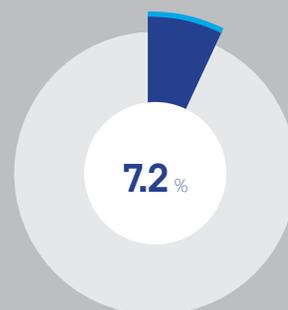
Total assets 1% of GDP

Top 5 investment holding company in Iran (total assets)

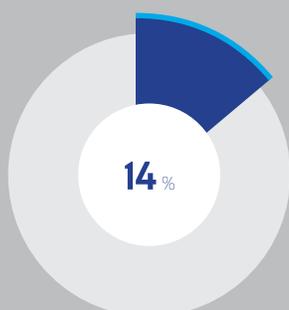
Top 50 company in Iran (IMI)

Key Performance Indicators

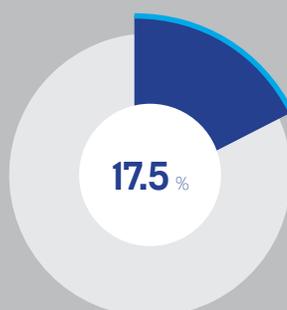
(Annualized Change over four-year 2014-17)



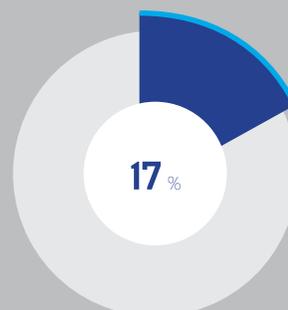
TOTAL SHAREHOLDER RETURN (TSR)



RETURN ON ASSETS (ROA)



RETURN ON EQUITY (ROE)



RETURN ON CAPITAL EMPLOYED (ROCE)

IN THE NAME OF GOD



WHO W



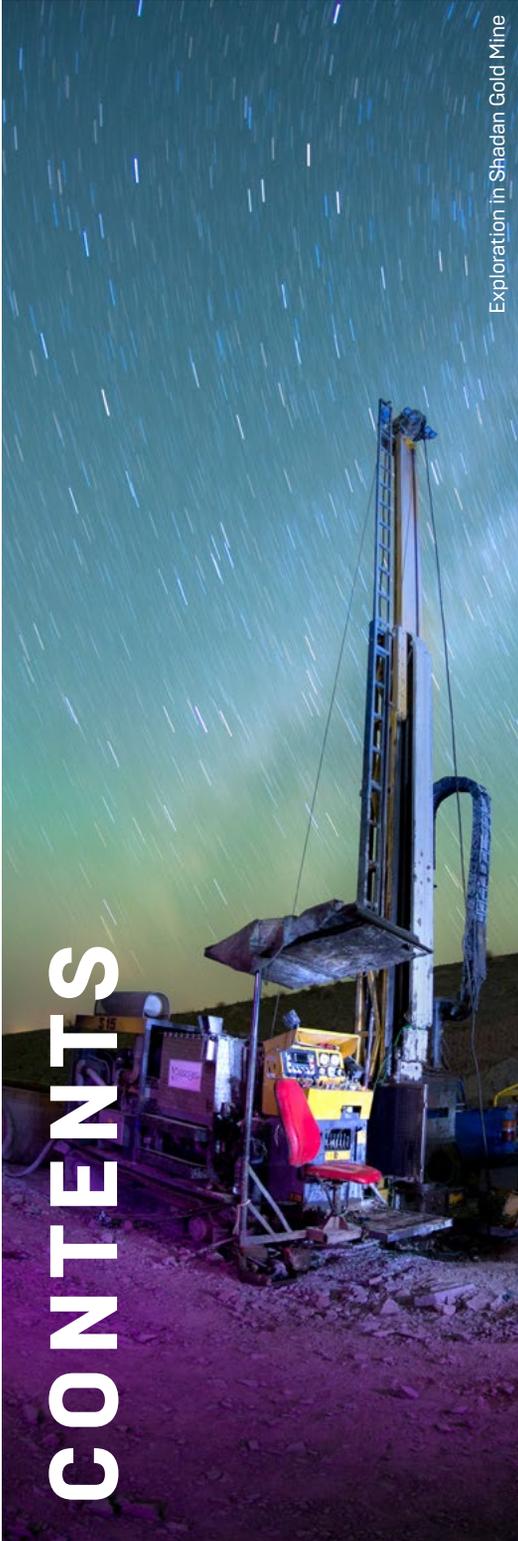
WE ARE

Kharazmi Investment Company is one of Iran's leading investment firms, with the ownership of or a controlling interest in 13 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 60 trillion.

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Exploration in Shadan Gold Mine



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CEO MESSAGE



We have come a long way!

This past year we celebrated Kharazmi Investment Group's twentieth anniversary, which coincided with the fourth year of KIC's seven-year strategic plan to create sustainable wealth for generations. We certainly have come a long way.

For this reporting period, we recorded achievements in a market where many companies had to adjust their projected profit and loss. This, of course, was due to continued economic recession experienced by many, as well as financial and liquidity tightness coupled with structural business challenges. As the Iranian

banks aimed to access global financial market, complying with the internationally practiced laws and regulations was required. However, the transitional process and complications associated with the implementation of new banking and accounting regulations had significant bearings on the Group's economic activities and assets. Under these circumstances, charting a course toward sustainable profitability required exceptional precision, effort, and the combined intelligence of our people. During the reporting year, Kharazmi Investment Group took important steps to achieve the goals set out in the seven-year strategic plan, notably the goal of being among the top 100 companies of Iran.

Aiming to be instrumental in our own economy, Kharazmi Group is fully committed to its corporate social responsibilities. To achieve this, the group lends itself to the general public healthcare and pharmaceutical products, invests and builds small-scale efficient power plants. It constructs large-scale public commercial structures that serve community and participates in the national oil, gas & petrochemical revitalization projects. Similarly, we took other measures such as exploring precious metal mines (gold, and copper) by utilizing latest environment friendly technology, and at the same time, building 20 new power plants in collaboration with major international companies. Achieving the goals of our

seven-year strategic plan involves taking steps that have been planned months and even years in advance. Our most important work leading up to June 20, 2018 will be to increase productive assets and grow profitability. To this end, we will focus on:

- › Continuously optimizing the investment portfolios
- › Increasing the production capacity and efficiency of the Montazer Ghaem power plant
- › Completing the Sina Darou renovation plan and utilizing the new production facilities
- › Continuing to excavate and explore gold and copper mines owned by the Sadr Jahan Mining Development Company, and using foreign financing to begin construction on processing plants
- › Increasing the volume of operations and contracts at the Niroo Parse Power Plant Production & Development Company, allowing it to build small-scale power plants
- › Maintaining and expanding cooperation with reputable international companies to attract foreign investments
- › Utilizing growth and expansion opportunities existing in Iran and neighboring countries, and providing for a large population of almost 300 million people, Kharazmi Group has established footprints in the Middle East, Europe, the Far East and Australia to better assist and expedite the ongoing growth and development
- › Implementing an operational plan to expand activities in financial markets, including establishing new funds and access to new tools in the capital market
- › Building an effective presence in international markets through Ati Negar Sapehr Iranian Investment Company, Kharazmi Investment Management Development Company and Kharazmi Ayande Negar Brokerage Company
- › Involving Ziema Oil, Gas and Petrochemical Company in support of national oil & gas revitalization plan by participating as EPCF Contractor in the various upstream-downstream projects
- › Participating in new Information and Communication Technology (ICT) investments and support knowledge-based businesses.

To make sure Kharazmi Investment Company achieves the best results from these efforts, we have already begun optimizing our financial structure and cost management measures. We have listed most of our companies on Tehran Stock Exchange as we made initial public offering (“IPO”) and took steps toward improvements of the quality and efficiency of intellectual capital in the framework of Corporate Social Responsibility. All of these efforts is believed to be the Group’s most valuable asset.

Nonetheless, we believe that moving along an uneven path and coping with barriers large and small are natural challenges for any businesses. We also believe that with our sound planning and systematic resolve, we can successfully achieve the goals we have set for Kharazmi Investment Group. This will require a tireless dedication to progress, development and support of KIC’s shareholders and employees. Now, going forward, we pause and look backward to see what we have achieved. We know we have come a long way and realize that we still have a long way to go.

Hojatollah Saydi
CEO and Vice Chairman



GLOBAL ECONOMY OVERVIEW

Global investment, manufacturing, and trade activity grew in the fiscal year, continuing a sustained recovery period. In its July 2017 edition of the World Economic Outlook, the International Monetary Fund (IMF) said the global economic growth rate is projected to rise from 3.2% in 2016 to 3.5% in 2017 and 3.6% in 2018.

“Stronger activity and expectations of more robust global demand, coupled with agreed restrictions on oil supply, helped commodity price recover from their troughs of early 2016. Economic activity increased in the second half of 2016, especially in advanced economies, but economic performance remained mixed in emerging markets and developing countries whereas China’s growth remained strong but activity slowed in India as well as Brazil.”¹

In the second half of 2016, the stronger global momentum in demand – for investment in particular – markedly improved manufacturing and trade performance, which had been very weak in late 2015 and early 2016.

Production of consumer durables and capital goods rebounded in the second half of 2016 due to a number of factors, including a gradual global recovery in investment supported by infrastructure and real estate investment in China. Commodity prices have strengthened, and forward-looking indicators such as the Purchasing Managers’ Index (PMI) suggest that strong manufacturing activity will continue into early 2017.

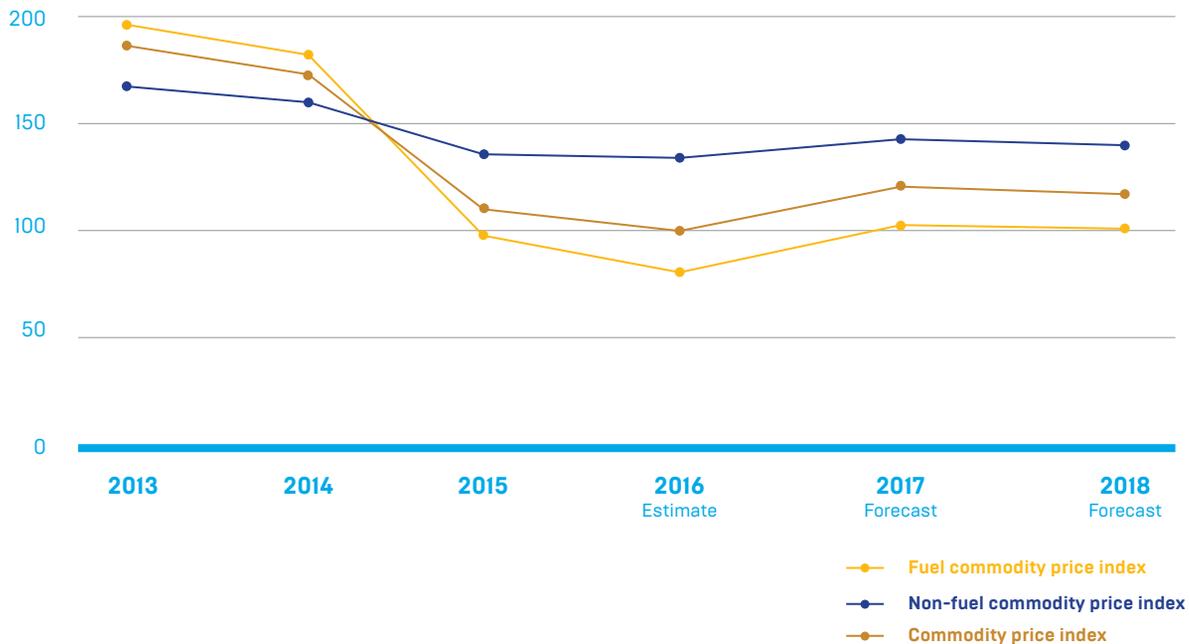
Organization of the Petroleum Exporting Countries (OPEC) members agreeing to an oil output freeze helped oil prices rise from their lowest levels back in early 2016, with oil prices increasing by around 20% between August 2016 and February 2017.

According to most international forecasts, the crude oil price will grow slowly but gradually over the next three years, fluctuating between USD 50 and USD 60 per barrel.

Among non-fuel commodities, metal prices increased by 23.6% and agricultural commodity prices by 4.3% in 2016.

Metal prices were supported by more real estate investment and efforts to reduce capacity in China, and anticipated fiscal policy easing in the United States. However, the World Bank has released forecasts indicating that basic metal prices will not record a considerable growth within the next three years.

› Price index trend for fuel and non-fuel commodities compared to global commodity price index, 2013–18



The increase in commodity prices has helped global inflation recover since August 2017. The increase in global producer price inflation has been particularly marked, reflecting the greater weight of commodities in producer price indices when compared with consumer price indices, as well as the importance of commodities as intermediate inputs in production. Notably, China's producer prices have emerged from deflation after four years, reflecting higher raw material prices, efforts to reduce excess industrial capacity, and recovering real estate investments.

Global consumer price inflation also ticked up, carried by the rising retail price of gasoline and other energy-related products. This movement has been especially strong

for advanced economies, where 12-month consumer price inflation stood slightly above 2% in February 2017, more than double the average annual inflation rate of 0.8% in 2016.

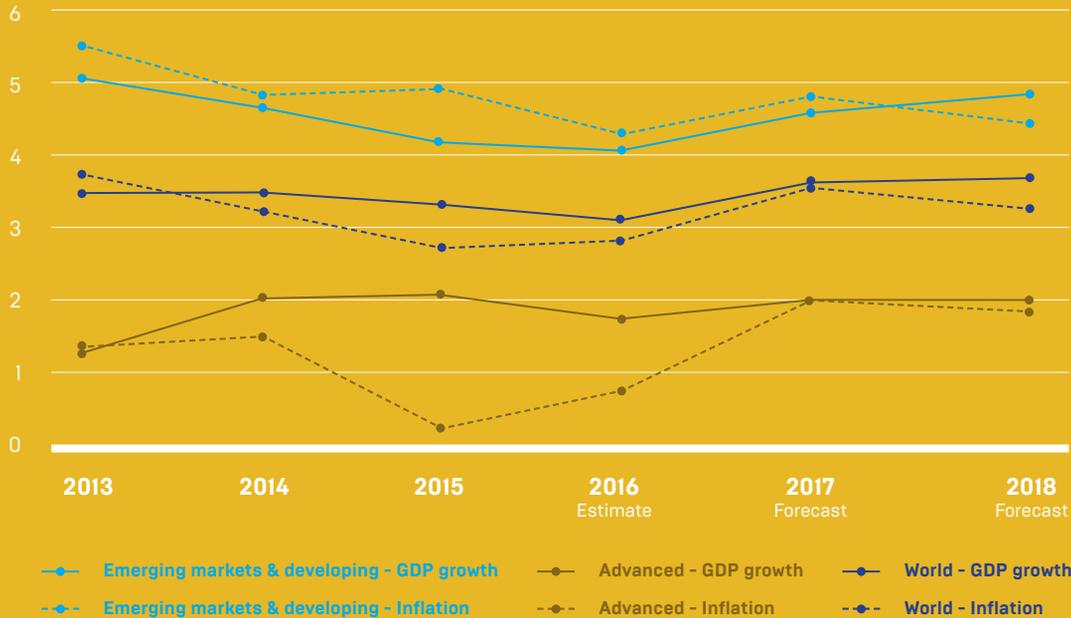
By contrast, core inflation barely rose and remains well below central banks' targets in almost all advanced economies. The revival in headline consumer inflation is more recent in emerging market economies, where the impact of higher fuel prices has only just started to outweigh the downward pressure from the fading of earlier exchange rate depreciation.

Near- and long-term inflation expectations remain subdued. In advanced economies, survey-based consumer price inflation expectations for 2017 only very recently stopped

forecasting a fall; expected inflation for the next 10 years looks like it may register an increase but only after declining steadily in 2015 and 2016.

Economic activity in advanced economies as a group is now forecast to grow by 2% in 2017 and 1.9% in 2018, mainly based on the recovery of world production levels and a decrease in uncertainty following the U.S. presidential elections in November 2016. That said, the change in U.S. economic policies under the new administration renders this growth forecast somewhat ambiguous. In particular, the inward-looking policies Donald Trump declared during his election campaign continue to raise concerns about a decline in global trade and the potential for a trade war.

› Global economic growth and inflation among advanced and developing economies, past trends and future forecasts



Growth among emerging markets and developing economies is forecast to rise to 4.6% in 2017 and 4.8% in 2018, from an estimated 4.3% in 2016. This projected upturn reflects a stabilization or recovery for various commodity exporters and stronger growth in India, partially offset by a gradual slowdown in the Chinese economy. Nevertheless, economic growth in these markets is expected to remain uneven and generally below their average performance for 2000–2015. India is expected to become the world’s third largest economy in the coming years, and the having the highest rates of economic growth among major economies will partly offset the global effect of China’s easing growth.

The Economy of Europe

1.9%

Euro area economy growth forecast 2017

In the euro area, recovery is expected to proceed at a broadly similar pace in 2017 and 2018 as it did in 2016. The modest recovery is projected to be driven by numerous factors, such as a mildly expansionary fiscal stance, accommodative financial conditions, a weaker euro, beneficial spillovers from potential U.S. fiscal stimulus, political uncertainty pending elections in several countries, and uncertainty about the European Union’s future relationship with the United Kingdom.

Output in the euro area is expected to grow by 1.9% in 2017 and 1.7% in 2018. Growth is forecast to soften in Germany (from 1.8% in 2017 to 1.6% in 2018) and France (1.5% in 2017 and 1.7% in 2018). The medium-term outlook for the area as a whole remains dim, with projected potential growth held back by weak productivity, adverse demographics, and – in some countries – unresolved legacy problems of public and private debt overhang combined with a high volume of non-performing loans.

The US Economy

2.1%



The U.S. economy growth forecast 2017

The U.S. economy is projected to pick up pace in 2017 and 2018, with growth forecast at 2.1% annually. This stronger near-term outlook follows on from momentum gathered in the second half of 2016, driven by a cyclical recovery in inventory accumulation, solid consumption growth, and the expected loosening of fiscal policy. The anticipated policy shift has so far buoyed financial markets and strengthened business confidence, which could further fuel this current momentum. However, looking toward a longer horizon, the outlook for the U.S. economy is more subdued. Potential growth is estimated at only 1.8% per year in the longer term, weighed down by an aging population and weaker total factor productivity (TFP) figures.

Growth in China is projected to reach 6.7% in 2017, slowing to 6.4% in 2018. The upward revision to near-term growth reflects China's stronger than expected momentum in 2016, plus the anticipation of continued policy support in the form of strong credit growth and reliance on public investment to achieve growth targets. The medium-term outlook, on the other hand, remains clouded by increasing misallocation of resources and reliance on near-term policy easing and credit financed investment, which contribute to growing market vulnerabilities. Some international institutions such as Goldman Sachs and Moody's believe China's economic growth will quickly slow down and reach 4% within the next three years. Among the reasons for this worrying outlook are the decline in capital productivity; an aging population; and substantial debt, which has reached more than 250% of the gross domestic product (GDP).

The decline in China's economic growth is coupled with its major economic transition from an investment- and manufacturing-based economy to one centered on domestic consumption and services, dramatically reducing the growth in demand for energy and basic goods. This in turn will have significant repercussions for the global economy, especially for economies that export energy and basic goods.

The Economy of China

6.7%



China economy growth forecast 2017

In Japan, a comprehensive review of the national accounts led to an upward revision of historical growth rates, placing the 2016 growth estimate at 1%. This upward movement, fueled by stronger than expected net exports in 2016, is expected to continue into 2017, with growth forecast at 1.3%. However, this momentum will be short-lived, leading into an estimated economic growth of just 0.6% by 2018. The pace of expansion is expected to weaken thereafter; assumed withdrawal of fiscal support and recovering imports will likely offset the impact of strong anticipated foreign demand. Over the medium term, a shrinking labor force will also weigh on Japan's growth prospects, although per capita income growth rates should remain near those of the past several years.

The Economy of Japan

1.3%



Japan economy growth forecast 2017

DOMESTIC ECONOMY OVERVIEW



In 2016/17 (1395 in the Persian calendar), the Iranian economy launched its sixth Five-Year Development Plan. This plan focuses on developing and empowering the national economy pioneering in the field of science and technology, and achieving cultural excellence and consolidation.

Continuing a downward trend that began in 2013/14 (1392), the consumer inflation rate declined to 9% in 2016/17 (1395), its lowest rate since 1991/92 (1370).

The producer inflation rate continued to stand below the consumer inflation rate in 2016/17 (1395), even with low consumer inflation rates continuing into 2017/18 (1396). The signing of the Joint Comprehensive Plan of Action (JCPOA), also known as Iran Nuclear Deal, generated significant optimism, yet declining global oil prices over the past three years have had adverse effects on many economic activities. Combined with structural problems in financial markets and financial constraints within Iran, a decrease in total demand gradually drew many sectors into a recession in 2015/16 (1394).

These trends continued into 2016/17 (1395), when the Iranian economy faced challenges such as an escalating banking system crisis; shortcomings in the full implementation of JCPOA and delays in lifting all associated sanctions; continued problems with hard currency transfers; and the high level of government debt. On the other hand,

the lifting of certain restrictions led to increased crude oil output and export, starting in the period from January to March 2016 (the last quarter of 1394) and reaching nominal capacities by 2016/17 (1395). The oil industry sector also recorded a 61.6% increase in value added, which – along with a moderate growth in industries such as mining, agriculture, and services, coupled with negative growth in the construction sector – helped Iran register a growth in GDP of 12.5% in 2016/17 (1395).

In the meantime, according to data published by the Central Bank of the Islamic Republic of Iran (the Central Bank), GDP growth minus oil stood at 3.3% during the reporting year, a sign that the recession may be coming to an end. It is worth noting that oil output reaching its capacity ceiling casts doubt on the possibility of continued economic growth from within the oil sector in 2017/18 (1396). Nevertheless, if the current conditions governing the oil market persist, the indirect effect of oil revenues raising general and infrastructure development budgets will continue to influence the economy.



3.3%

GDP growth minus oil in 1395
(2016/17)

Despite an unprecedented economic growth of 12.5%, the investment growth rate was still negative in 2016/17 (I395), at -3.7%. The investment growth rate has been negative over the past four years, except for 2014/15 (I393). This raises concerns about the possibility of sustaining high economic growth rates in the coming years.

The volume of liquidity at the end of 2016/17 (I395), affected by the 17.3% growth of the monetary base, reached IRR 12,534 trillion, representing a 23.2% growth compared with 2015/16 (I394). In 2016/17 (I395), the cash share from total liquidity was IRR 1,603 trillion, 19.3% higher than in 2015/16 (I394). The share of quasi-money from the total liquidity volume was also IRR 10,904 trillion, up 23.8% year on year. In fact, the high rate of real interest in the economy means that strong liquidity growth has not resulted in inflation. However, a significant rise in liquidity is expected to affect price increases in general, which may lead to higher inflation in the coming years.

Thanks to the continued drop in inflation over the recent years, the Central Bank's agenda has included some corrective measures. These include using interbank market capacities to gradually reduce lending rates, and interest rates on bank deposits; restoring order to the money market by organizing unauthorized institutions; putting bank loans in order; and adjusting the authorized deposits ratio. In 2016/17 (I395), the Central Bank officially reduced the interest rate on bank deposits from 22% in 2015/16 (I394) to about 15%, although there were doubts about compliance among banks and credit institutions, which seemed to apply higher rates than those officially mandated.

The challenges facing the banking system – especially the banks' liquidity dilemma caused by frozen assets such as non-current receivables, claims from the government, and owned properties – led to a reform of the banking system. This reform has a triple focus: solving the problem of cash flow and frozen assets; managing the government's debts; and increasing bank capital in cooperation with the government and the Central Bank. As a first step, the Central Bank implemented the International Financial Reporting Standards (IFRS) so that banks are required to be more transparent about their financial statements.

Government revenues increased by about 30% in 2016/17 (I395) compared with the figures for 2015/16 (I394). During this period, tax revenues increased by about 28%, while oil revenues rose by 10% despite price cuts and increased exports. Central Bank data shows that over the past four years, growth in tax revenue has always been higher than growth in oil revenues, demonstrating a decline in the government's general budget reliance on oil revenues. The government's current expenditures grew significantly in 2016/17 (I395), by more than 15% in real terms. It is worth noting that government spending tends to accelerate in the years leading up to a presidential election.

Concurrent with the GDP growth, the trade balance in 2016/17 (I395) increased by more than 71% compared to the previous year, mainly affected by the growth of oil exports, which reached USD 20,843 million. Despite a 9% decline in non-oil exports, total commodity export growth in the reporting year was affected by a 66% increase in oil exports, up 30% from the previous year. Significant growth in 2016/17 (I395) foreign exchange earnings, coupled with the positive economic expectations following JCPOA, allowed the government to maintain a stable exchange rate.

71%



Trade balance increased in I395 (2016/17)



› Iran's economic indicators, 1392 (2013/14) to 1395 (2016/17)

(All values in IRR billion; except where indicated otherwise)

Description ¹	1392 (2013/14)	1393 (2014/15)	1394 (2015/16)	1395 (2016/17)
Liquidity	6,395,500	7,823,800	10,172,800	12,533,900
Liquidity growth (%)	38.8	22.3	30.0	23.2
Inflation (%)	34.7	15.6	11.9	9.0
GDP at base price	5,854,000	6,043,000	5,947,000	6,691,000
GDP growth (%)	[0.3]	3.2	[1.6]	12.5
GDP at base price minus oil	5,013,000	5,163,000	5,003,000	5,167,000
Growth of GDP minus oil (%)	0.5	3.0	[3.1]	3.3
Total government revenues without oil	717,400	977,600	1,123,700	1,459,900
Government tax revenues	494,200	709,700	791,900	1,014,700
Government oil revenues	609,400	629,200	670,400	738,800
Current expenditures	1,197,600	1,438,300	1,716,600	2,070,200
Development infrastructure expenditure	220,200	299,500	272,000	421,000
Current account balance (USD million)	25,105	13,571	9,016	16,388
Balance of trade (commodity account; USD million)	29,326	18,060	12,178	20,843

2016/17 IN BRIEF

The historical agreement of July 2015 between Iran, the United Nations P5+1 (the five permanent members of the Security Council, plus Germany), and the European Union resulted in all parties signing the Joint Comprehensive Plan of Action (JCPOA). This landmark event fueled expectations of an improved economic and commercial atmosphere marked by further cooperation between Iran and the other signatories. We witnessed this promised collaboration become a reality in 2016/17, especially in the oil, gas, and petrochemicals industries, as well as the automotive sector.

The global economy encountered much turbulence throughout the year, mostly caused by elections and political change in multiple advanced economies, but also by the increased price of basic goods and overall decrease in oil prices. Iran's business environment also experienced structural imbalances and financial and liquidity tightness. International Financial Reporting Standards required a shift in how local banks interact with other significant global banks, not to mention revisions to mandatory auditing practices within Iran. And by welcoming new local debt instruments, Iran's capital market witnessed a lower volume and value of normal stock transactions.

Throughout the year, many of Iran's companies adjusted their reported profit and loss compared to previous forecasts. Kharazmi Investment Group needed to make a precise, intelligent, and serious effort to overcome these challenges, and in doing so achieved its goals for the fourth year of our seven-year strategic plan.

Despite all of the above and a downward movement in net profit, by developing strong operational steps to execute its plans, Kharazmi Investment Company achieved many significant results throughout 2016/17.

KHARAZMI INVESTMENT COMPANY

8.2%



Growth in total assets

3.7%



Growth in total investment

8.2%



Return on equity (ROE)

8.1%



Return on capital employed (ROCE)

These included:

- › 8.2% growth in total assets
- › 3.7% growth in total investment
- › 8.2% return on equity (ROE)
- › 8.1% return on capital employed (ROCE)
- › 7.2% annualized total shareholder return, 14% annualized ROA, 17.5% annualized ROE, and 17% annualized ROCE over the first four years of the seven-year strategic plan
- › Climbing 36 positions (from 107 to 71) to place among the top 100 Iranian companies in the Industrial Management Institute's latest IMI 100 ranking
- › Placing amongst ten pioneer companies in the last IMI100 ranking
- › Improving the structure and diversity of the investment portfolio
- › Developing international commercial and financial operations
- › Modifying and improving Group-wide systems and procedures
- › Managing the Group's operational and finance costs
- › Restructuring and improving Sepehr Power & Energy Development Company's executive, financial, commercial, and technical operations
- › Expanding utilization of and extraction from Sadr Jahan Mining Development Company's mining operations
- › Developing the market for the Group's information and communication technologies (ICT) companies – including Kharazmi IT Development Company and Kharazmi Data Processing Company – as well as diversifying their product and services offerings, and developing their operations
- › Improving production lines for Sina Darou Laboratories Company
- › Establishing new power plants for Niroo Parse Power Plant Production & Development Company, with the cooperation of international companies
- › Ensuring Kharazmi Construction Development Company made good progress with the Olympic and Homa Kids building projects
- › Developing the financial activities of the Group's financial services companies, including Kharazmi Investment Management Development Company, Ati Negar Sepehr Iranian Investment Company, and Kharazmi Ayande Negar Brokerage Company
- › Taking the first and most significant step towards having a unique presence in value-added projects within the oil industry, via Ziemra Oil, Gas and Petrochemical Company
- › Modifying and developing the Group's commodity portfolio, entering new markets, and enhancing the quality of income sources for the Group's trade and commercial companies including Kharazmi Trade Development Company and Kharazmi Investment FZE Company.

We continue to monitor, balance, and restructure our investments in line with our seven-year Vision 2020 strategy, which includes a focus on building our presence in highly efficient industries. In doing so we aim to increase our shareholders' wealth in the long term by:

- › Continuing to monitor, assess, and manage the Group's investments and assets
- › Optimizing the Group's investment portfolio in line with macro-economic and capital market conditions
- › Developing investments and activities in targeted industries.

Kharazmi Investment Company is committed to improving the supervision, coordination, and financial and operational control of its investee companies. We help develop the leadership and management teams of all companies affiliated with the Group, establishing effective communication with these corporate bodies. This promotes operational synergy and effective self-control within the Group, and helps create an interactive, effective, and systematic working relationship in line with the operational goals of the Vision 2020 strategic plan.

We focus our governance and coordination efforts across four main areas:

/01

STRATEGIC CONTROL AND GOVERNANCE

- › Explaining the Group's objectives, policies, and general strategies to its companies, to assist with and oversee delivery of the companies' most recent strategic plans
- › Interacting effectively with investee companies to receive their operational programs and reports, and providing the coordination needed to finalize their operational reports
- › Monitoring companies' implementation of strategic programs at defined intervals, to help them realize the general goals, policies, and strategies of Kharazmi Investment Company
- › Leading activities to establish optimized management patterns within investee companies
- › At specified intervals, receiving and reviewing the proceedings of companies' Boards of Directors, and following up on the most important items
- › Managing and supervising representatives of Kharazmi Investment Company who sit on companies' Boards of Directors
- › Receiving companies' strategic monitoring reports and assessing their validity
- › Filing periodic reports on the performance of each company and the entire Group as assessed against the objectives of the strategic plan
- › Analyzing factors that affect companies' abilities to achieve strategic objectives, by conducting a Board-level questionnaire and reporting the results in periodic Group manager conferences
- › Evaluating and reviewing development projects established within Group companies
- › Holding monthly forums attended by all experts and managers in charge of planning within investee companies
- › Governing the activities that aim to improve companies' accounting, financial management, internal auditing, and risk management systems, collaborating with the relevant departments and submitting proposals to company executives.

/02

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 for future years
- › Analyzing companies' proposed budgets and making the necessary adjustments within the framework of the Group's seven-year strategic plan
- › Following up the approval of companies' budgets and communicating the approval to the investee companies.

/04

MANAGING THE GENERAL MEETINGS AND STOCK AFFAIRS

- › Planning the effective participation of each company's representatives in formal meetings of the relevant company
- › Tracking and monitoring the implementation of official duties within companies
- › Overseeing 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's articles of association
- › Tracking and receiving independent auditor reports regarding Group companies, then offering recommendations to senior managers within these companies to prevent potential misinterpretation.

/03

SUPERVISING THE EVALUATION PROGRAMS AND PERFORMANCE MANAGEMENT

- › Monitoring companies' annual operational plans to ensure they align with previously approved and defined goals and frameworks
- › Continuously monitoring and supervising execution of the Group's annual budget by reporting and analyzing information related to operations, financial performance, and expenditure
- › Monitoring and managing companies' positions regarding applicable laws and regulations, and the legal framework governing the relevant business environment
- › Revising companies' business intelligence (BI) projects and planning implementation according to our new structure and method
- › Monitoring companies' performance in developing the capital market through partnerships
- › Communicating with counselors and other informed individuals to update and maintain the Group's financial, banking, and tax data.

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



In pursuing our strategic plan, we are planning to increase our oversight of Group companies through performance monitoring strategies.

This includes:

- › Supervising and helping update some companies' strategic plans
- › Helping to formulate and approve a balanced

performance scorecard for some companies, and monitoring implementation

- › Directing and overseeing the preparation and revision of some companies' business models
- › Steering companies toward participating and investing in knowledge-based businesses
- › Conducting monthly forums to ensure constructive interaction among Group companies together, and between Group

companies and parent holding company, to improve corporate performance

- › Implementing structural transformation projects across the Group
- › Monitoring Group companies' performance and development activities by holding regular meetings attended by company directors and deputy directors, and holding company managers
- › Conducting monthly inspections to review and follow up on how companies are realizing their strategic plans
- › Establishing the Performance and Budget Monitoring Committee
- › Providing a database of managers, categorized by target industry, to support the Board of Directors in each company
- › Coordinating with companies to monitor and control implementation of the BI project at the Group level
- › Teaching BI and presenting its capabilities to first- and second-tier managers within Group companies
- › Establishing a continuous reporting system within Group companies
- › Supervising non-management companies and receiving continuous reports from Board members
- › Increasing managers' knowledge and awareness of their companies' activities
- › Helping non-executive Board members play a more effective role in their company's governance
- › Developing and monitoring solutions that will increase companies' operational revenues
- › Developing corporate governance practices that will help Group companies expand their international activities.

In the 2016/17 fiscal year, we made great progress in delivering the seven-year strategic plan for the parent company. Some of the most significant achievements were:

- › Preparing and approving organizational regulations, including in relation to procuring staff, dealing with administrative and employment matters, and managing financial facilities in line with the staff incentive system
- › Improving workplaces for employees, including establishing a separate lounge and restaurant at the holding company's headquarters
- › Planning and building the infrastructure required to set up Internet communications between subsidiaries and the holding company
- › Launching an automated administration system
- › Organizing the parent company's servers to make them more secure.

The most important future plans at the parent company level include:

- › Revising and improving communication with the Group's stakeholders
- › Implementing and applying a fully automated administration system and eliminating paper from all communications
- › Finalizing corporate regulations, including in relation to the use of automated administration systems and information security measures
- › Analyzing and redefining the organizational structure
- › Promoting human capital as crucial to the parent company's operations.

KEY FIGURES

FOR THE FISCAL YEAR ENDED JUNE 20 (ALL VALUES IN IRR MILLION)

› Parent Company

	2013	2014	2015	2016	2017	2016-17 Change (%)	Annualized during 4-year 2014-17 Change (%)
Income Statement							
Operating income	2,161,361	3,097,443	3,773,785	3,061,331	2,344,318	(23.4)	2.1
Net profit	1,941,878	3,383,956	2,772,291	2,123,260	1,426,655	(32.8)	(7.4)
Balance sheet							
Total assets	9,850,357	15,783,182	21,883,222	22,424,128	24,259,033	8.2	25.3
Total liabilities	1,091,810	2,410,331	6,499,292	5,002,026	7,035,278	40.6	59.3
Total equity	8,758,547	13,372,851	15,383,930	17,422,102	17,223,755	(1.1)	18.4

Key ratios	Unit	2016-17 Change	Annualized during 4-year 2014-17 Change
Total shareholder return (TSR)	%	(19.2)	7.2
Total return on the Tehran Stock Exchange index (TEDPIX)	%	8.4	12.6
Return on assets (ROA)	%	6.1	14.0
Return on equity (ROE)	%	8.2	17.5
Return on capital employed (ROCE)	%	8.1	17.0

› Kharazmi Investment Group

Income statement	2013	2014	2015	2016	2017	2016-17 Change (%)	Annualized during 4-year 2014-17 Change (%)
Operating income	1,874,267	6,605,961	11,847,383	15,165,902	11,002,085	(27.5)	55.7
Gross profit	683,522	4,154,031	5,515,376	6,530,088	4,915,472	(24.7)	63.8
Net profit	2,095,352	3,777,453	1,765,416	3,118,610	1,859,876	(40.4)	(2.9)
Balance sheet							
Total assets	13,583,705	40,317,133	49,710,273	57,486,597	60,066,402	4.5	45.0
Total liabilities	3,553,844	25,066,499	34,450,114	39,265,125	42,072,180	7.1	85.5
Total equity	10,029,861	15,250,634	15,260,159	18,221,472	17,994,222	(1.2)	15.7
Other information							
Employees	1,062	1,632	1,651	1,703	1,715	0.7	12.7

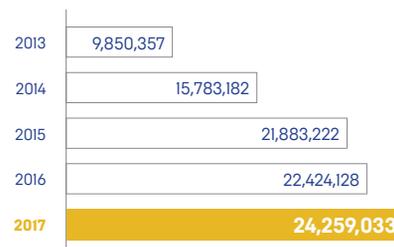
Key ratios	Unit	2016-17 Change	Annualized during 4-year 2014-17 Change
Total shareholder return (TSR)	%	(19.2)	7.2
Total return on the TSE index (TEDPIX)	%	8.4	12.6
Return on assets (ROA)	%	3.2	6.6
Return on equity (ROE)	%	10.3	17.3
Return on capital employed (ROCE)	%	5.8	10.1

FINANCIAL HIGHLIGHTS

FOR THE FISCAL YEAR ENDED JUNE 20 (ALL VALUES IN IRR MILLION)

› Parent Company

TOTAL ASSETS



2016-17 change (%) **8.2**

Annualized change over 4 years, 2014-17 (%) **25.3**

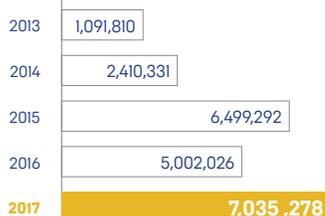
TOTAL EQUITY



2016-17 change (%) **(1.1)**

Annualized change over 4 years, 2014-17 (%) **18.4**

TOTAL LIABILITIES



2016-17 change (%) **40.6**

Annualized change over 4 years, 2014-17 (%) **59.3**

TOTAL INVESTMENTS



2016-17 change (%) **3.7**

Annualized change over 4 years, 2014-17 (%) **25.6**

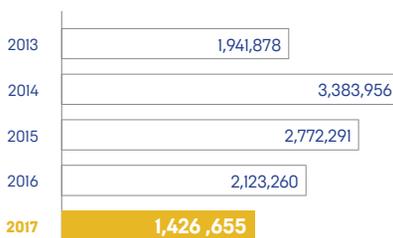
OPERATING INCOME



2016-17 change (%) **(23.4)**

Annualized change over 4 years, 2014-17 (%) **2.1**

NET PROFIT



2016-17 change (%) **(32.8)**

Annualized change over 4 years, 2014-17 (%) **(7.4)**

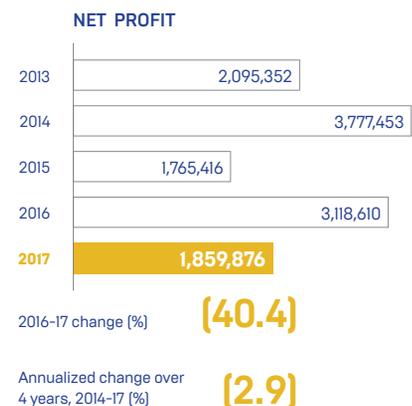
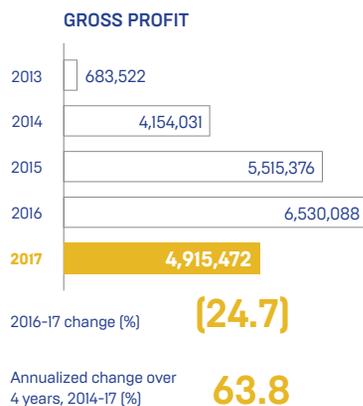
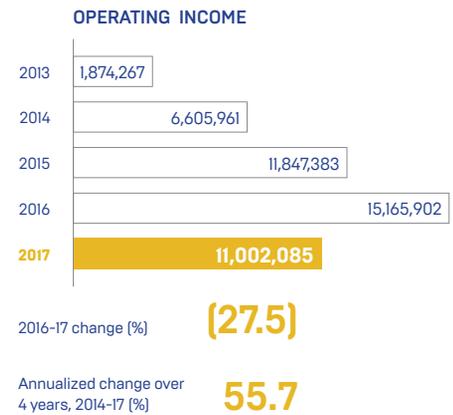
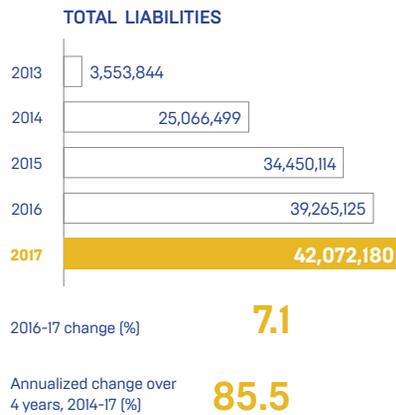
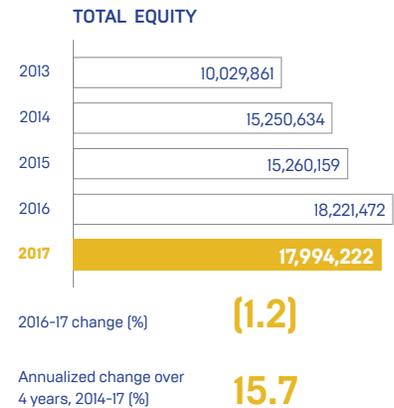
REGISTERED SHARE CAPITAL



2016-17 change (%) **0.0**

Annualized change over 4 years, 2014-17 (%) **27.8**

› Kharazmi Investment Group



INVESTMENT CRITERIA & PROCESS

Kharazmi Investment Group's main aim is to create sustainable wealth 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

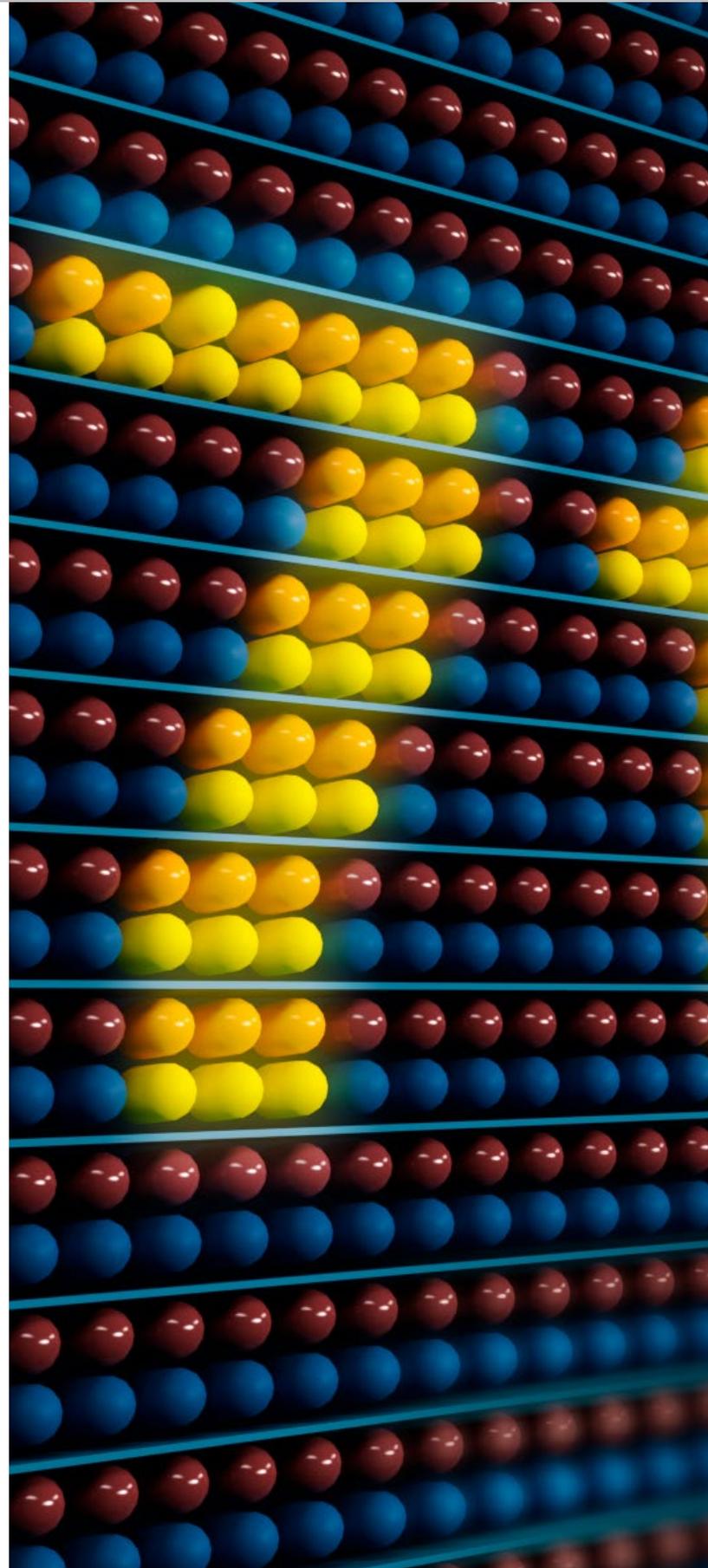
- › Optimizing the risk–return balance
- › Rebalancing portfolios as required
- › Managing risk
- › Delivering feedback and internal reporting
- › Evaluating investment performance

“
**SUSTAINABLE WEALTH
CREATION FOR
GENERATIONS**
”

MARKET REVIEW

Iran's capital market began the 2016/17 fiscal year (June 21, 2016 to June 21, 2017) having emerged from a period of stagnation. The year started with positive adjustments based on strong quarterly performance in basic metals and metal ores driven by rising international market prices. In addition, oil refining companies released their 2015/16 (1394) financial statements, revealing that they had turned projected losses into realized profits. Growth in commodity stock prices and positive adjustments continued throughout the year, as better international prices for basic metals and metal ores proved sustainable and the U.S. dollar began to gain ground against the local currency from mid-September 2016 onwards, after the U.S. Federal Reserve's decision to raise interest rates.

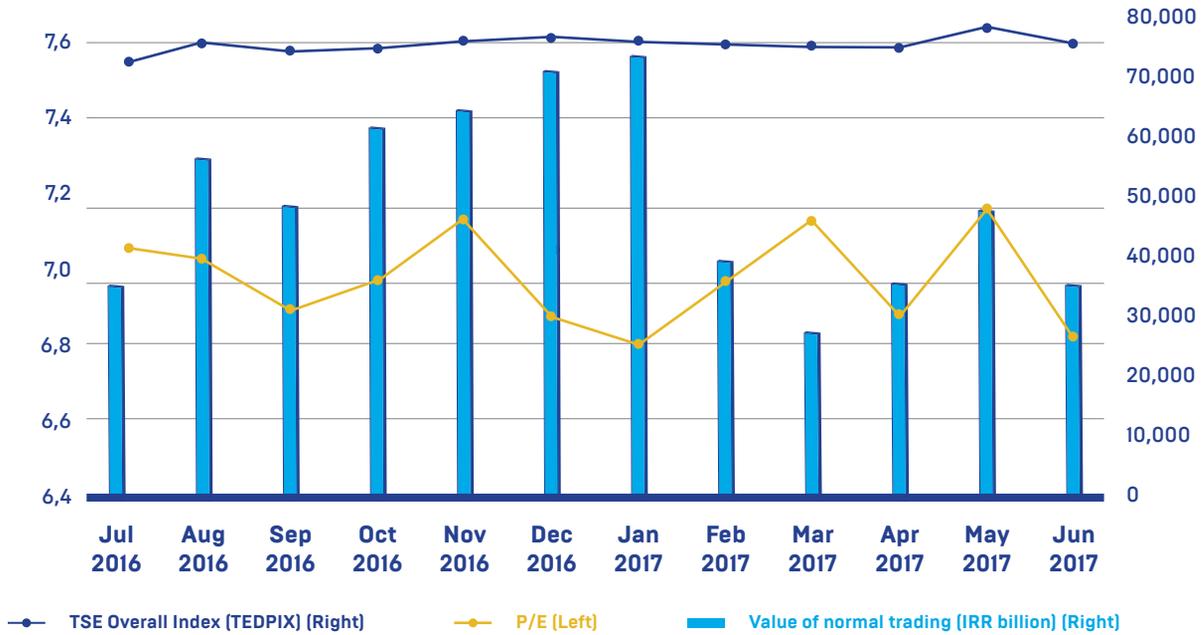
Some large fixed-income funds made large stock purchases, after a management reshuffle at the Securities and Exchange Organization (SEO) somewhat reduced the negative impact of real investors withdrawing liquidity from the capital market toward the end of the previous fiscal year (June 20, 2016). This, along with the improved performance of commodity manufacturing firms, led to an upward trend in the overall index in the first quarter of 2016/17 fiscal year (1395); the overall index had recorded a growth of 5.3%, closing at 76,451 points.



› IMI raised Kharazmi ranking by **36** places, from **107** to **71** among **500** top Iranian companies

› Our high rate of growth made us one of **10** pioneer companies in Iran

› TEDPIX trend, normal trading and P/E ratio in the 12 months to Khordad 1396 (July 2016 to June 2017)



OPEC members state struck a deal on the oil output freeze in late September after several months of negotiations. Combined with Russia’s decision to follow suit and cut output, this gradually improved the Brent crude oil price, which gradually stabilized at over USD 50 after falling below USD 30 at the first quarter of 2016. Rising oil prices and continued gains in the U.S. dollar led to returns on shares in commodity firms – especially oil refiners and petrochemicals companies – in the second quarter of the fiscal year, bringing the Tehran Stock Exchange (TSE) price-to-earnings ratio (P/E ratio) to a high of 7.5. Donald Trump’s subsequent victory in the U.S. presidential election and the resulting increase in systematic risk of market prompted led to downward price adjustments and a decline in the market P/E ratio.

Bank Mellat and Tejarat Bank as two major banks of Iran returned to trading on the TSE in early February 2017 with a price adjustment of about 35%. This led to a further adjustment of the TEDPIX, a recession in the capital market, and individual investors withdrawing additional liquidity from the market. Between December 21, 2016 and March 20, 2017 (the last quarter of 1395), investors had withdrawn a total of IRR 3,270 billion from the capital market.

This atmosphere of uncertainty, the economy-wide recession, and problems with the banking system balance sheet pushed up interest rates between September 2016 and March 2017 (the second half of 1395) and drove the P/E ratio down to 6.83 by 20 March 2017 (the end of Esfand 1395). This event, concurrent with an increase in the rate of Islamic Treasury Bills being

accepted on the Iran Fara Bourse (IFB), fueled a jump in the yield to maturity rate of return from about 20% in late September 2016 to about 28% in late January 2017.

TSE price-to-earnings (P/E) ratio in the second quarter of the fiscal year raised to

7.5

› Yield to maturity of Islamic Treasury Bills #8 (Akhza #8) as a sample of the return trend of Islamic Treasury Bills from the time of offering to the day of report preparation



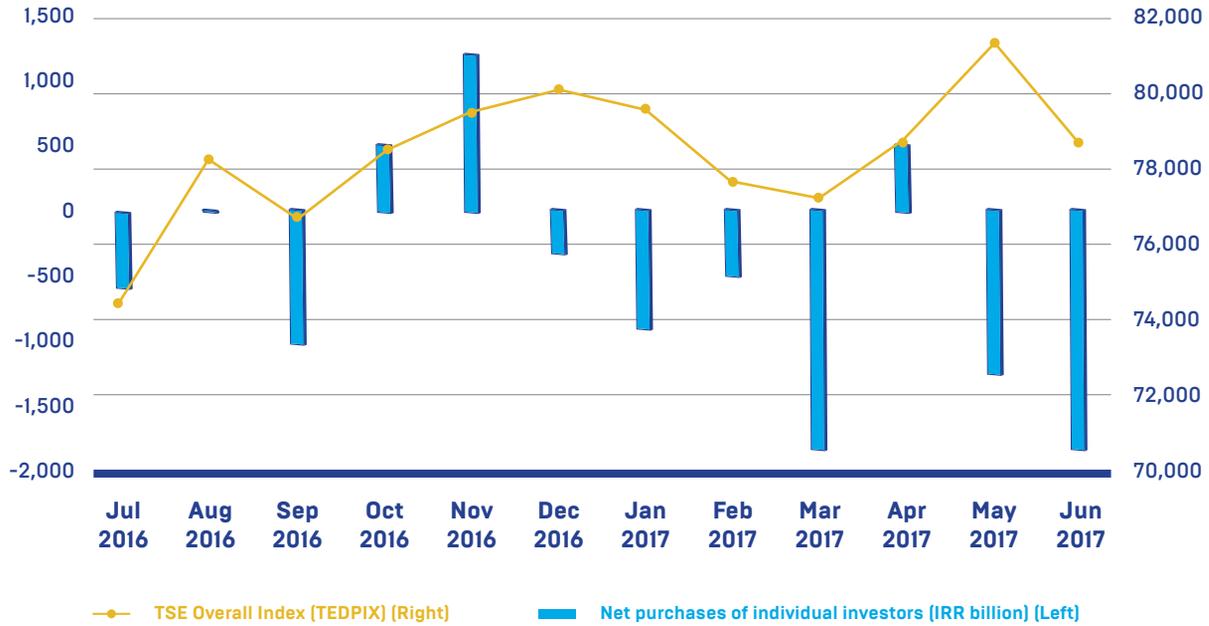
This situation triggered much criticism about the continued acceptance of these bonds in the stock exchange, and the next Islamic Treasury Bills were traded outside the stock market on the banking network (Bank’s Islamic treasury bills so-called Sakhab). Due to lower transparency and the higher risk of buying these securities outside the stock exchange market, they were priced about 10 percentage points higher than the same securities on the IFB.

Among other notable events during the financial reporting period, initial public offerings (IPOs) were halted, and stock call options trading was initiated for two shares of Mobarakeh Steel Company and Iran Khodro company, followed by stock put options trading.

Another notable shift in the field of initial supply involved changing the IPO procedure to book building, to facilitate the competitive atmosphere of discovering the initial price.

The SEO took measures to support the stock market during this period, including announcing the requirement for fixed-income funds to buy at least 5% of listed stock exchange shares and preemptive rights on the stock exchange. In the same period, investors refrained from trading the stocks of big companies. This introduced cross-sectional liquidity injection in trading smaller companies, leading to significant growth in the price of these smaller stocks that offer short-term investment horizons without fundamental analysis.

› TEDPIX and net purchases by individual investors in the reporting year



In the spring of 2017 (1396), the lead-up to Iran's 12th presidential elections saw the arrival of liquidity from individual investors. Indeed, after four months of liquidity withdrawal, in Farvardin 1396 (March 21, to April 20, 2017) individual investors injected IRR 460 billion into the stock market, mainly by buying small stocks to enter the market. This new support for smaller stocks returned the equally weighted overall index to 11.6% in the period from March 21 to early April 2017, while the TEDPIX recovered to only 2.9%. After rising at the last quarter of early 2017 (late 1395), the yield to maturity of Islamic Treasury Bills (Akhzas) began to slowly fall in March 2017 (beginning of 1396), to around 24%. In June 2017, after the presidential election results were announced and the campaign commotion subsided, the normal trading volume fell by about 30% in comparative of previous two months, and the TEDPIX once again began its downward trend. By June 20, 2016 (the end of Khordad 1395), the TEDPIX sat at 78,736 points, having recorded a growth of 8.43% in the fiscal year 2016/17.

IRR 460 billion

Individual investors injected into the stock market in Farvardin 1396 (March 21, to April 20, 2017)

The 2016/17 fiscal year coincided with the fourth year of Kharazmi Investment Group's seven-year strategic plan, surrounded by a turbulent world economy stirred up by elections and political and social developments in some advanced economies. The relative growth in global commodity prices, drop in oil prices, and economic repercussions of the political challenges in the Middle East also affected the global economic situation.

The domestic business environment was shaped by the gradual removal of international restrictions and the emergence of post-JCPOA economic opportunities. Within this context, we witnessed structural imbalances in the business environment; financial and liquidity bottlenecks; a relatively persistent recession; the complexity of domestic banks interacting with big global banks; and banks implementing infrastructure and accounting reforms in accordance with IFRS.

The outcome of the above-mentioned situation was a 3.7% drop in investment despite a 12.5% growth in GDP. Despite a jump in debt market interest rates – and the overall stock market index (TEDPIX) and TSE market value growing by 8.4% and 4.2% respectively – normal capital market transaction volumes decreased by 6% and the value of normal transactions dropped by 11.5% compared with the same period a year before.

During a year when many companies adjusted their profits and losses because the economy had not completely emerged from recession, the market continued to experience financial and liquidity bottlenecks, and structural barriers in the way of business operations. Meanwhile, the complex banking situation had a significant impact on economic activities and Kharazmi Investment Group's assets. Under these conditions, pursuing a successful course and achieving sustainable profitability required precision, effort, and skill.

Infrastructure development is one of the main factors that can propel a country's economic growth, and from the present perspective, attracting foreign investment is at the top of the agenda. In addition to joint investment contracts between Iranian and European automakers, we have also pursued agreements in the fields of oil, gas, and petrochemicals, supported by the new Iran Petroleum Contracts. Iranian banks have strongly resolved to comply with IFRS and the new Basel Committee (Basel III) standards.

In this post-JCPOA economic environment, and within the framework of Kharazmi Investment Group's seven-year strategic plan, we plan to develop our investments in seven key fields:

- › ELECTRICITY, OIL, GAS, AND PETROCHEMICALS
- › MINES AND MINING INDUSTRIES
- › BANKING
- › ICT
- › CONSTRUCTION
- › INTERNATIONAL TRADE
- › OTHER HIGH-YIELDING BUSINESS OPPORTUNITIES IN THE DOMESTIC AND INTERNATIONAL CAPITAL MARKETS

“ WE WARMLY WELCOME NEGOTIATIONS WITH INTERNATIONAL INVESTORS AND OTHER MARKET PARTICIPANTS TO HELP US ACHIEVE THE MOST FROM THESE NEW OPPORTUNITIES. ”

INTERNATIONAL STRATEGY

Since the beginning of the Iran Nuclear Deal in January of 2015, the world witnessed a major shift in the political views and a dramatic change that began with the Europe Union and spread to the United States. Once proclaimed as one of the most important foreign policy achievement, the current US administration has been looking at "Iran Nuclear Deal", with scrutiny and radically different views. Coupled with hostile attitude and constant threats of imposing new sanctions and further preventing larger European banks of doing business with Iran have created a big pause within, once, an enthusiastic European business community who flooded Tehran's airport since January of 2015.

The fact is that the majority of interested European companies who planned to establish relationship with their Iranian counterparts are now anxious with what might come next from the US administration. This uncertainty and silence that is shadowing European's commercial participation in Iran, besides being very costly, further encouraged others, like Russians, Chinese, Koreans (to lesser degree) and others, to fill the gap.

Iran's firm commitment to the "Nuclear Deal" unlocked enormous national wealth, which has long been, waited flourishment, and a prosperous opportunity combined with one of the most proficient workforce in the Middle East. A welcoming and sympathetic atmosphere risen from the spirit of the treaty caused the world's major corporations to promptly and favorably

respond, ensuring the re-integration of Iranian Economy in to the global market.

Kharazmi's International Strategy is founded based on the fact that Kharazmi Group is the most qualified and capable partner for foreign investors. The Group takes pride in being leader in some of Iran's critically significant sectors and certainly provides sound investment opportunities. Our mission and commitment to all stakeholders is diligently assist them to identify, evaluate, cover or minimize Iran's Risk. Therefore, our observance of the global compliance and business standards, shall ensure investors to consider KIC Group as the most trusted and qualified partner.

Proven successful, our international strategy, offers sound investment opportunities in several vital sectors where we lead the industry and market. Sina Darou laboratories, a subsidiary of Kharazmi Group, is a perfect example. Targeting over 300 million loyal consumers, being one of the oldest and most trusted brands and a leader in the ophthalmic, nasal, ear drops and respiratory system in the region, offers extensive growth and development opportunities. Guided by its commitment to Corporate Social Responsibility, Sina Darou laboratories, as an innovative and pioneering company, responded to its customer's demand and has recently invested more than USD 20 million in the manufacturing and marketing of "Mono-Dose Drops".

Likewise, when it comes to Iran's largest privately owned electrical power plant, Sepehr Power and Energy

**PROVEN SUCCESSFUL,
OUR INTERNATIONAL
STRATEGY, OFFERS SOUND
INVESTMENT OPPORTUNITIES
IN SEVERAL VITAL SECTORS
WHERE WE LEAD THE
INDUSTRY AND MARKET.**

300million

Targeting over 300 million loyal consumers offers extensive growth and opportunities for Sina Darou Laboratories Co.

Development Company, a wholly owned subsidiary of Kharazmi, is indeed a leader in the Iranian Energy sector. The plant, Montazer e Ghaem, is one of the most strategically situated power plants in Iran. Located about 20 miles West of Tehran, is built in early 1960s, with gross output capacity of about 1630 Megawatts, supplies up to 20% of Tehran's needed power that includes the electricity used to run Tehran's Metro. The power plant sits on a 50 hectares property with tremendous development opportunity to keep up with Tehran's population growth and future demand. Dedicated to its Corporate Social Responsibility, Sepehr, plans to totally renovate, refurbish and modernize its power plant to reduce the plant's overall environmental impact and increase efficiency. This is achieved through major improvement by utilizing the latest technologies.

In addition to large-scale production of electrical power, Kharazmi Group, has established a specialized subsidiary to specifically invest in the production of small scale power plants. Niroo Parse Power Plant Production and Development Company ("Niroo Parse") is another wholly owned subsidiary of Kharazmi Group. Recently, Niroo Parse was granted the permission to produce 500 Megawatts of electricity in the Northern province of Mazandaran. This shall present a sound investment opportunity within Energy sector where as the Government guarantees the purchase of produced electricity for period of 5 years within the framework of Energy Conversion Agreement endorsed by the Iranian Ministry of Power.

Besides Energy and Pharmaceutical industry, there exists lucrative opportunities within Mining of Gold and Precious metals as well as vast opportunities within Gas, Oil and Petrochemicals. The current mining development projects include Shadan Gold Mines and among its achievements are the exploration and discovery licenses as well as signing a memorandum of understanding with well-known Chinese companies.

They say, "The bravest is always the wisest and thus gains the most". In this unique business environment, we like to think that the wisest is the most informed and educated investor who has successfully identified, assessed and minimized all related business risks. This shall be our mandate and strategic approach toward our investors and stakeholders. This very concept motivates Kharazmi group to shoulder its own responsibility and support the investors as much as possible by paving the way through outmost clarity and compliance. Once again, we emphasize our international strategy to be the most transparent, open and supportive.

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.

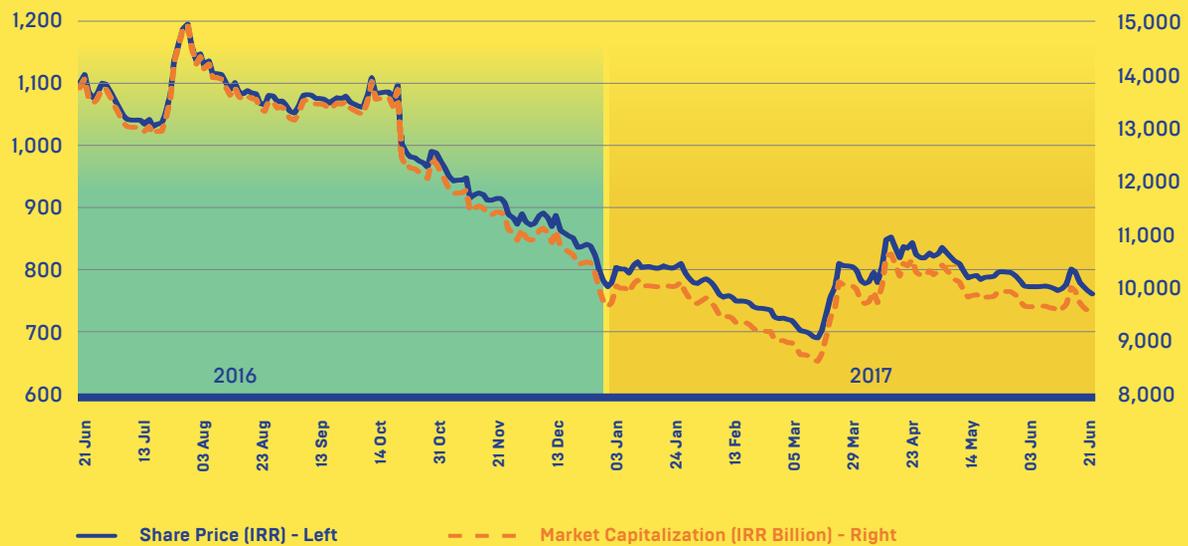


The Group's particular areas of strength include our:

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



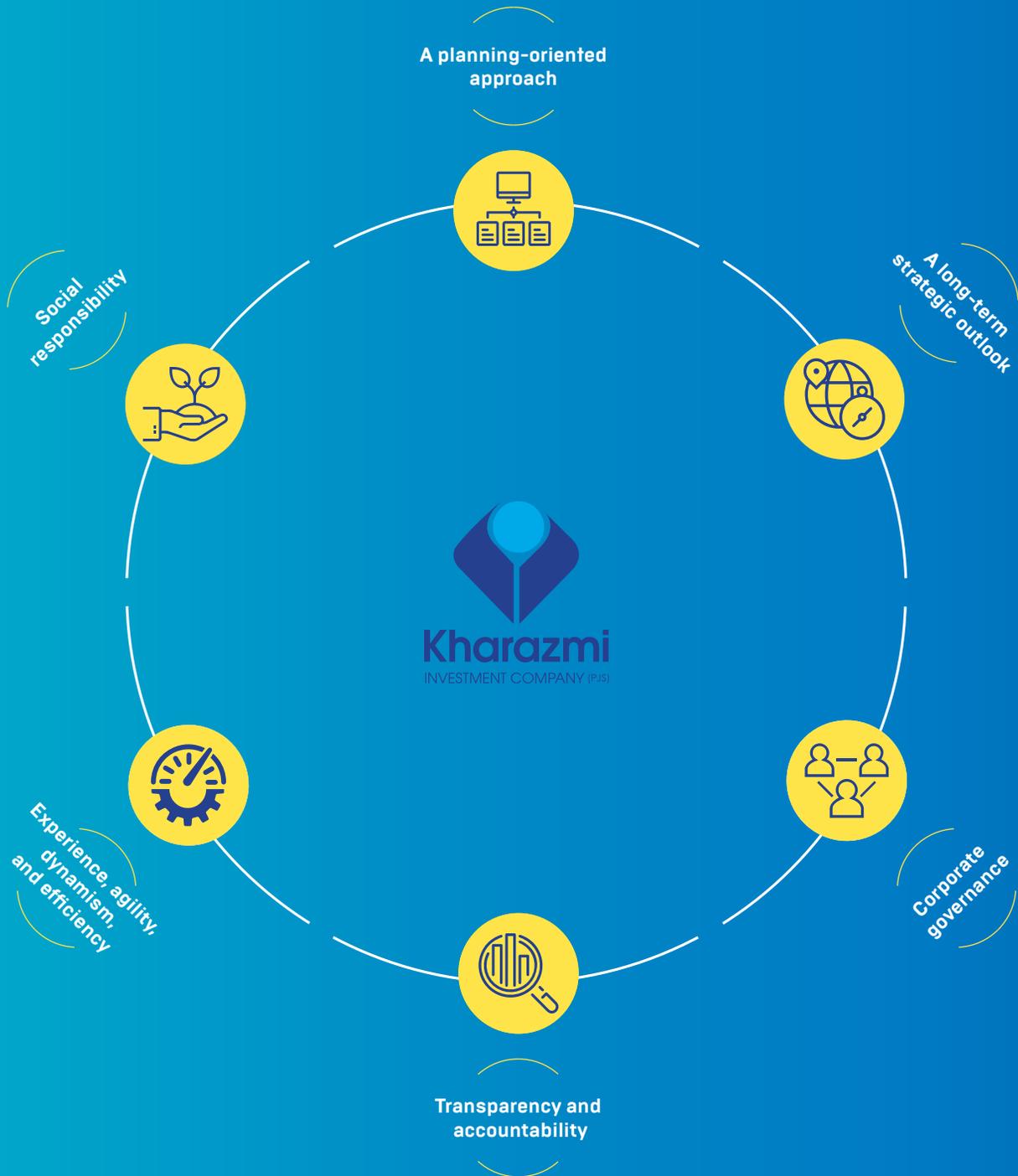
- › Kharazmi Investment Company market value and share price in the fiscal year ended June 21, 2017



Kharazmi Investment Company's stock enjoys a high rate of liquidity thanks to our 51.4% free-floating shares. The latest ranking from the Securities and Exchange Organization of Iran (SEO) places it in 22th place among about 412 companies that have active shares listed on the Tehran Stock Exchange (TSE) and Iran Fara Bourse (IFB). Also, the stock is in the second rank amongst investment holdings and industrial conglomerate companies based on free floating shares, even though the first company has a share capital equal to 13 percent of Kharazmi Investment Company's share capital.

Furthermore, in a quarterly report released by the TSE on June 21, 2017, 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.

COMPANY PROFILE



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 SEO, and it was listed on the over the counter exchange, IFB, in 2011. We were listed on the main 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 (comprising the 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 60 trillion

We are one of Iran's leading investment firms, boasting ownership of or a controlling interest in 13 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 2016/17 (1395) as follows:

- › Iran's Industrial Management Institute (IMI) raised our ranking by 36 places (from 107 to 71) on the list of the country's 500 top companies

- › Our high rate of growth also saw us named one of 10 pioneer companies in Iran
- › With more than 51.4% free-float shares, we are among the top 22 TSE- and IFB-listed companies in terms of free-floating shares
- › We are ranked first based on free-float shares, in comparative of the 20 biggest listed companies in Iran
- › We placed second in a group of 32 listed investments, Iranian holding companies, and conglomerates based on our free float shares
- › We are among the 50 most active stock companies listed on the TSE.

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.

OUR
VALUES

BUSINESS MODEL

INVESTMENT SECTORS

- › Banking and finance
- › ICT and telecommunications
- › Power and renewable energies
- › Oil, gas, and petrochemicals
- › Pharmaceuticals and healthcare
- › International trade
- › Mining and related industries
- › Construction and real estate
- › Other high-potential businesses consistent with the Group's overall portfolio structure and risk profile

INVESTOR RELATIONS

- › Annual reports
- › Audited financial statements
- › Monthly portfolio statements
- › Interim financial statements
- › A monthly newsletter (in Persian)

CHANNELS

- › Kharazmi Group websites
- › Annual general meetings
- › 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)

CORE ACTIVITIES

- › Investment management
- › Active portfolio management
- › Research into and analysis of potential investee businesses and market opportunities
- › Evaluation of investment plans and proposals
- › Assessment of portfolio position and overall market performance

VALUE PROPOSITION

- › A suite of specialist asset management services
- › The assurance that we will invest in and channel resources into sustainable, high-yield sectors

KEY RESOURCES

- › Funding from shareholder equity and liabilities
- › Intellectual capital (including our specialized, talented young personnel)
- › 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)

KEY STAKEHOLDERS

- › Company employees
- › Company shareholders
- › Lenders and other finance providers
- › Financiers and sponsors
- › Private- and public-sector partners across all core sectors
- › Market analysts
- › Members of society
- › The Iranian government and government bodies

REVENUE STREAMS

- › Earnings (profit) from dividends
- › Capital gains realized through effective asset management

COST STRUCTURE

- › Funding costs
- › Human resources, including employees and external advisers
- › Share-trading transaction fees
- › Information gathering
- › Research and development into existing and potential Group companies

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.

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.

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 **5** investment holding companies, based on asset value.

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.

- › 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.

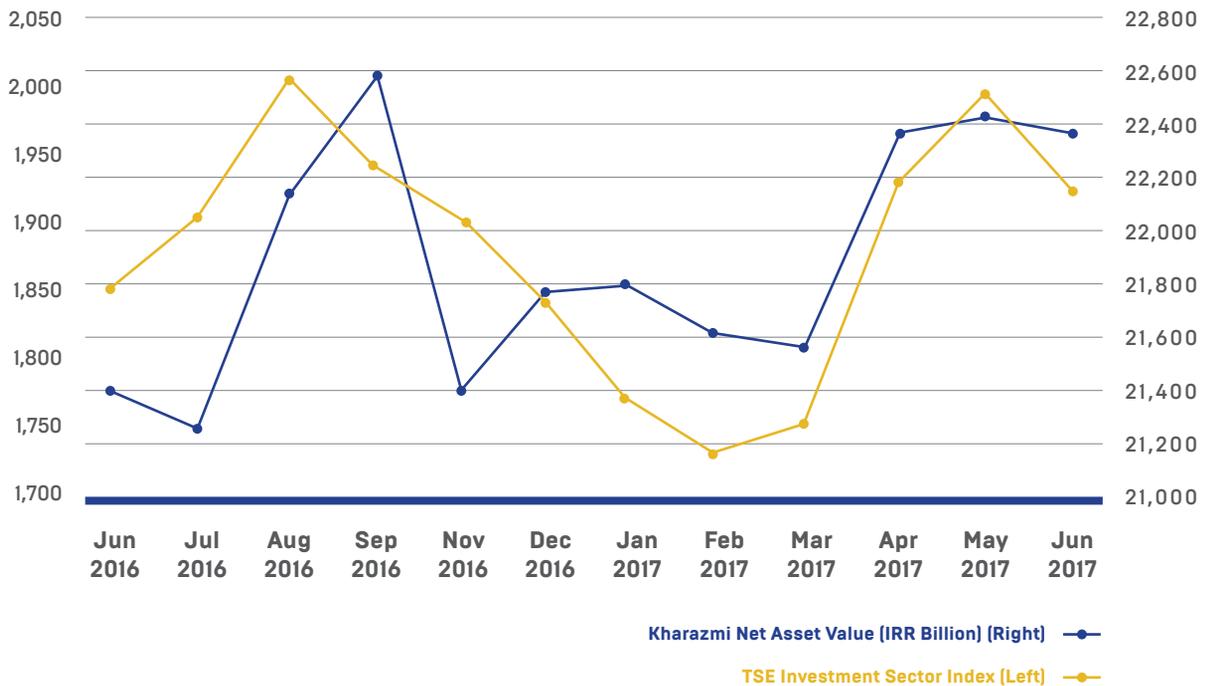
OPERATING OBJECTIVES

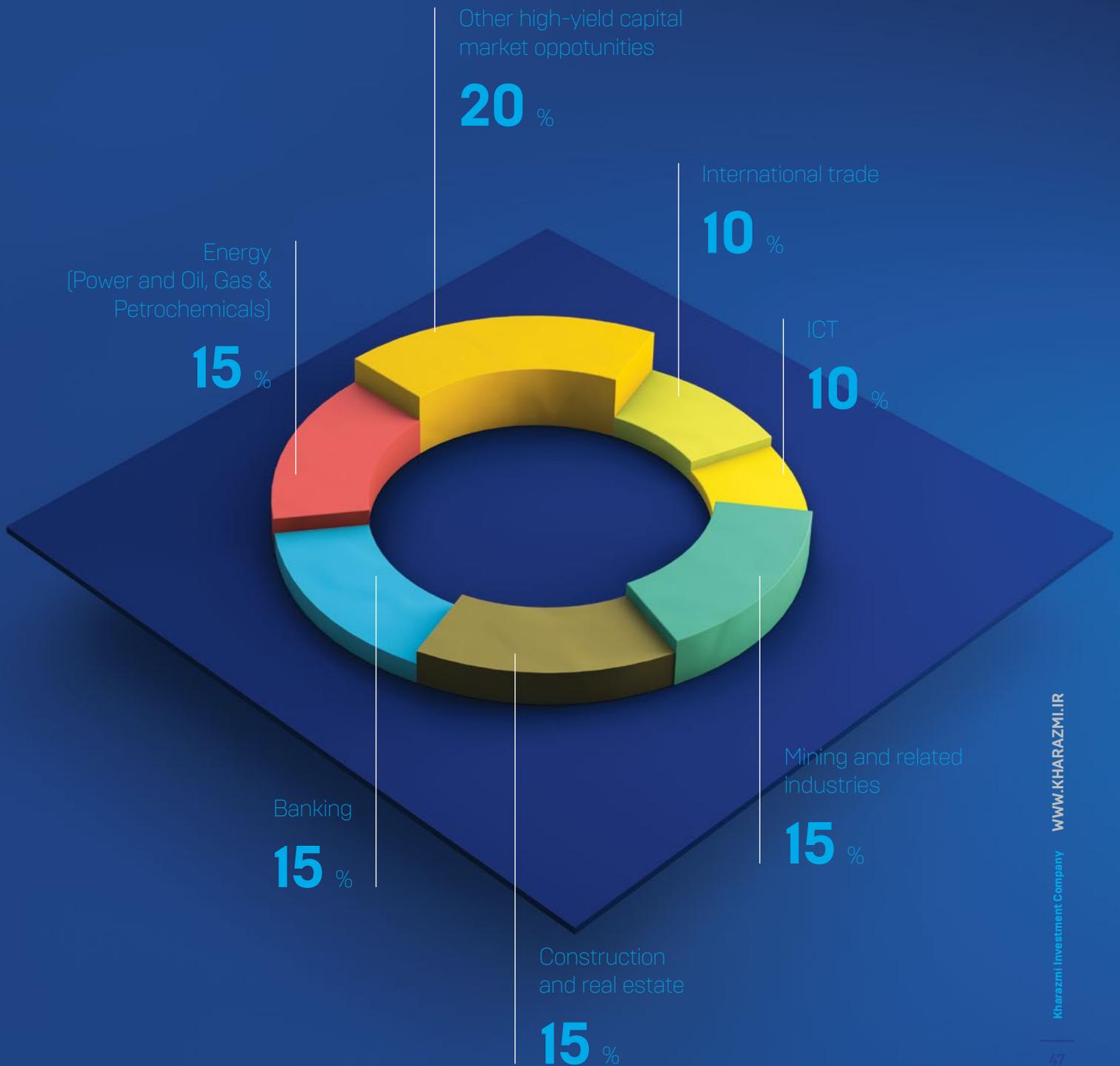
Kharazmi Group's performance to date puts us firmly on track to deliver on these objectives, and we now seek to further strengthen our position by building relationships with new international partners who can profit from our expertise across the diverse sectors of Iran's increasingly dynamic economy. 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.

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.

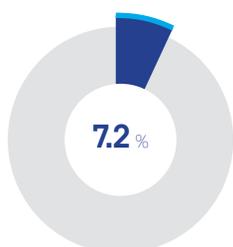
COMMERCIAL FOCUS

› Kharazmi Net Asset Value (NAV) against the TSE index for the investment sector

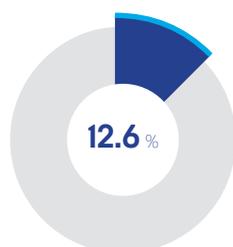




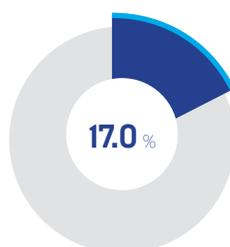
KEY PERFORMANCE INDICATORS (KPIs)



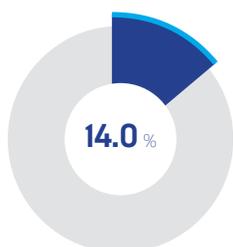
Total shareholder return (TSR)



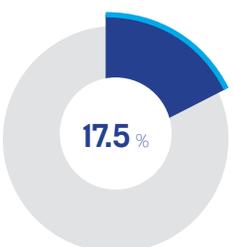
Total return on the Tehran Stock Exchange index (TEDPIX)



Return on capital employed (ROCE)



Return on assets (ROA)

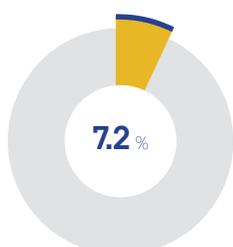


Return on equity (ROE)

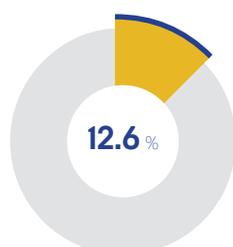
› Parent Company

KPRs (Annualized change over 4 years 2013/14–2016/17)

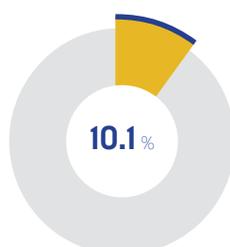
Income Statement	2015/16 - 2016/17 Change (%)	Annualized change over 4 years 2013/14–2016/17 (%)
Operating income	[23.4]	2.1
Net profit	[32.8]	[7.4]
Total assets	8.2	25.3
Total equity	[1.1]	18.4



Total shareholder return (TSR)



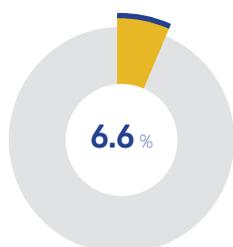
Total return on the Tehran Stock Exchange index (TEDPIX)



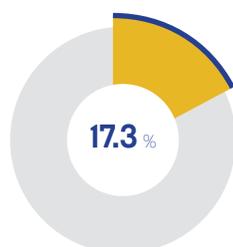
Return on capital employed (ROCE)

› Kharazmi Investment Group

KPRs (Annualized change over 4 years 2013/14–2016/17)



Return on assets (ROA)



Return on equity (ROE)

Income Statement	2015/16 - 2016/17 Change (%)	Annualized change over 4 years 2013/14–2016/17 (%)
Operating income	[27.5]	55.7
Net profit	[40.4]	[2.9]
Total assets	4.5	45.0
Total equity	[1.2]	15.7



OUTLOOK

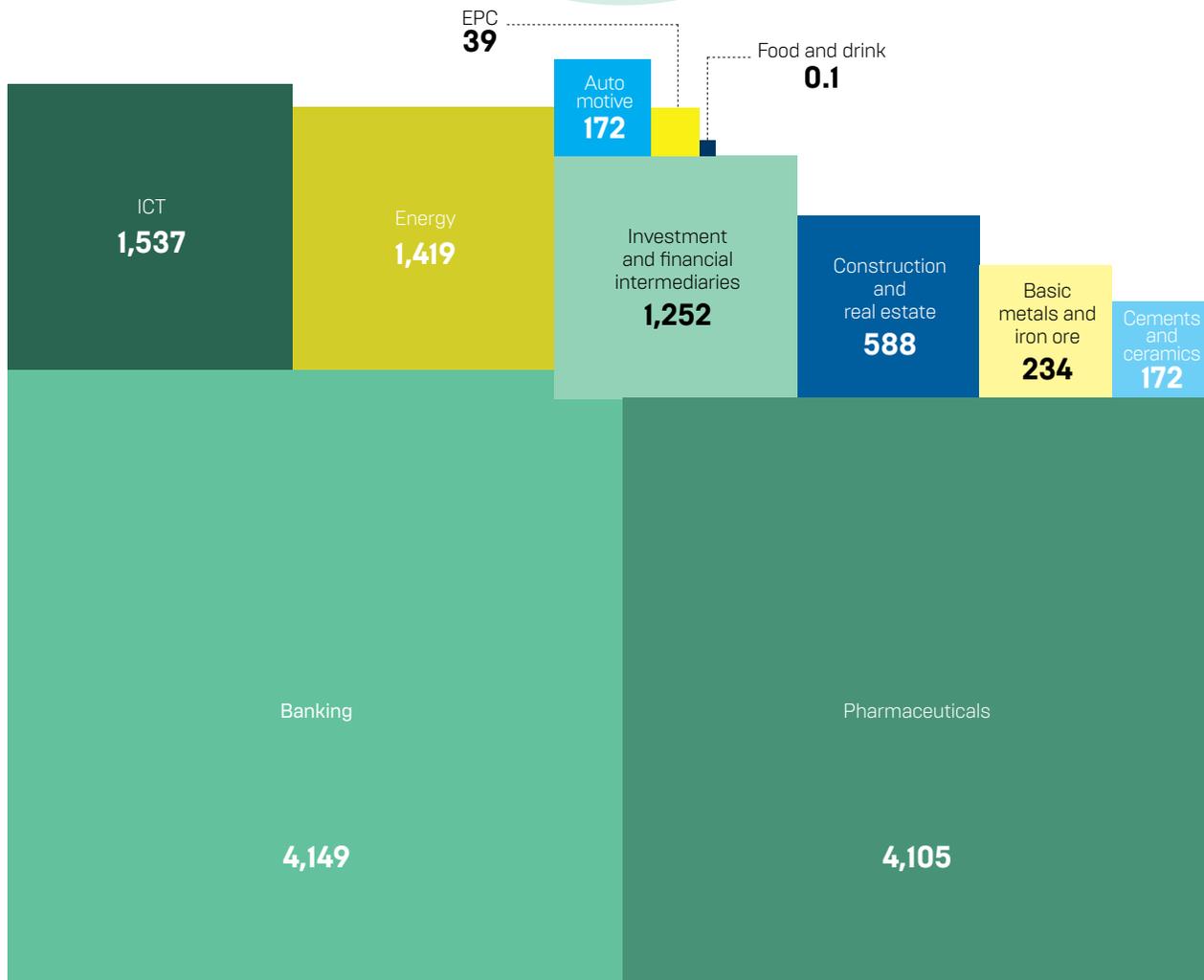
In the coming year, we will:

- › Assess and monitor opportunities for the Iranian economy in line with the seven-year strategic plan
- › Implement formulated strategies for developing Group companies' investment and international activities
- › Finalize the Zieme Oil, Gas and Petrochemical Company business plan regarding its services and supply chain
- › Begin building processing plants for the Sadr Jahan Mining Development Company
- › Continue implementing programs at Montazer Ghaem power plant that aim to increase efficiency, proficiency, effectiveness, environmental performance, market development, capacity, and to follow up on removing structural barriers and constraints at the Sepehr Power & Energy Development Company
- › Prepare selected Group companies for IPO, using diverse financial instruments
- › Improve the Group's internal procedures relating to the value chain, including the planning system, performance monitoring and evaluation, information systems management, development of human capital, and financial reporting
- › Improve the Group's financial structure and cost management, and reduce financing rates
- › Develop a system of shareholder-beneficiary relations
- › Organize entrance to the market for modern businesses, venture capitals, and startups
- › Take effective measures to develop and promote Iran's human resources, social affairs, environment, and financial system in line with the Group's social responsibility undertakings.

PORTFOLIO OVERVIEW

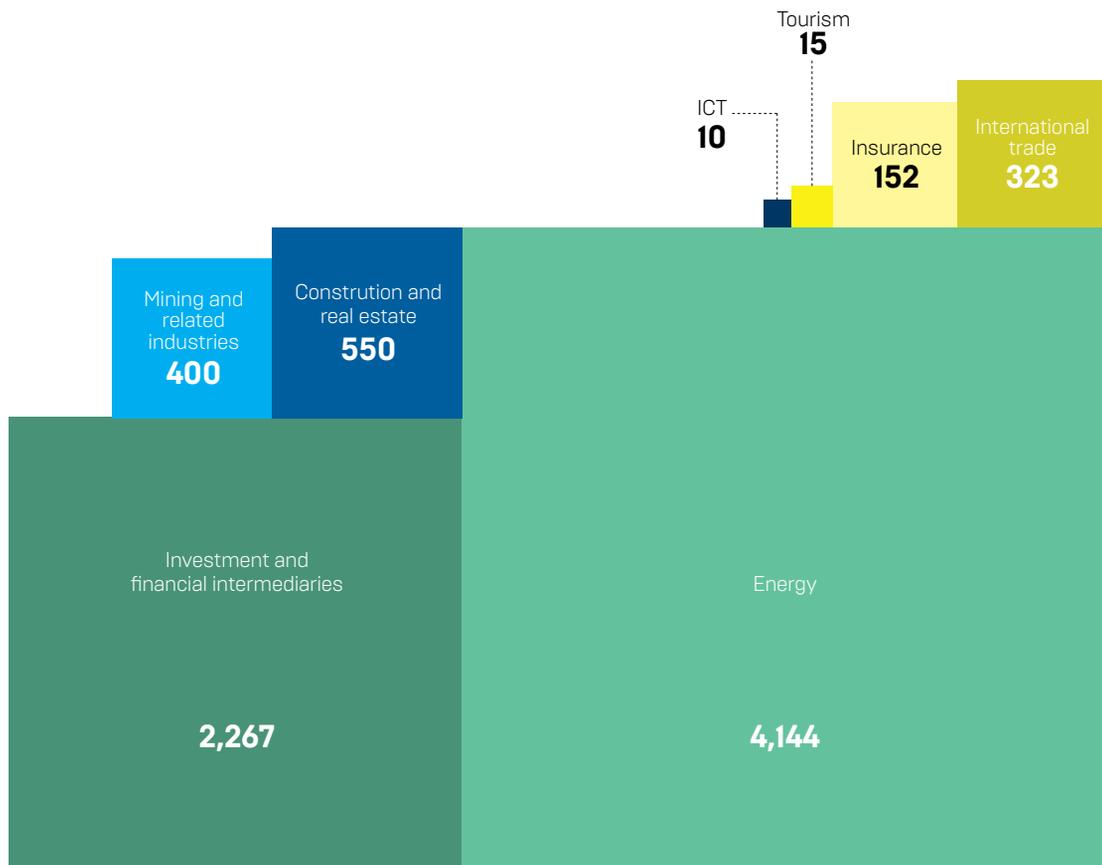
[All values in IRR billion]

Listed
13,667



(All values in IRR billion)

Non-Listed
7,861



OUR INVESTMENTS AND SUBSIDIARIES

E: Established

A: Acquired

(All values in IRR billion; except where indicated otherwise)

Sepehr Power & Energy Development Company

E | 2012 A | 2014

Capital | 3,000

Employees (Main Company) | 17

Employees (Power Plant) | 472

Group
Shareholding

100 %

Niroo Parse Power Plant Production & Development Company

E | 2011 A | 2012

Capital | 760

Employees | 43

Group
Shareholding

100 %

Ziema Oil, Gas and Petrochemical Company

E | 2016 A | 2016

Capital | 100

Employees | 6

Group
Shareholding

100 %

Kharazmi Investment Management Development Company

E | 1997 A | 1997

Capital | 2,873

Employees | 11

Group
Shareholding

51 %

Ati Negar Sepehr Iranian Investment Company

E | 2007 A | 2007

Capital | 500

Employees | 21

Group
Shareholding

100 %

Kharazmi Ayande Negar Brokerage

E | 2006 A | 2013

Capital | 45

Employees | 47

Group
Shareholding

60 %

PICTURE IS
RELATED TO
**SHADAN GOLD
AND COPPER
MINE**

Sadr Jahan Mining
Development Company

E | **2014** A | **2014**

Capital | **800**

Employees | **18**

Group
Shareholding

95 %

Kharazmi IT
Development Company

E | **1997** A | **1997**

Capital | **170**

Employees | **445**

Group
Shareholding

52 %

Kharazmi Data
Processing Company

E | **1997** A | **1997**

Capital | **10**

Employees | **126**

Group
Shareholding

100 %

Kharazmi Construction
Development Company

E | **2007** A | **2007**

Capital | **1,000**

Employees | **27**

Group
Shareholding

100 %

Sina Darou Laboratories
Company

E | **1967** A | **2006**

Capital | **400**

Employees | **394**

Group
Shareholding

49 %

Kharazmi Trade
Development Company

E | **2007** A | **2007**

Capital | **300**

Employees | **19**

Group
Shareholding

100 %

Kharazmi Investment
FZE Company

E | **2005** A | **2005**

Capital | **AED 2.5 mn**

Employees | **2**

Group
Shareholding

100 %



One of Montazer Ghaem's power plant turbine generator

Office Address: No.25, 5th Floor, West Brazil St.,
South Shirazi St., Molla Sadra Ave., Tehran, Iran
Tel: [+9821] 88623940-2
Fax: [+9821] 88623919
www.sepedco.com

SEPEHR POWER & ENERGY DEVELOPMENT COMPANY (PJS)

2014



ACQUIRED

3,000



CAPITAL (IRR BILLION)

17



EMPLOYEES (PARENT COMPANY)

472



EMPLOYEES (POWER PLANT)

100%

Group Shareholding

FIELD OF ACTIVITY:

Generation of electricity from fossil and renewable power plants; operation on the electricity wholesale market and Iran Energy Exchange (IRENEX); participation in fuel and electricity swaps; investment and participation in the production, commissioning, management, and construction of large-scale power plants; and partnerships in the field of renewable energy, including hydro, wind, and solar power.

All values in IRR million
(For the fiscal year ended June 21, 2017)

5,018,269

OPERATING INCOME

2,035,366

OPERATING PROFIT

767,081

NET PROFIT

3,830,273

TOTAL EQUITY

31,088,522

TOTAL ASSETS

OUTLOOK

Looking toward 2020, Sepehr Power & Energy Development Company is focused on being one of the top five Iranian companies supplying energy and providing related services and products. By applying modern business models, delivering products and services at the global level, drawing on high quality human capital and global knowledge, and deploying up-to-date technology, the company aims to secure a sustainable and mutually beneficial relationship for its domestic and international clients and partners. In line with this objective, Sepehr Power & Energy Development Company aims to provide 5% of Iran's electricity capacity by 2020, achieving the highest rate of return on assets in the industry while actively participating in the booming growth and sustainable development of the country.

MONTAZER GHAEM POWER PLANT

MONTAZER GHAEM POWER PLANT AT A GLANCE

The Montazer Ghaem power plant in the city of Karaj (near Tehran) comprises 13 steam, gas, and combined-cycle power plant units, with a total nominal capacity of 1,623 megawatts (MW). The plant generates an average output of around 8.5 million megawatt-hours (MWh) of electricity per year, supplying 20% of the electricity to the provinces of Tehran and Alborz, and playing a key strategic role in the sustainability of the national electricity grid.

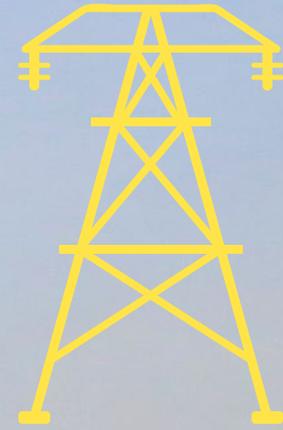
ACHIEVEMENTS

- › Completed feasibility studies for the development of a 500 MW Montazer Ghaem combined-cycle power plant and obtained approval from the Thermal Power Plants Holding Company (TPPH)
- › Conducted overhauls at five power plant units operated through one of its subsidiaries name as Montazer Ghaem Power Generation Management Company (MGPGM)
- › Implemented several optimization projects to improve the plant's performance indicators through MGPGM Company
- › Took measures to control pollutants resulting from power plant activities
- › Ranked 149 among the top 500 Iranian companies based on 2015/16 (1394) performance, and rose 40 places in the IMI's latest ranking of top Iranian businesses (IMI100)
- › Became one of top five companies based on fast growth, among the second 100 companies according to IMI100 ranking.



FUTURE PLANS

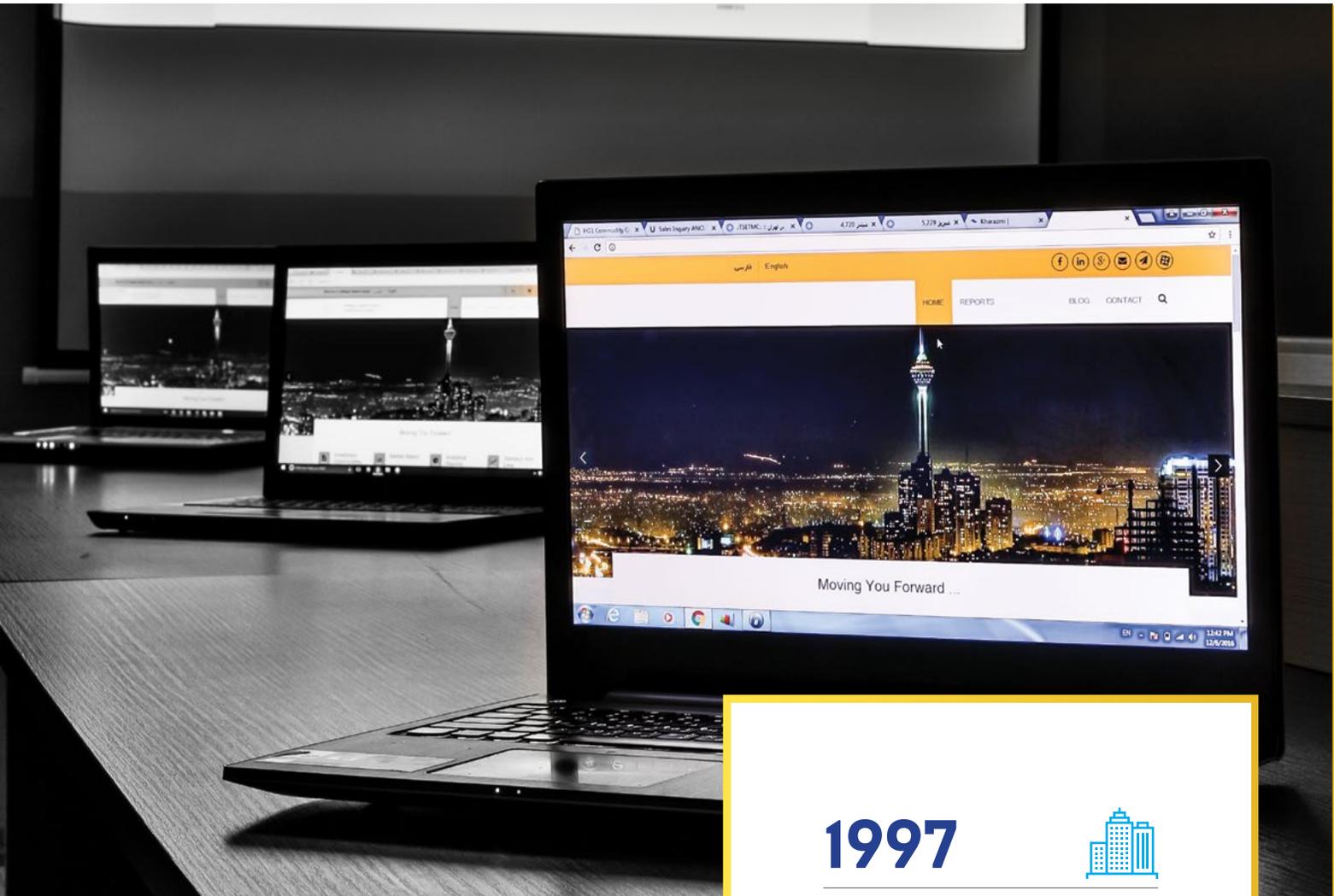
- › Reduce the emergency exits of the 13 units at Montazer Ghaem power plant
- › Reduce the time required to overhaul the steam power plant's SI unit
- › Conduct necessary studies ahead of building a renewable power plant, to increase the nominal capacity of the power plant
- › Complete feasibility studies into changing the dry-cooling tower at Montazer Ghaem power plant
- › Carry out feasibility studies to switch steam units to gasoline-fired units, focusing on their design and layout
- › Build a 500 MW combined-cycle power plant with the participation of domestic and foreign investors
- › Directly sell electricity to large domestic and foreign consumers (neighboring countries) on the basis of bilateral agreements
- › Have company shares accepted by the SEO and listed on the IFB.



8.5 Million Megawatts

Electricity Output
Per Year





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Tel/Fax: (+9821) 88600825-6

KHARAZMI INVESTMENT MANAGEMENT DEVELOPMENT COMPANY

1997



ACQUIRED

2,873



CAPITAL (IRR BILLION)

11



EMPLOYEES

51%

Group
Shareholding

FIELD OF ACTIVITY

Investment and participation in investee firms' management and projects including production, services, construction, and management.

ACHIEVEMENTS

- › Reduced finance costs by aggregating several high-interest loans and converting them into one loan with a lower interest rate
- › Secured financing at reasonable rates to increase the capital of subsidiaries companies
- › Restructured organizational chart, with a focus on equipping the company's finance department.

FUTURE PLANS

- › Convert non-productive assets into productive assets
- › Convert long-term investments into short and medium-term investments
- › Commence studies to identify and seize investment opportunities aimed at increasing investment returns and investment portfolio liquidity

All values in IRR million
(For the fiscal year ended March 20, 2017)

161,720

OPERATING INCOME

192,001

OPERATING PROFIT

57,157

NET PROFIT

3,193,414

TOTAL EQUITY

4,093,552

TOTAL ASSETS



Office Address: 8th Floor, Sepehr Building, No.186, between
Eskandari St. and Navab Safavi St., Azadi Ave., Tehran, Iran
Tel: [+9821] 66581342 - 66581194
www.ts-kharazmi.ir

**KHARAZMI
CONSTRUCTION
DEVELOPMENT
COMPANY**

2007

ACQUIRED



1,000

CAPITAL (IRR BILLION)



27

EMPLOYEES



100 %
Group
Shareholding

FIELD OF ACTIVITY

Investment, consulting, supervision, design, and execution of various construction projects.

CURRENT PROJECTS

- › Continued work on the Homa Kids multi-purpose specialized building project, covering 77,000 square meters (m²) of commercial, administrative, cultural, and recreational space for children
- › Continued work on the Olympic project, covering a net area of 25,000 m² with commercial, administrative, recreational, sports, medical, and cinema infrastructure

ACHIEVEMENTS

- › Ranked 201st among the top 500 companies based on IMI100 rating

FUTURE PLANS

- › Implement partnership agreements projects
- › Execution of medium-scale projects
- › Reduce finance costs by taking out fewer high-interest loans.

All values in IRR million
(For the fiscal year ended March 20, 2017)

240,624

OPERATING INCOME

(30,009)

OPERATING PROFIT (LOSS)

(41,496)

NET PROFIT (LOSS)

2,688,413

TOTAL EQUITY

8,267,017

TOTAL ASSETS



Office Address: Shahid Gornam Ave., Blvd. 52, 15 km from
Karaj Special Rd., Tehran, Iran
Tel: [+9821] 44194521-3
Fax: [+9821] 44196603
www.sinadarou.com

SINA DAROU LABORATORIES COMPANY (PJS)

2006



ACQUIRED

400



CAPITAL (IRR BILLION)

394



EMPLOYEES

48.73%

Group Shareholding

FIELD OF ACTIVITY

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

ACHIEVEMENTS

- › Continued implementing the transfer and development project, achieving a completion rate of around 70%
- › Completed negotiations with an Italian company that produces oral sprays, with plans to begin the first stage of production in Iran in the near future
- › Diversified production of single-dose products by obtaining licenses from the Food and Drug Administration (FDA) of Iran's Ministry of Health and Medical Education to produce two products
- › Introduced medicines to Afghanistan and Iraq, and reached an agreement on exporting the company's products, resulting in a jump in export share from 1.1% to about 4%
- › Activated Darmangar Sina Company as a subsidiary, and made efforts to get representation from European suppliers
- › Increased the number of sales by 13%
- › Achieved 23% growth in the net profit of the company

FUTURE PLANS

- › Complete developing and renewing production lines
- › Purchase, install, and operate new machinery during the first half of 2018
- › Amend the formulation of two eye drop products
- › Supply much-needed research chemicals to domestic market.

All values in IRR million
(For the fiscal year ended March 20, 2017)

1,891,092

OPERATING INCOME

993,411

OPERATING PROFIT

742,708

NET PROFIT

1,358,063

TOTAL EQUITY

2,341,064

TOTAL ASSETS



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Tel: [+9821] 66972652
Fax: [+9821] 66972025
www.ansi.co

ATI NEGAR SEPEHR IRANIAN INVESTMENT COMPANY

2007



ACQUIRED

500



CAPITAL (IRR BILLION)

21



EMPLOYEES

100 %
Group
Shareholding

FIELD OF ACTIVITY

Short-term investment in stocks, investment units, funds, and other securities.

ACHIEVEMENTS

- › Held international and national negotiations to secure the financial resources needed to complete projects
- › Negotiated with owners of domestic projects to secure project funding
- › Carried out active portfolio management
- › Prepared a feasibility study report into establishing a Financial Services Group and the prioritization required to begin the first phase
- › Held Meeting with domestic and international companies to advance the objectives of the Financial Services Group

FUTURE PLANS

- › Obtain a portfolio management license
- › Meet with Kharazmi Investment Group companies and other institutions in line with marketing the company's financial services
- › Launch mutual and fixed-income funds
- › Develop a financial services structure by setting up asset management and investment advisory units

All values in IRR million
(For the fiscal year ended March 20, 2017)

(1,832)

OPERATING INCOME (LOSS)

(59,391)

OPERATING PROFIT (LOSS)

(56,437)

NET PROFIT (LOSS)

1,361,839

TOTAL EQUITY

1,418,357

TOTAL ASSETS



Office Address: Unit 6, No. 13, 1st Alley, Gandhi St., Vanak Square, Tehran, Iran
Tel: [+9821] 88876531-5
Fax: [+9821] 88661946
www.kharazmitrade.com

KHARAZMI TRADE DEVELOPMENT COMPANY

2007



ACQUIRED

300



CAPITAL (IRR BILLION)

19



EMPLOYEES

100 %
Group
Shareholding

FIELD OF ACTIVITY

Offering services and transactions related to domestic and international trade. Selling, purchasing, importing, and exporting commodities and legal merchandise.

ACHIEVEMENTS

- › Modified the company's imported commodity basket (for example, entering the meat market and other fields)
- › Partnered with other companies to import paper
- › Maintained the company's market share for commodity importing.

FUTURE PLANS

- › Enter the grain import and export market
- › Increase participation in the market
- › Improve follow-up procedures to reduce the debt collection duration

All values in IRR million
(For the fiscal year ended March 20, 2017)

1,075,065

OPERATING INCOME

(2,600)

OPERATING PROFIT (LOSS)

(94,398)

NET PROFIT (LOSS)

53,743

TOTAL EQUITY

552,217

TOTAL ASSETS



Office Address: No.LB10 124, Jebel Ali Free Zone, Dubai,
United Arab Emirates
Tel: [+971] 4 5514783
Fax: [+971] 4 5578596

KHARAZMI INVESTMENT FZE COMPANY

2005



ACQUIRED

2.5



CAPITAL (AED MILLION)

2



EMPLOYEES

100 %
Group
Shareholding

FIELD OF ACTIVITY

Trading machinery and equipment, especially agricultural and gardening tools, basic metals, and commodities.

ACHIEVEMENTS

- › Modified the activity and accounts structure of the company
- › Grew operating income by more than 55%
- › Increased the gross profit margin by around 75% (from 4.4% to 7.7%)
- › Achieved net profit growth of approximately 110%
- › Increased the net profit margin by more than 35% (from 1.1% to 1.5%).

FUTURE PLANS

- › Decrease capital to enable:
 - › Financial restructuring
 - › Development of activities by promotion of the company's trade and commercial position
 - › Negotiations targeting stronger growth and the ability to secure new credit lines
- › Improve financial structure and follow up on negotiations to secure new credit lines, especially from banks.

All values in AED
(For the fiscal year ended December 31, 2016)

68,270,833

OPERATING INCOME

4,241,313

OPERATING PROFIT

1,032,042

NET PROFIT

6,517,852

TOTAL EQUITY

26,917,852

TOTAL ASSETS



Assembling ATMs in Kharazmi Padidavaran Sakhtafzar Company (Pasokh Co.)

Office Address: No.153, Between Mofateh St. and Soleyman Khater St., Motahhari Ave., Tehran, Iran
Tel: [+9821] 88500670
www.kharazmico.com

KHARAZMI IT DEVELOPMENT COMPANY (PJS)

1997



ACQUIRED

170



CAPITAL (IRR BILLION)

445



EMPLOYEES

51.9%

Group Shareholding

FIELD OF ACTIVITY

ICT, with an emphasis on supplying, operating, and supporting different types of hardware, software, computer and telecommunications equipment, electronic systems, office systems, and banking and computer machines.

ACHIEVEMENTS

- › Signed and extended agreements with new customers
- › Extended maintenance and support services
- › Sold nearly 10,000 different hardware products, including barcode printers, card printers, cashier printers, check scanners, high-speed scanners, wired barcode scanners, and wireless barcode scanners
- › Sold passive equipment, BI and anti-money laundering (AML) software, and banking branch monitoring systems.

FUTURE PLANS

- › Enter into the core banking and core insurance markets
- › Develop ITS activities by negotiating for the production of intelligent speed control cameras
- › Obtain permission to manufacture digital cash register machines with the intention of manufacturing them locally
- › Develop banking equipment such as kiosks, check scanners, and delivery printers
- › Strike deals with six new banks and companies, to diversify the customer base

All values in IRR million
(For the fiscal year ended March 20, 2017)

601,257

OPERATING INCOME

7,110

OPERATING PROFIT

38,674

NET PROFIT

147,111

TOTAL EQUITY

1,208,954

TOTAL ASSETS



Office Address: 2nd Floor, No.6, 3rd Alley, Iran Zamin St.,
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SADR JAHAN MINING DEVELOPMENT COMPANY

2014



ACQUIRED

800



CAPITAL (IRR BILLION)

18



EMPLOYEES

95%

Group
Shareholding

FIELD OF ACTIVITY

All mining activities, including ownership, exploration, extraction, processing, and investment in mines and mineral zones, and gold and precious metals mining industries.

ACHIEVEMENTS

- › Completed more than 15,000 meters of exploratory drilling and obtained a certificate of discovery with regard to 15.6 tons of gold reserve in the Shadan gold mine
- › Extracted and sold 17,000 tons of minerals from the Rashidabad gold and copper mine

FUTURE PLANS

- › Review and formulate a new version of the company's strategic plan
- › Call for bids and determine a contractor to construct a plant that will produce gold bullion and concentrate at the Shadan gold mine
- › Conduct complementary explorations at the Shadan, Ardestan, and Rashidabad mines
- › Launch explorations in the Ghazi Vali, Qabaq Tapeh, and Vargahan mineral zones.

All values in IRR million
(For the fiscal year ended March 20, 2017)

85,000

OPERATING INCOME

57,933

OPERATING PROFIT

69,437

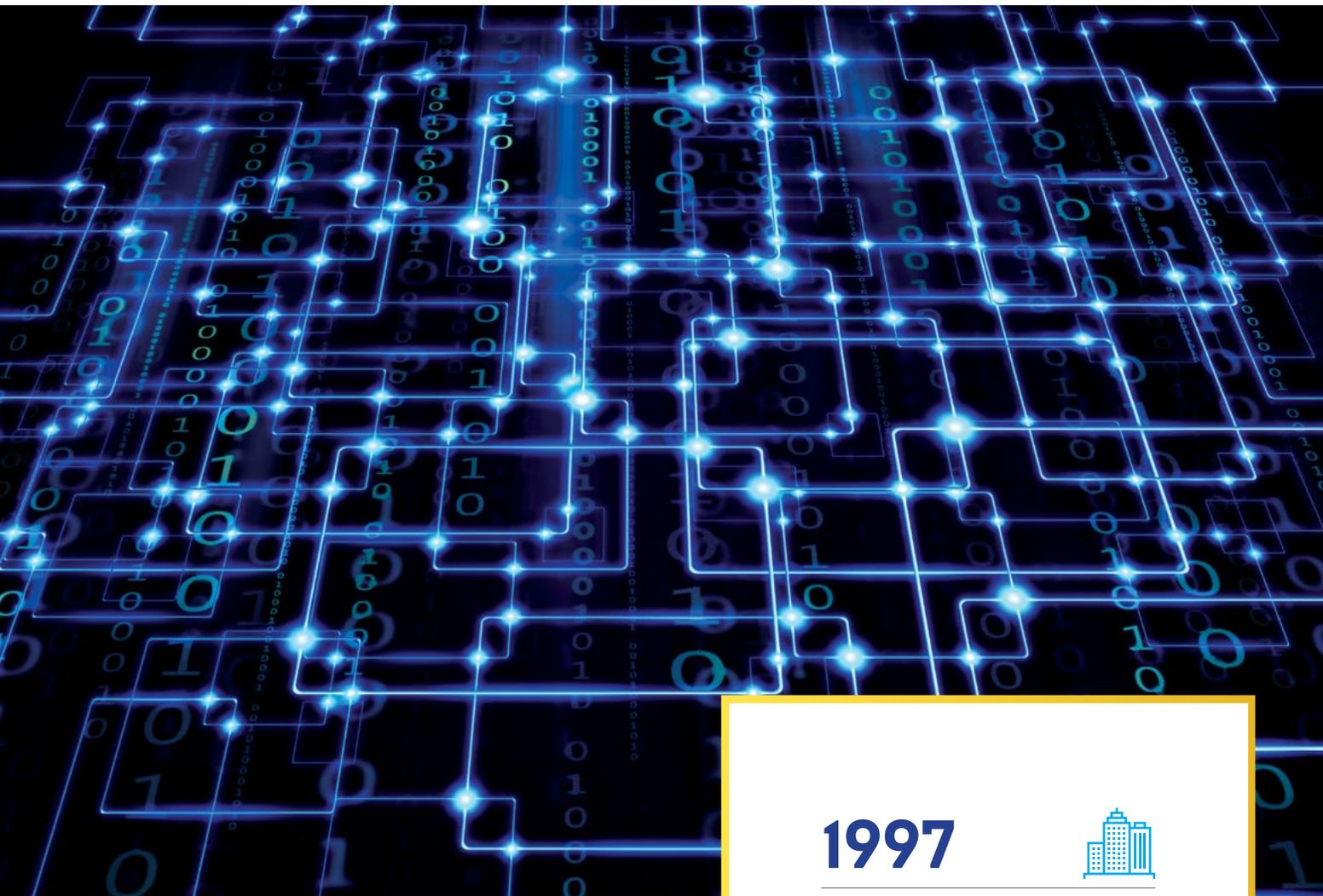
NET PROFIT

922,753

TOTAL EQUITY

940,468

TOTAL ASSETS



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Maqam Farahani Ave., Tehran, Iran
Tel: [+9821] 88826611 - 89308888
Fax: [+9821] 88827552
www.dpkharazmi.com

KHARAZMI DATA PROCESSING COMPANY

1997



ACQUIRED

10



CAPITAL (IRR BILLION)

126



EMPLOYEES

100 %
Group
Shareholding

FIELD OF ACTIVITY

Producing and supporting banking software systems.

ACHIEVEMENTS

Designed, installed, commissioned, and implemented various systems and services for three major local banks including:

- › support systems
- › human resources programs
- › customer relationship management software
- › marketing strategies

FUTURE PLANS

- › Create a system for maintaining integrity between all banking software and other comprehensive systems available in banks as customers
- › Promote and develop systems required by the banking industry

All values in IRR million
(For the fiscal year ended March 20, 2017)

87,678

OPERATING INCOME

12,023

OPERATING PROFIT

12,738

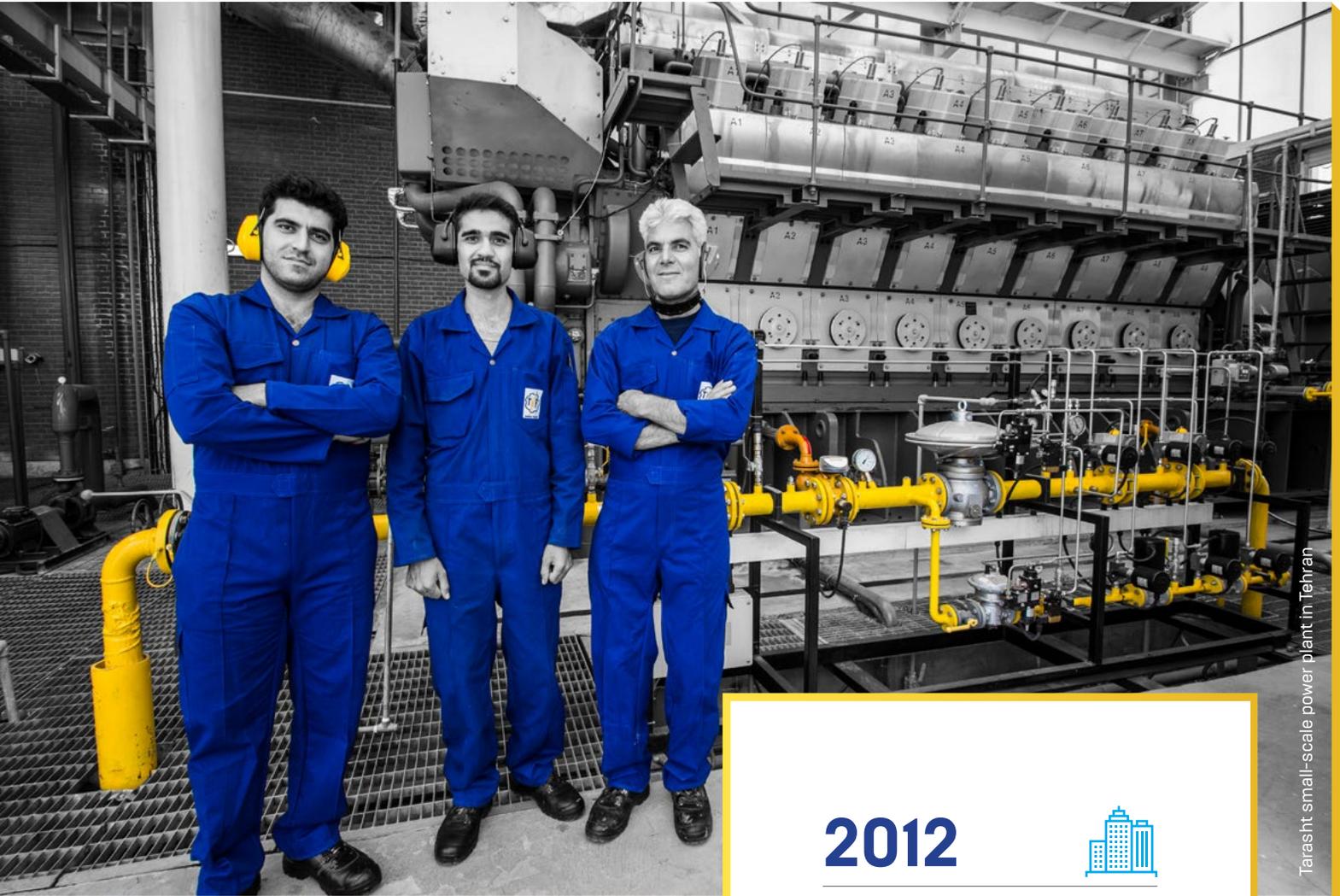
NET PROFIT

15,963

TOTAL EQUITY

55,295

TOTAL ASSETS



Office Address: No.120, West Brazil St., South Shirazi St.,
Molla Sadra Ave., Tehran, Iran
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www.nirooparse.com

NIROO PARSE POWER PLANT PRODUCTION & DEVELOPMENT COMPANY

2012



ACQUIRED

760



CAPITAL (IRR BILLION)

43



EMPLOYEES

100 %
Group
Shareholding

FIELD OF ACTIVITY

Designing, implementation, construction, and assembly of all installations, parts, and equipment in power plants. Investment in the construction of electricity generators and power generation, particularly in small-scale power plants.

ACHIEVEMENTS

- › Signed an electricity sales contract
- › Initiated the installation, commissioning, and operation of the 25 MW Tonekabon power plant, achieving 60% completion
- › Entered the final stages of delivering a 29 MW combined heat and power (CHP) plant for Saba Steel Company (Mobarakeh Steel Company), achieving more than 75% progress
- › Imported and cleared Mega Tavan Company generators.

FUTURE PLANS

- › Invest in the development of small-scale power plants
- › Establish a new power plant at the Tarasht site in Tehran.

All values in IRR million
(For the fiscal year ended March 20, 2017)

148,692

OPERATING INCOME

37,801

OPERATING PROFIT

12,703

NET PROFIT

714,707

TOTAL EQUITY

1,351,314

TOTAL ASSETS



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Fax: [+9821] 88871690
www.ziemaco.com

ZIEMA OIL, GAS AND PETROCHEMICAL COMPANY

2016



ACQUIRED

100



CAPITAL (IRR BILLION)

6



EMPLOYEES

100 %
Group
Shareholding

All values in IRR million
(For the fiscal year ended March 20, 2017)

FIELD OF ACTIVITY

Investment, trade, and business activities in the oil, gas, and petrochemicals value chains.

ACHIEVEMENTS

- › Conducted studies on economic opportunities in the oil, gas, and petrochemicals value chains
- › Completed economic studies regarding participation in three industrial projects
- › Formulated and determined the company's strategic policies and macro-level plans
- › Took a strong first step in creating a distinct presence and participation in value-added projects within the oil industry
- › Placed itself among the eight companies approved by the National Iranian Oil Company to participate in the tender for storage of 10 million barrels of oil at the port of Jask.

3,914

NET PROFIT

102,913

TOTAL EQUITY

128,112

TOTAL ASSETS

FUTURE PLANS

- › Finalize the company's services and supply chain business plan
- › Complete a survey regarding participation in seven oil, gas, and petrochemicals industrial projects
- › Conduct commercial and service activities regarding oil, gas, and petrochemical items, equipment, and products.



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KHARAZMI AYANDE NEGAR BROKERAGE COMPANY

2013



ACQUIRED

45



CAPITAL (IRR BILLION)

47



EMPLOYEES

60%

Group
Shareholding

FIELD OF ACTIVITY

Investment and brokerage services, including buying and selling stock, underwriting contracts for listed securities, and administering investment affairs on behalf of individual and institutional investors. Financial services, including advising on stock supply.

ACHIEVEMENTS

- › Obtained an IPO consultancy license
- › Obtained a license for commodity futures trading
- › Helped two companies get listed on the IFB small- and medium-sized enterprise (SME) market
- › Supplied two patents in the IFB intellectual property market
- › Expanded branches in major Iranian cities; establishing two branches in Tehran and one in Isfahan.

FUTURE PLANS

- › Establish fixed-income funds
- › Establish a market development unit
- › Reform the company's revenue structure.

All values in IRR million
(For the fiscal year ended March 20, 2017)

33,054

OPERATING INCOME

[3,714]

OPERATING PROFIT (LOSS)

[3,661]

NET PROFIT (LOSS)

41,540

TOTAL EQUITY

170,897

TOTAL ASSETS

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

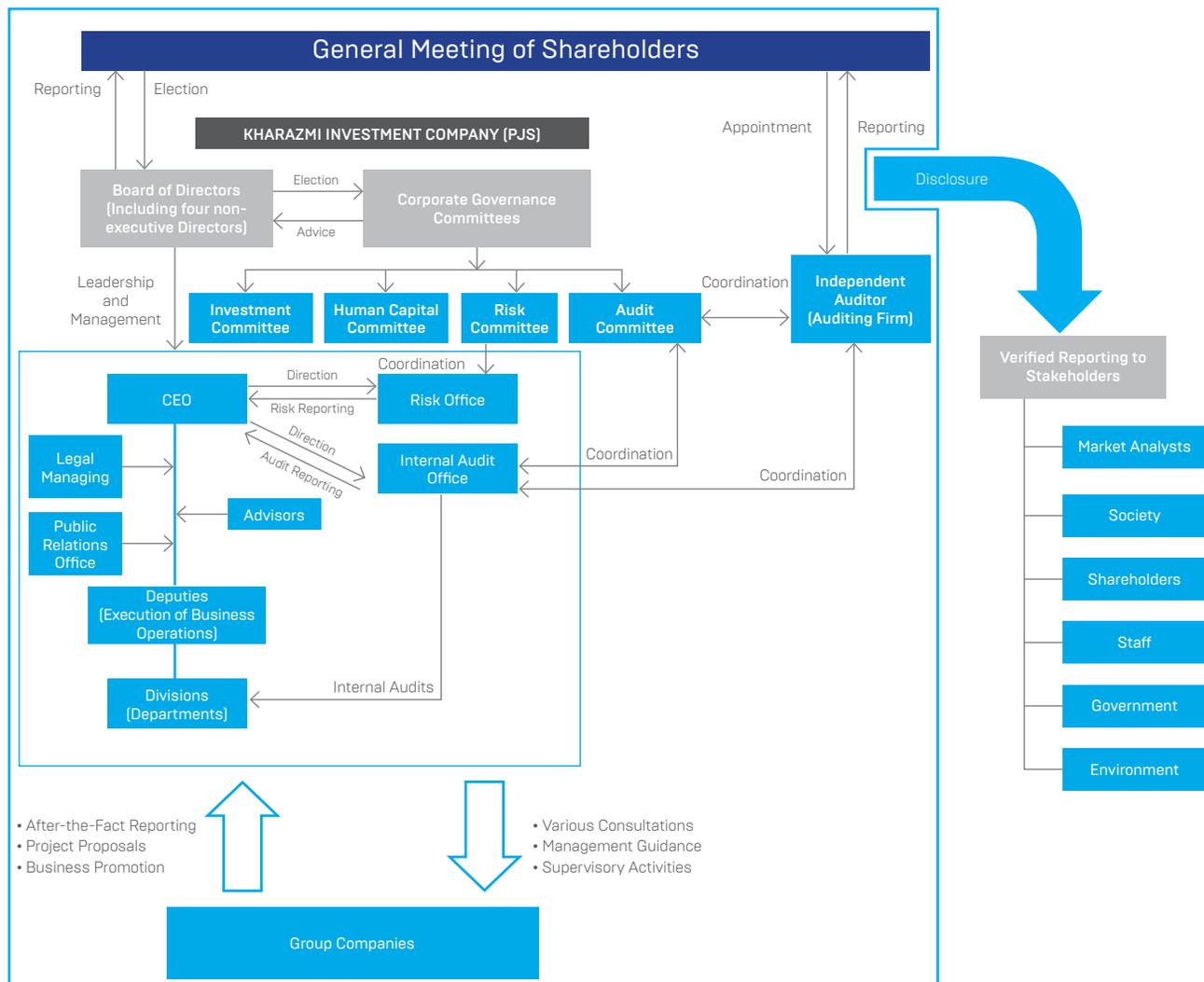
international principles and standards are not binding, Kharazmi Investment Company has voluntarily restructured its corporate governance in recent years, in line with these global standards. We have also developed our business activities in line with guidelines issued by the Securities and Exchange Organization (SEO), creating a committee and unit for internally controlling and auditing any Kharazmi Investment 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 while making decisions.

Over the past years, 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





AMIN MARA'SHI

Non-executive Director

Representing: Tosee Hamyari Sepehr Institution

Born in 1978, Mr. Mara'shi has been a non-executive member of the Board of Directors since 2016. Mr. Mara'shi is an economist with experience in several financial and industrial firms. He has also served on the Board of the Atieh Saba Investment and Sabanour Mining and Industrial Development Company (PJS) and has been advisor of deputy Minister of Cooperatives, Labour and Social Welfare (Islamic Republic of Iran). Mr. Mara'shi has a BA in Political Science.

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 in Banking.

PARVIZ MOGHADDASI

Chairman

Representing: Arman Andishan Ratsak Company

Born in 1950, Mr. Moghaddasi served as Chairman of the Board of Directors at Kharazmi Investment Company since 2016. He has also served as an Executive Vice President of Bank Sepah, and as a Board member for Bank Melli Iran, Tosee Melli Group Investment Company and chairman of Sarmad Insurance Company. He has also the experience of ICT companies as a Board member for National Informatics Corporation. Mr. Moghaddasi holds a BA in Business Management.

HOJATOLLAH SAYDI

Vice Chairman and CEO

Representing: Omid Ayandegan Sepehr Company

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

ALIREZA BOLGOURI

Non-executive Director

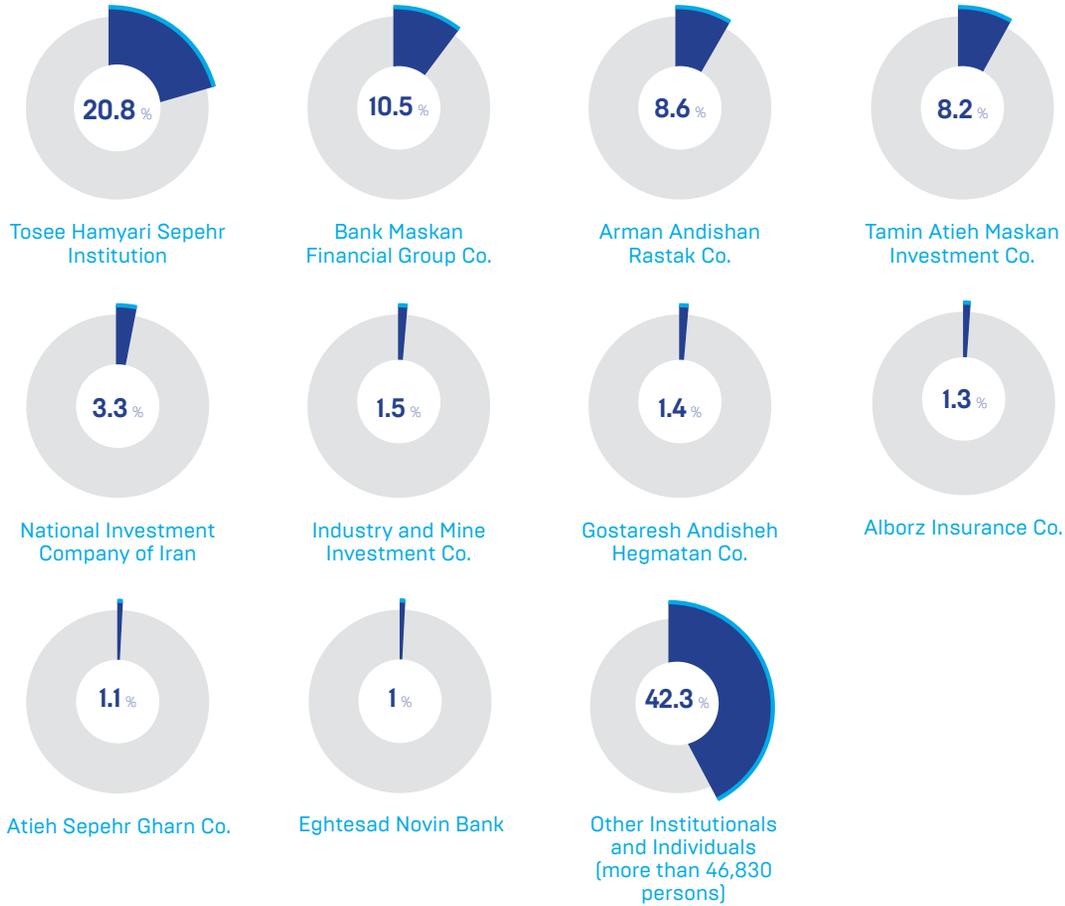
Representing: Tamin Atieh Maskan Investment Company

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.

SHAREHOLDER STRUCTURE & SHARE CAPITAL

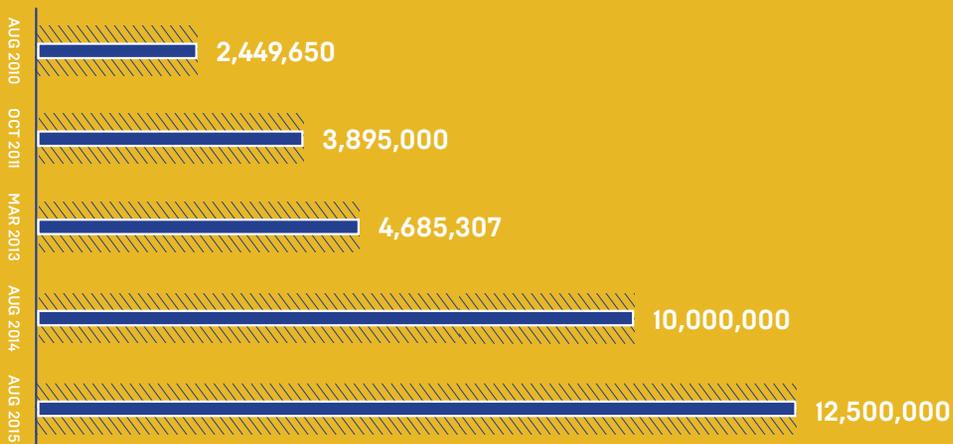
› Shareholder Structure

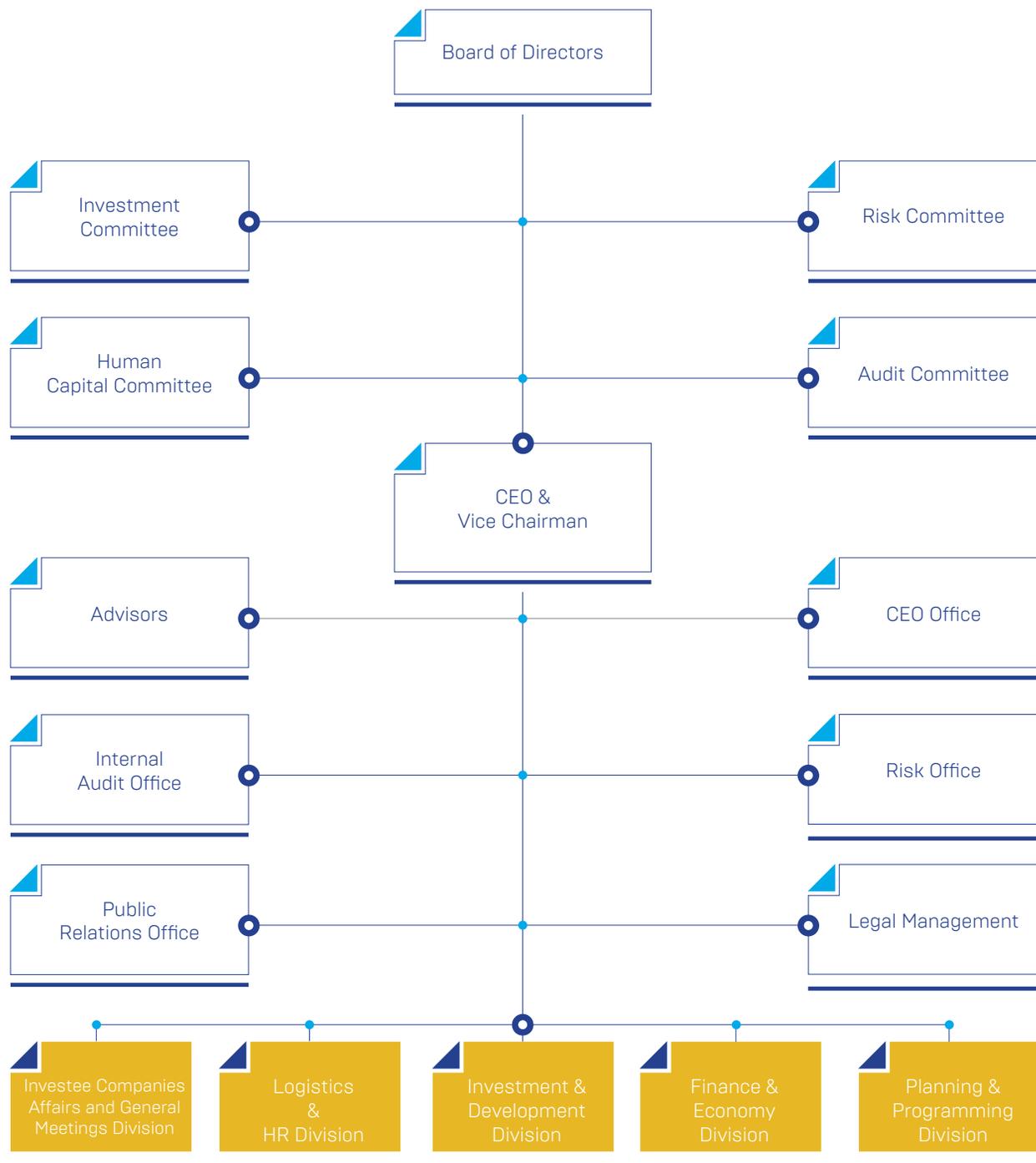
[Ownership percentage on June 21, 2017]



› Share Capital

[(IRR million)]





REGULATORY ENVIRONMENT

› Domestic business legislation and regulations

- Iran Commercial Code
- Bylaws and regulations set by the SEO¹, including:
 - » The Bylaw on Brokers' Licensing and Operations
 - » The Transactions Bylaw for the Tehran Stock Exchange² and Iran Fara Bourse³
 - » The Executive Bylaw of the Securities Market Act of Islamic Republic of 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 sixth Five-Year Economic, Social and Cultural Development Plan Acts
- Annual State Budgetary Acts
- State Monetary and Banking Act

› Internal (Group) decrees and regulations

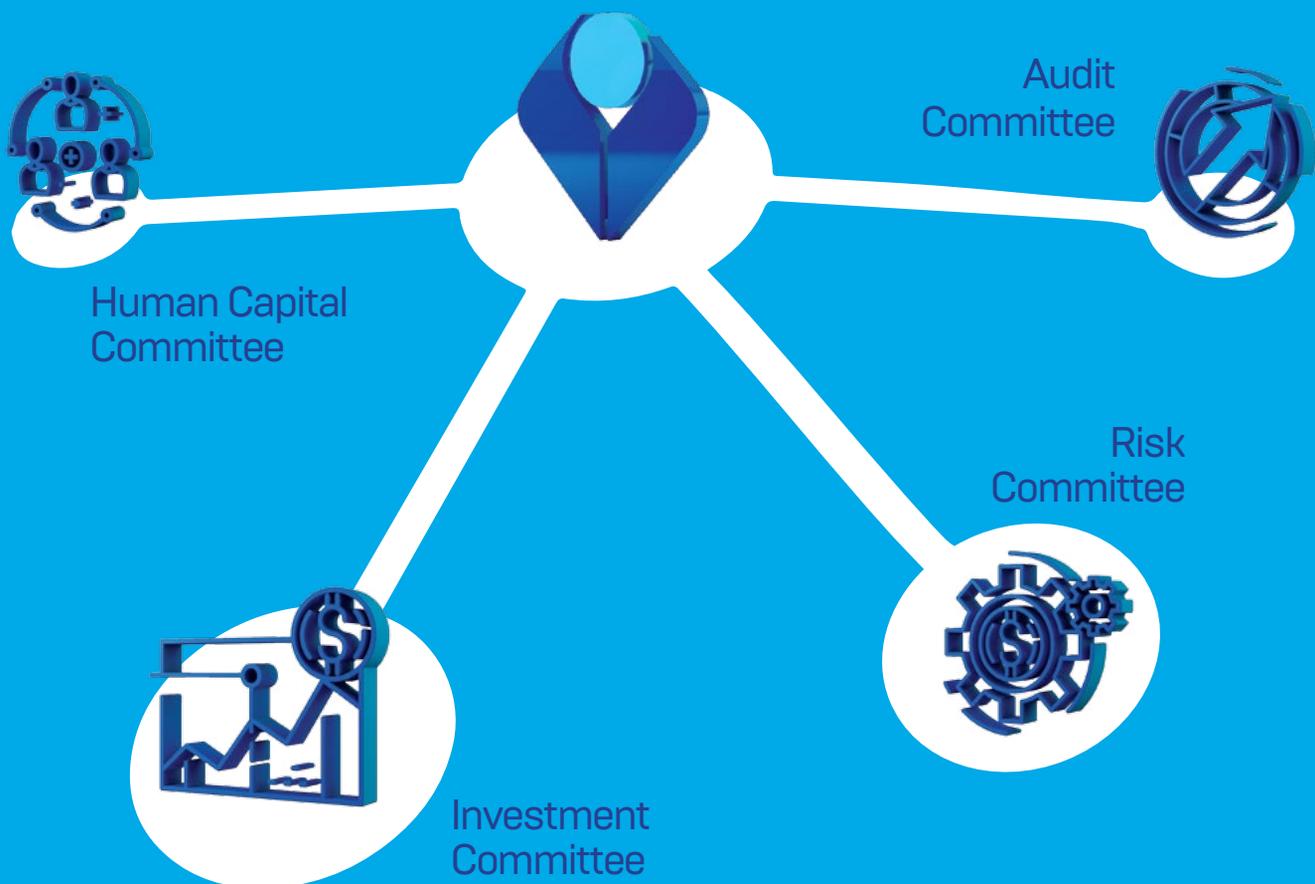
- Articles of incorporation
- Ratifications of the general meetings of shareholders
- Ratifications of the Board of Directors
- Other administrative and executive decrees

› 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

Four independent committees

help the Board of Directors improve the quality and speed of its decision-making processes. Each committee comprises of a non-executive Board member as Chairman, working together with senior managers and subject-matter 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-matter 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 the 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

- Develop a regular and systematic approach to improve the effectiveness of control procedures and risk management
- Create value and improve company operations
- Ensure proper identification of risks
- Facilitate proper and timely interaction with the corporate governance groups
- Confirm that important and relevant financial, managerial, and operational information is accurate, reliable, and available on time
- Make sure employee activities comply with relevant policies, standards, rules, and regulations
- Ensure the economical acquisition of resources, and that those resources are used efficiently and effectively, and safeguarded appropriately
- Confirm that the company's plans, projects, and goals are achievable
- Promote the quality and continuous improvement of the company's control procedures
- Ensure proper identification of and compliance with important legal and juridical issues affecting the company.

2016/17 activities

In striving to achieve its objectives and missions, the Audit Committee obtains information about financial performance; examines operational and control processes and systems; and assesses the efficiency and effectiveness of internal activities undertaken by the Internal Audit Office, providing relevant analyses. The Committee also holds monthly meeting throughout the year and communicates its expert views in the form of recommendations to the Board of Directors and the CEO. In 2016/17, the Audit Committee reviewed:

- Group companies' reports on their internal controls
- The Independent Auditor's Report and mid-term financial statements of each Group company
- Draft financial statements and Independent Auditor's Reports for the parent company
- Group companies' annual reports and abstracts of their annual activities
- Audit Committee reports and those of the Group companies' internal auditors
- The implementation of the Audit Committee's recommendations from the past fiscal year, prior to presenting it to the Board of Directors
- Reports on progress made in reforming systems, operational procedures, and controls, before publishing the results.

Future plans

- Review the 2016/17 parent company and consolidated financial statements
- Prepare the internal control report for 2016/17
- Bring together independent auditors and legal inspectors to examine the 2016/17 financial statements
- Review the parent company and Group companies' letters of management and take necessary measures to resolve any identified weaknesses
- Activate the Internal Audit Office and the Audit Committee in all Group companies.
- Produce a reasonable assurance report that focuses on eliminating internal control flaws, as

cited in the Chief Internal Accountant's report on internal control weak points, and based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework

- Support greater interaction between Audit Committee members and Group companies' independent auditors, to promote and enhance internal control across the Group
- Review Kharazmi Investment Company's financial statements, based on IFRS
- Encourage the Group companies' internal auditors to participate in audit and financial seminars and conferences to update their knowledge in fields including financial systems, IT, and company operations
- Present recommendations on valuing and recording intangible assets under IFRS and National Accounting Standard No. 17.

› 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 and 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.

2016/17 activities

- Held 13 meetings throughout the fiscal year
- Identified three significant risks for each Group company and presented solutions to hedge and manage these risks
- Evaluated 12 major risk areas for Kharazmi Investment Group:
 - » Strategic risk
 - » Financial risk
 - » Credit risk
 - » Operational risk
 - » Innovation risk
 - » Market and internationalization risk
 - » Information systems risk
 - » HR risk
 - » Reputation risk
 - » Environmental risk
 - » Social responsibility risk
 - » Regulatory, government, and political risk
- Outlined the general outlook of Group companies' commitments based on the value of loans they received and their collateral deposits
- Drafted profit quality reports for Group companies focusing on liquidity and profit quality risk
- Prepared and presented risk-based inspection reports, delivering recommendations to some Group companies
- Calculated the risk and returns of the company's stock portfolio; reported the calculation of value at risk; and predicted stock returns by estimating the average of the statistical population interval

- Prepared a report following the analytical review of the pharmaceutical industry
- Reported calculations of the beta coefficient for the Group's investment industry and TSE-listed companies
- Created a report reviewing risk management mechanisms in international and domestic companies, and offered proposals on how this could relate to Group companies.

Future plans

- Visit Group 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 focusing 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 investment risk assessment indicators among the TSE-listed Group companies
- Prepare a report on the investment portfolio's weighted return and beta coefficient
- Review half-year reports on budget deviations within Group companies
- Review annual reports on Group companies' strategic plans
- Draft annual future risk monitoring forms and update Group companies' risk data
- Report on customer satisfaction with Group companies every six months
- Review quarterly reports on the progress of Group projects.

› Investment Committee

The Kharazmi Investment Company Board of Directors strives to comply with the company's corporate governance system, to protect the interests of shareholders and other stakeholders, and to fulfill its investment responsibilities. To this end, it has formed an Investment Committee to serve as an advisory arm, examining, reviewing, and evaluating Kharazmi Investment Group's strategies, investment offers, and investment transactions. The Committee provides expert advice to the Board of Directors, and paves the way for making the right decisions about various investments, based on the presentation of alternate schemes and ideas.

The Committee's most important tasks include reviewing the company's stock and non-stock portfolios; planning to improve the framework of the Group's investments; examining and evaluating various aspects of the returns and risks involved in current and future investments; and consulting to Kharazmi Investment Group on proposed investment plans. After examining the status of the company's portfolio and reviewing the periodic allocation of assets among investment types, the Committee advises the Board on how to continuously improve the Group's investment composition and optimize its portfolio, in accordance with the objectives of the seven-year strategic plan.

Membership

Three principal members appointed by the Board:

- **Chair:** A non-executive member of the Board of Directors
- **Secretary:** The deputy 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 on 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 alternate investment options.

2016/17 activities

- Continued reviewing the Group's listed and non-listed portfolio
- Assessed factors relating to the risk and potential return of existing and future investments
- Planned to upgrade the Group's investing frameworks
- Presented an advisory opinion about proposed investment projects.

Future plans

- Continue to review the Group's investment portfolio
- Periodically scrutinize the Group's portfolio and survey asset allocations
- Present an advisory opinion about continuously improving the investment portfolio structure
- Optimize the investment portfolio based on a process of active portfolio management
- Revise the guidelines for investment dealings and activities
- Continuously monitor the Group's performance against the 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 activities

- Prepared and ratified new internal regulations, including an HR supply bylaw, and an administrative and employment bylaw
- Improved motivation mechanisms by preparing and ratifying a new "loans to employee" bylaw
- Improved the working environment by opening an on-site restaurant for employees.

Future plans

- Analyze and redefine the Group's organizational chart
- Advise on the design and implementation of appraisal systems
- Promote HR processes at Group headquarters and explain the HR outlook
- Review and assess HR training and development planning
- Explore measures to enhance employee motivation and performance
- Nurture the line of succession for management positions.

INTERNAL AUDIT

The Board of Directors drafted and approved the Kharazmi Investment Group Internal Audit Charter in accordance with Article 10 of the Regulations on Internal Controls for Companies Listed on the TSE and IFB.

› Mission

The Internal Audit office 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.

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

› Authority

The Board authorizes the Internal Audit office to:

- Engage with the Audit Committee
- Access all documents, records, and assets of the parent company 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 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 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, and vigilance**

- The Internal Audit office 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 TSE and the IFB. Under these guidelines, all companies listed on the TSE or IFB 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 deputy 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 2016/17

In striving to establish and improve the system of internal controls among Group companies, the Internal Audit Office in 2016/17:

- Followed up on developing Audit Committee and the Internal Audit Office executive operations within most Group companies
- Reviewed Group companies' internal control reports, which had been discussed and approved by the Audit Committee of each company concerned
- Reviewed reports on internal controls from the 2015/16 fiscal year
- Monitored and reviewed Group companies' financial documents, and proposed issuing amending documents and taking preventive measures
- Followed up on the reports of the Audit Committee and Group companies' internal auditors

- Followed up on the Audit Committee's recommendations from the past fiscal year and reported the result to the Board of Directors
- Evaluated progress in reforming systems, operational procedures, and controls, and published the results.
- Review the financial statements of the Kharazmi Investment Company, based on IFRS
- Present recommendations on the valuation and recording of intangible assets under IFRS and the National Accounting Standard No. 17.

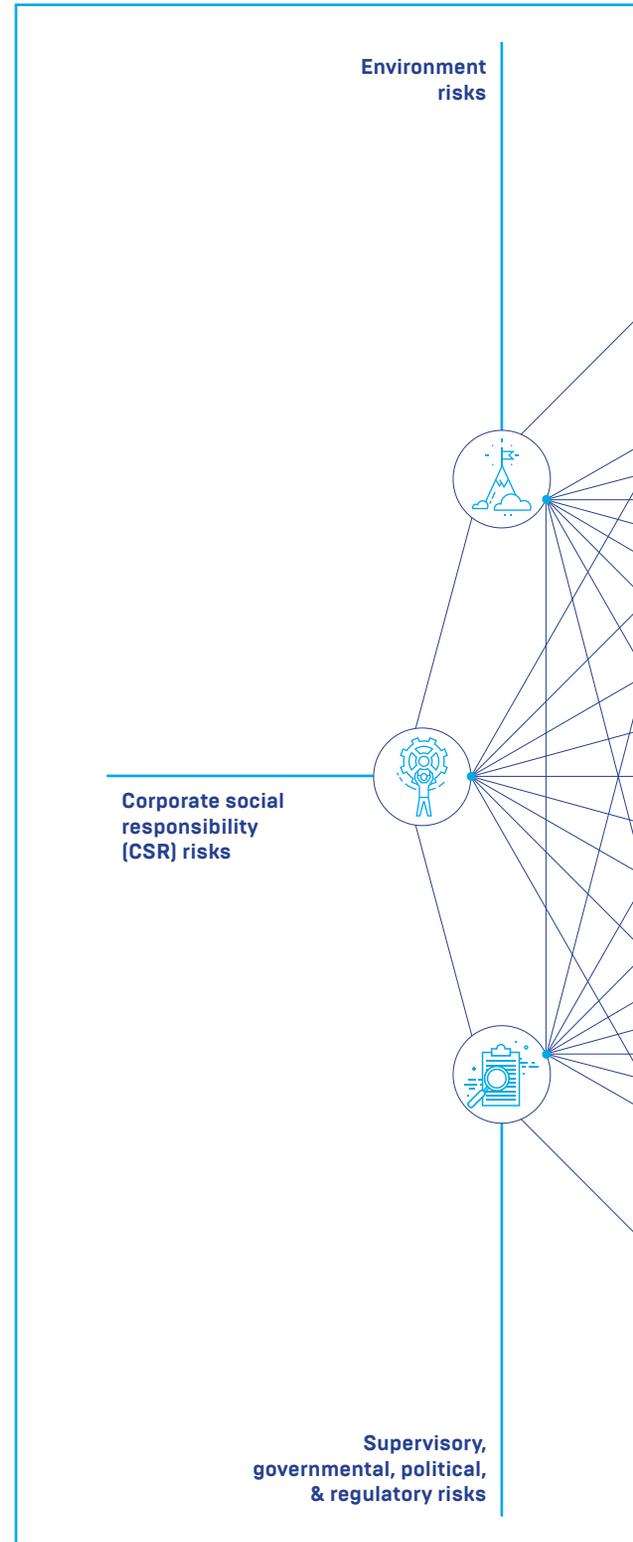
› Future plans

- Review the 2016/17 parent company and consolidated financial statements
- Give reasonable assurance about eliminating weak points in internal control systems, consistent with improving the effectiveness of internal controls using the COSO integrated framework
- Prepare the internal control report for 2016/17
- Review the parent company and Group companies' letters of management and take necessary measures to resolve any identified weaknesses
- Bring together independent auditors and legal inspectors to examine the 2016/17 financial statements

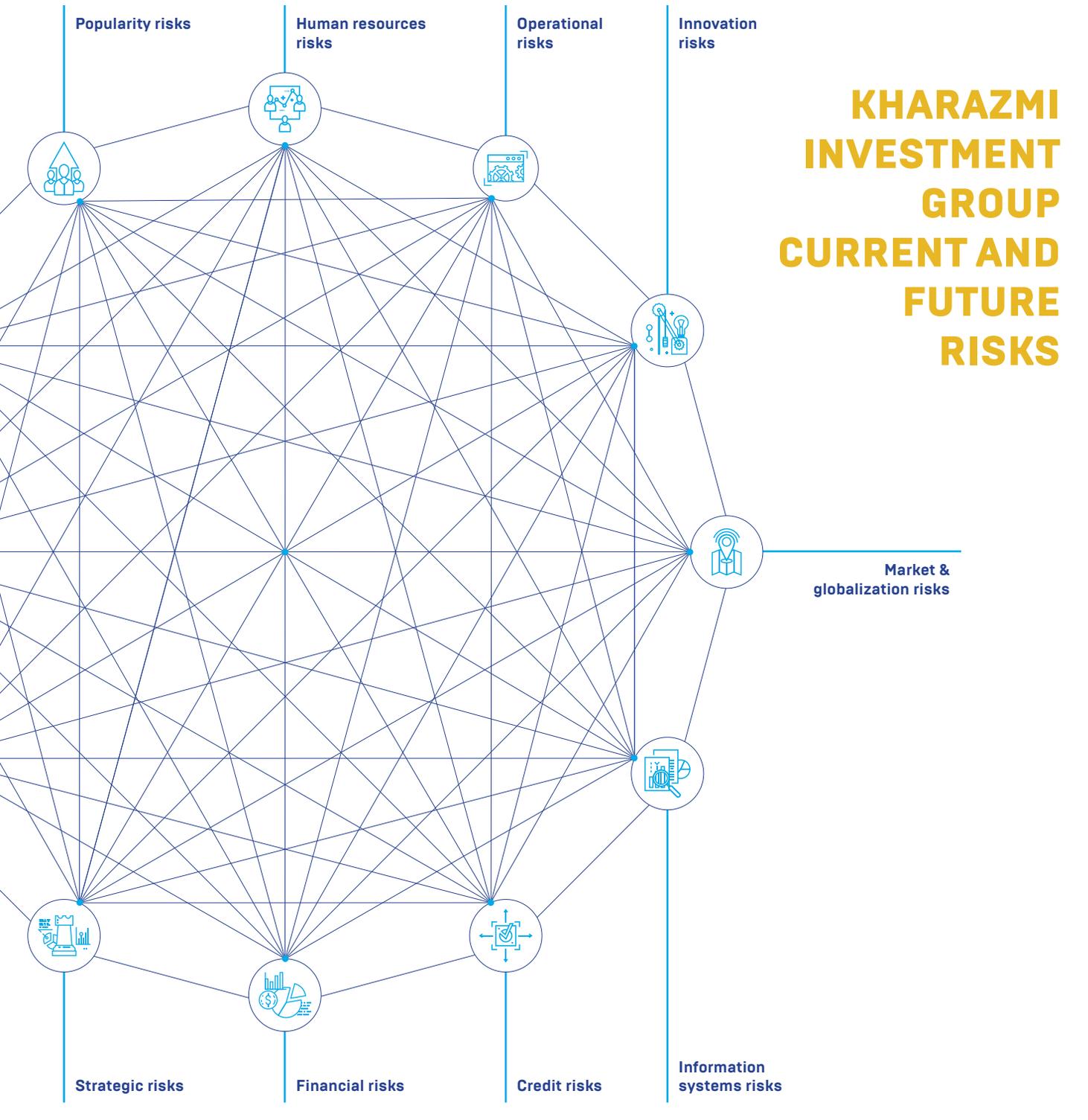
RISK MANAGEMENT

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.



KHARAZMI INVESTMENT GROUP CURRENT AND FUTURE RISKS



› 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.

› 2016/17 activities

The Risk Office completed many important actions in the 2016/17 fiscal year, including:

- Identifying three significant risks for each Group company and presenting the solutions to hedge and manage these risks, based on results from workshops delivered the previous year with the guidance and advice of Abol Jalilvand, Professor from Loyola University Chicago, and Senior Risk Management Advisor to Kharazmi Investment Group
- Evaluating 12 major risk groups for Kharazmi Investment Group:
 - » Strategic risk
 - » Financial risk
 - » Credit risk
 - » Operational risk
 - » Innovation risk
 - » Market and internationalization risk
 - » Information systems risk
 - » HR risk
 - » Reputation risk
 - » Environmental risk
 - » Corporate social responsibility risk
 - » Regulatory, government, and political risk.

- Drafting and compiling profit quality reports for Group companies, focusing on liquidity and profit quality risk
- 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 value at risk
- Reporting calculations of the beta coefficient for the Group's investment industry and TSE-listed subsidiaries
- Drafting a report reviewing risk management mechanisms in international and domestic companies, and offering proposals on how this could relate to Group companies.

› Future plans

The most important future programs will focus on efforts to check and monitor risk indicators in each Group company. The Risk Office will accomplish this by:

- Periodically inspecting Group company projects to review and monitor their status
- Drafting evaluation reports that look at Group companies' financial statements, either as an analysis of financial ratios or as a comparative analysis
- Assessing the implementation of corporate governance principles within Group companies
- Evaluating the status of Group companies' annual or dormant accounts
- Reviewing 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 possible risks facing the Group, and updating risk management records as needed
- Measuring Group companies' customer satisfaction ratings.

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 level	2015/16	2016/17	change [%]
Doctorate	13	15	15
Masters	12	15	25
Bachelors	21	26	24
Higher diploma	0	1	100
Up to high school diploma	10	10	0
Total	56	67	20

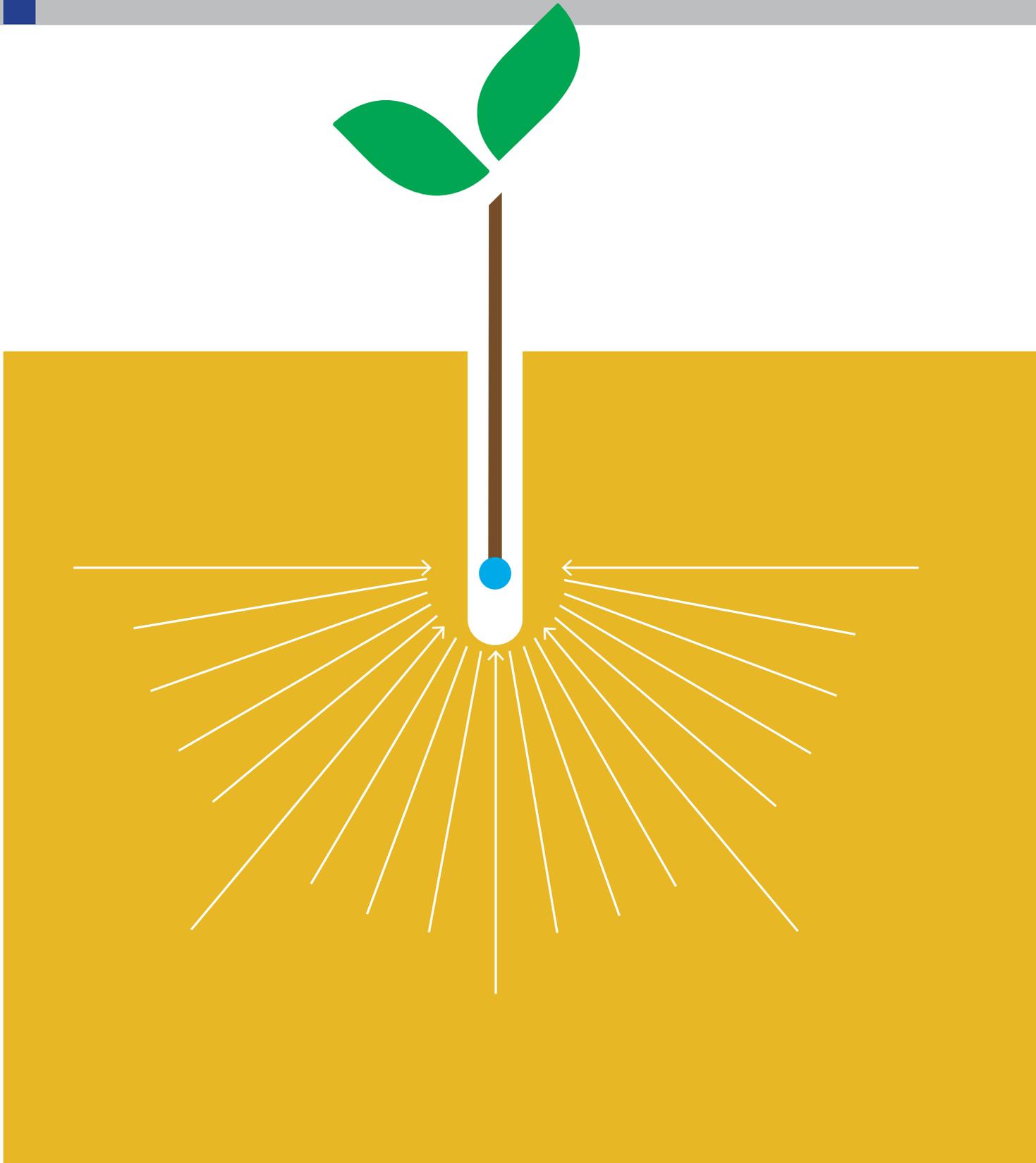
› Kharazmi Investment Company employee years in service

Work experience	2015/16	2016/17	change [%]
More than 20	17	18	6
15 to 20	5	10	100
10 to 15	8	10	25
5 to 10	16	19	19
Less than 5	10	10	0
Total	56	67	20

› Kharazmi Investment Company employee contracts

Type of contracts	2015/16	2016/17	change [%]
Full-time	47	53	13
Part-time	9	14	56
Total	56	67	20

CORPORATE SOCIAL RESPONSIBILITY



Periodic Group managers conference in Shiraz-February 2017



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 resource 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 be in compliance.

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 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 environmental, social and governance (ESG) criteria. The main factors influencing a company's performance according to these social responsibility standards are:

- 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
- Corporate governance, risk management, tax transparency, and anti-corruption in the domain of organizational governance

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:

Environmental Responsibility:

- Realizing the Group's environmental goals of minimizing environmental pollutants, especially in the Group's power plant sector, by installing smoke filtering systems and managing industrial waste disposal
- Implementing water consumption optimization projects at Montazer Ghaem power plant
- Planting 100 trees on the land surrounding Montazer Ghaem power plant, and several thousand native seedlings in the vicinity of mining precincts
- Reducing energy consumption at the Group level by improving the organizational consumption culture
- Recognizing customer and consumer rights by improving the quality of our products and services

Social Responsibility:

- Continuing to increase 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)
- Supporting sporting teams at the club level – for example, Kharazmi Trade Development Company now sponsors a judo team

- Supporting charity organizations that care for adults and children with cancer
- Constructing major cultural and commercial complexes to reduce traffic congestion in urban areas and less developed regions of the capital
- Holding a 20th anniversary celebration of Kharazmi Investment Company, attended by all employees and their families
- Improving employee safety and health by increasing insurance coverage, providing periodic employee health checks, and improving the safety of the work environment

Governance:

- Restructuring corporate governance within Group companies, and especially in the parent company
- Holding quarterly or semi-annual meetings at 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 SEO, and increasing participation in domestic and international investors

Periodic Group managers conference in Tabriz-August 2016



- Holding a semi-annual symposium attended by all senior Group managers, Board members, and Managing Directors of the parent company and Group companies

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 in the Group companies, including:

Environmental Responsibility:

- Taking actions to minimize environmental pollutants, especially in the power plant sector
- 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
- Providing environment-related education and building a culture of environmental awareness
- Pursuing sustainable development, conservation of natural resources, and environmental management in our mining operations

Social Responsibility:

- Providing employees with access to education and training, and improving the work environment by paying attention to social responsibility

- Collaborating with applied science and technology higher education institutions to provide instruction to financial and investment trainees

- Helping improve education and health in the areas bordering our mining operations
- Creating jobs, employing local labor forces, and training specialists
- Developing the export and supply of health products to neighboring countries, to help treat and reduce the incidence of eye and respiratory diseases
- Creating infrastructure and facilities in our mining precincts
- Recognizing customer and consumer rights by improving the quality of our products and services.

Governance:

- 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

INDEPENDENT AUDITORS' REPORT

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 21, 2017, 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 noncompliance 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. Comparative important notes related to subsidiaries are as follow:

4-1. Sepehr Power & Energy Development Company (PJS)

4.1.1. Tax performance for the year ended Dec 21, 2014 has assessed and issued as IRR 613.3 billion (tax declared IRR 320.7 billion) and result protest has not defined up to date of this report therefore tax provision for surplus has not calculated and recorded.

4.1.2. Tax decreased related to adjusted tax declared or final tax for year ended Dec 21, 2014 (Declared) and period six months ended June 21, 2015 those has adjusted to note 7-1 of this report has recorded prepayment and then tax declared for the fiscal year ended June 20, 2016 clearing with this tax prepayment.

4.1.3. Tax performance for the year under report has provisioned equal tax declaration. Based on examinations and tax regulation, necessary tax increased provision is necessary and lack of recover tax prepayment as above ensuring the adequacy of such provision, would be subject

to the view of taxation authorities in this respect.

4.1.4. Confirmation requested IRR 26,812 billion from trade and non-trade payable accounts. As the result of this matter and understanding different between balances accounts of company with opposite side of accounts and due to lack of adequate determining, probable adjustments necessary to the financial statements has not been possible.

4-2. Kharazmi IT Development Company (PJS)

Tax provision deficit for the years ended March 20, 2014 and March 19, 2016 and also necessary calculation of the doubtful claims totally as IRR 16.3 billion includes idle and prior's items related to trade & non-trade receivable and prepayments that ensuring the adequacy of such provision, would be subject to view tax authorities (tax provision) and or settlement with related counterparts (trade and non-trade receivable and prepayments).

4.3. Kharazmi Construction Development Company

Non-presentation reconciliation statement of with employer and related partner in three construction projects, meanwhile non-completed and transfer portion of transferable construction (mainly Olympic project) which should have been transferred in term of agreement and failure to deliver and transfer the ownership in exchange for apartment plus 18 land plots within the framework of related contract.

4.4. Non-received confirmation letter requested related to IRR 272 billion about trade and non-trade payable and also Vasepari Sepehr Tehran Company and meanwhile unfavorable variance totally as IRR 19.5 billion result received confirmation letter about financial facilities (relating to three banks) which does not justify.

4.5. Kharazmi Trade Development Company

Non-clarify recovery situation as IRR 21.8 billion idle and prior claims which are recorded under account heading trade and non-trade receivable those are under legal actions and

also non-clarify results of protest has been done against tax claims equal IRR 55 billion corporate tax for the year ended March 20, 2015 and meanwhile totally IRR 30 billion Value Added Tax related to years ended March 20, 2013 and 2015 (tax provision has not recorded) and addition non-received confirmation letter about IRR 11.7 billion.

» Qualified Opinion

5. In our opinion, except for the effects of the matter described in clause 4.1.1 till 4.1.3, 4.2 and except for the possible effects of the matters described in clauses 4.1.4, 4.3 till 4.5, 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 21, 2017 and its financial performance and its cash flows for the year then ended in accordance with Iranian Accounting Standards.

» Emphasis of latter

6. As described in note 14.2 of financial statements related to parent company tax performance for the years ended June 21, 2013 to 2015, totally IRR 137.5 billion has assessed and issued (without tax declaration) and result of protest has culminated to renewed write of expert opinion for tax year June 21, 2013 and refer tax file related to years June 21, 2014 and 2015 to Board of Settlement of Tax Dispute so tax provision has not recorded. Meanwhile for performance years ended June 21, 2016 and 2017 tax provision has not calculated since source of company profit has been tax exempted.

subject to above matters excusing the adequacy of such provision would be subject to the view of the tax authorities in this respect.

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

» **Other explanatory notes:**

7. Instances regarding to Sepehr Power & Energy Development Company:

7.1. Based on our examination in the accounting record the purchase contract related to the acquisition of Montazer Ghaem 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 in the beginning of 2016. 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 were adjusted (calculated as present value of future installment 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.

7.2. Final disposition of legal matters related to deed transfer of 29.5% of project lands has not finalized up to date of this report.

7.3. Based on our examination up to end year under report totally IRR 229 billion Has paid for Value Added Tax (mainly for electric power purchase) in subsidiary company and recorded to VAT credit account. Since supply electric power has not included VAT so company has acted legal measurement for refined VAT but not had any final conclusion up to date of this report.

7.4. Based on our review the claim accumulation from sale of electric in subsidiary company has ascending trend, hence this matter along with current expenses has caused the company can't pay five installment of purchase contract related to power plant. It is worthy attention negotiation about due installment and also improvement installment structure with Bank Saderat Iran is under process that Bank Saderat Iran has consistence principle with company requested and final case is under process.

8. Based on our review subsidiary companies include Hekmat Gostaran Hegmateneh Co., Tadbir Aferinan Co., Card Iran Co., Kharazmi Trade Development Co. (Tejarat Gostaran Kharazmi Co.), Karand Sadr Jahan Mines & Mining Industries Co. are subject to article (141) of the Commerce Act.

» **Report on Other Legal and Regulatory Requirements Related to Kharazmi Investment Company (Public Joint Stock)**

Report on Other Responsibilities of the Legal Inspector

9. Non-comply matters of commerce Act are as follow:

9.1. The Provisions of article (240) of the Commerce Act of Iran as amended subject to pay dividend maximum eight months after date of approval by general assembly.

9.2. Notifying changes related to board director in official gazette.

10. 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 parent company and the group companies.

11. 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**

12. Actioned has been done by parent company related to Security & Exchange Organization are as follow:

12.1 Interim financial statements audited dated to December 21, 2016 has disclosure with delay.

12.2 Time table related to cash dividend payment has disclosure with delay.

13. In the lack required information, we were unable to check the conformity with the note (2) of article 241 Amendment of Iranian Commercial Code ratified in May 9, 2015.

14. 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: October 09, 2017

Dayarahaft Audit & Management Services Firm

Abdolhossein Farzan

Gholamhossein Davani

(800595) Number of IACPA

(800303) Number of IACPA

A. Farzan
Audit & Management Services Firm
DAYARHAFT
Reg.No:88500
Gh. Davani

CONSOLIDATED BALANCE SHEET

AS AT JUNE 21, 2017

Assets	2017	[Restated] 2016
Current Assets	IRR Million	IRR Million
Cash	1,321,472	870,538
Short-term Investments	6,424,568	7,052,194
Receivables	12,269,344	9,684,347
Inventories	8,912,380	8,276,748
Prepays	885,739	887,571
Total Current Assets	29,813,503	26,771,398
Non-current Assets		
Long-term Receivables	7,144	42,208
Long-term Investments	7,132,524	7,914,719
Intangible Assets	592,445	250,426
Goodwill	147,847	146,879
Fixed Tangible Assets	22,018,828	22,335,552
Other Assets	354,111	25,415
Total Non-current Assets	30,252,899	30,715,199
Total Assets	60,066,402	57,486,597

Liabilities and Equity	2017	[Restated] 2016
	IRR Million	IRR Million
Current Liabilities		
Payables	16,520,314	12,624,571
Tax Payable	212,524	243,441
Dividends Payable	2,392,734	1,453,992
Loans Payable	8,965,446	8,120,823
Unearned Revenue	1,087,269	1,314,247
Total current liabilities	29,178,287	23,757,074
Non-current liabilities		
Long-term Payables	11,842,822	14,518,141
Long-term Loans Payable	748,837	733,173
Provision for staff Termination pay	302,234	256,737
Total Non-current Liabilities	12,893,893	15,508,051
Total Liabilities	42,072,180	39,265,125
Shareholders' Equity		
Share Capital	12,500,000	12,500,000
Shares of the Parent Company owned by subsidiaries	(275,246)	(77,245)
Treasury Stock	(880)	0
Legal Reserves	1,111,230	999,939
Other Reserves	874,266	630,480
Cumulative Exchange Differences	6,469	12,241
Retained Earnings	1,363,937	1,962,138
Total Attributable to the Parent Company	15,579,776	16,027,553
Non-Controlling Interest	2,414,446	2,193,919
Total Equity	17,994,222	18,221,472
Total Liabilities & Shareholders' Equity	60,066,402	57,486,597

CONSOLIDATED INCOME STATEMENT

FOR THE FISCAL YEAR ENDED JUNE 21, 2017

	2017	(Restated) 2016
	IRR Million	IRR Million
Operating Income	11,002,085	15,165,902
Cost of Goods Sold and Services	(6,086,613)	(8,635,814)
Gross Profit	4,915,472	6,530,088
Group's Quota from Profit of Affiliated Companies	284,467	137,945
Sales, Administrative & General Expenses	(711,160)	(747,106)
Other Operating Items	165,184	283,498
	(261,509)	(325,663)
Operating Profit	4,653,963	6,204,425
Interest Expenses	(2,507,881)	(2,816,641)
Other Non-operating Income	121,698	38,562
	(2,386,183)	(2,778,079)
Continuous Operating Profit before Tax	2,267,780	3,426,346
Income Tax	(407,904)	(307,736)
Net Profit	1,859,876	3,118,610
NCI Net Profit	399,965	466,352
Net Profit Attributable to Shareholders of the Parent Company	1,459,911	2,652,258
EPS:		
Operating (IRR)	209	334
Non-operating (IRR)	(91)	(121)
Basic EPS (IRR)	118	213

› Consolidated Statement of Retained Earnings

	2017	[Restated] 2016
	IRR Million	IRR Million
Net Profit	1,859,876	3,118,610
Retained Earnings at the Beginning of the Year	2,559,024	3,695,128
Prior Years' Adjustments	(103,324)	(1,786,577)
Retained Earnings at the Beginning of the Year – Adjusted	2,455,700	1,908,551
Dividends Declared	(2,009,890)	(1,931,118)
Changes of NCI from Retained Earnings	1,128	36,129
	446,938	13,562
Transfer from Other Shareholders' Equity Items	258	0
Attributable Profit	2,307,072	3,132,172
Profit Allocation:		
Legal Reserves	(112,878)	(191,802)
Other Reserves	(244,302)	(484,670)
	(357,180)	(676,472)
Retained Earnings at the End of the Year	1,949,892	2,455,700
Retained Earnings Attributable to NCI	585,955	493,562
Retained Earnings Attributable to Shareholders of the Parent Company	1,363,937	1,962,138

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FISCAL YEAR ENDED JUNE 21, 2017

	2017	[Restated] 2016
	IRR million	IRR million
Net Profit of the Year	1,859,876	3,118,610
Foreign Operations-Foreign Currency Translation Differences	(5,772)	2,671
Comprehensive Income	1,854,104	3,121,281
Prior Years' Adjustment	(103,324)	(1,786,577)
Identified Comprehensive Income from Previous Year's Reporting Date	1,750,780	1,334,704
Comprehensive Income Attributable to NCI	385,005	461,589
Comprehensive Income Attributable to Shareholders of the Parent Company	1,365,775	873,115

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 21, 2017

2016/17 Annual Report

	2017	[Restated] 2016
	IRR million	IRR million
Operating Activities:		
Net Cash Inflow from Operating Activities	4,544,809	3,159,425
Return on Investments & Interest Paid for Financing:		
Interest Paid	(2,337,869)	(2,865,412)
Dividends Paid to Shareholders of the Parent Company	(775,675)	(539,662)
Dividends Paid to the NCI	(295,473)	(510,890)
Net Cash Outflow from Investments & Paid Interest for Financing	(3,409,017)	(3,915,964)
Income Tax:		
Income Tax Paid	(387,430)	(228,196)
Investment Activities:		
Fixed Assets Disposal	29,984	302,905
Purchase of Fixed Assets	(629,778)	(1,441,204)
Purchase of Intangible Assets	(358,366)	(138,595)
Net Cash Outflow from Investment Activities	(958,160)	(1,276,894)
Net Cash Outflow before Financing Activities	(209,798)	(2,261,629)
Financing Activities:		
Proceeds from Issue of Share Capital for Parent Company	0	617,382
Proceeds from Issue of Share Capital for Subsidiaries-NCI	168,056	0
Funds Paid by Subsidiary Companies for Acquisition of Parent Company	(198,881)	(26,895)
Proceeds from new borrowings	8,239,338	6,591,253
Repayment of borrowings	(7,549,063)	(4,868,468)
Net Cash Inflow from Financing Activities	659,450	2,313,272
Net Increase (Decrease) in Cash	449,652	51,643
Cash Balance at the Beginning of the Year	870,538	818,364
Effects of Movement in Exchange Rate on Cash Held	1,282	531
Cash Balance at the End of the Year	1,321,472	870,538
Non-cash Transactions	213,845	1,569,408

BALANCE SHEET

AS AT JUNE 21, 2017

Assets	2017	[Restated] 2016
	IRR million	IRR million
Current assets		
Cash	520,653	469,420
Short-term investments	5,152,378	4,599,342
Receivables	1,277,662	1,180,481
Prepays	145,781	41,422
Total current assets	7,096,474	6,290,665
Non-current assets		
Long-term receivables	1,794,635	914,039
Long-term investments	14,856,493	14,698,622
Intangible assets	966	413
fixed assets	510,060	519,984
Other assets	405	405
Total non-current assets	17,162,559	16,133,463
Total assets	24,259,033	22,424,128

Liabilities and Equity	2017	[Restated] 2016
Current Liabilities	IRR million	IRR million
Payables	520,530	113,029
Dividends Payable	2,071,931	1,222,604
Loans Payables	4,176,530	3,220,255
Total Current Liabilities	6,768,991	4,555,888
Non-current Liabilities:		
Long-term Loans Payables	252,673	437,418
Provision for Staff Termination Pay	13,614	8,720
Total Non-current Liabilities	266,287	446,138
Total Liabilities	7,035,278	5,002,026
Shareholders' Equity:		
Share Capital	12,500,000	12,500,000
Legal Reserves	889,530	818,199
Other Reserves	1,774,627	1,530,583
Retained Earnings	2,059,598	2,573,320
Total Shareholders' Equity	17,223,755	17,422,102
Total Liabilities & Shareholders' Equity	24,259,033	22,424,128

INCOME STATEMENT

FOR THE FISCAL YEAR ENDED JUNE 21, 2017

	2017	[Restated] 2016
	IRR million	IRR million
Operating Income	2,344,318	3,061,331
Sales, Administrative & General Expenses	(138,341)	(109,954)
Other Operating Items	0	(50,687)
	(138,341)	(160,641)
Operating Profit	2,205,977	2,900,690
Financial Expenses	(780,871)	(871,142)
Other Non-operating Income	1,549	93,712
	(779,322)	(777,430)
Operation Profit before Tax	1,426,655	2,123,260
Income Tax	0	0
Net Profit	1,426,655	2,123,260
EPS:		
Operating (IRR)	176	233
Non-operating (IRR)	(62)	(62)
Basic EPS (IRR)	114	171
Statement of Retained Earnings		
Net Profit	1,426,655	2,123,260
Retained Earnings at the Beginning of the Year	2,574,363	3,861,070
Prior Years' Adjustments	(1,043)	(1,257,624)
Retained Earnings at the Beginning of the Year – Adjusted	2,573,320	2,603,446
Dividends Declared	(1,625,000)	(1,562,500)
	948,320	1,040,946
Attributable Profit	2,374,975	3,164,206
Legal Reserves	(71,333)	(106,215)
Other Reserves	(244,044)	(484,671)
	(315,377)	(590,886)
Retained Earnings at the End of the Year	2,059,598	2,573,320

Since the comprehensive income statement is limited to the period and prior years' adjustments, the comprehensive income statement is not presented.

CASH FLOW STATEMENT

FOR THE FISCAL YEAR ENDED JUNE 21, 2017

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	2017	[Restated] 2016
	IRR million	IRR million
Operating Activities:		
Net Cash Inflow from Operating Activities	844,870	1,446,024
Return on Investments & Interest Paid for Financing:		
Interest Paid	(610,859)	(871,535)
Dividends Paid	(775,675)	(539,662)
Net Cash Outflow from Return on Investments & Paid Interest for Financing	(1,386,534)	(1,411,197)
Investment Activities:		
Fixed Assets Disposal	0	162,400
Purchase of Fixed Assets	(8,069)	(499,233)
Purchase of Fixed Intangible Assets	(553)	(11)
Net Cash Outflow from Investment Activities	(8,622)	(336,844)
Net Cash Outflow before Financing Activities	(550,286)	(302,017)
Financing Activities:		
Proceeds from Issue of Share Capital	0	617,382
Loans Received	825,000	177,500
Repayment of Borrowings	(223,481)	(131,072)
Net Cash Inflow from Financing Activities	601,519	663,810
Net Increase (Decrease) in Cash	51,233	361,793
Cash Balance at the Beginning of the Year	469,420	107,627
Cash Balance at the End of the Year	520,653	469,420
Non-cash Transactions	0	1,196,268



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